WTO NEGOTIATIONS AND THE MENA REGION
A Preliminary Appraisal

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Draft Version

Abstract

This paper discusses some of the issues important to the Middle East and North African (MENA) countries regarding the WTO negotiations and assesses the possible economic effects of further liberalization on the MENA region.

The eight previous rounds of multilateral trade negotiations under the GATT/WTO have played a key role in stimulating the growth of international trade and globalisation. Can a new multilateral liberalization round boost the world economy, the MENA economies in particular? What would be the potential economic impacts of a new WTO trade round on the MENA region? A great number of scenarios can be imagined on the process of the negotiations and their outcome. As a first attempt, we consider a small number of preliminary scenarios. The focus is on the MENA region.

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1. Introduction

What would be the potential economic impacts of a new round of trade liberalization on the MENA region? The eight previous rounds of multilateral trade negotiations under the GATT/WTO have played a key role in stimulating the growth of international trade and globalisation. Can a new multilateral liberalization round boost the world economy, the MENA economies in particular?

Progress on trade liberalization has been slow in the MENA countries. The Gulf economies are the major exception, with very open trade regimes. Countries such as Lebanon, Turkey, Tunisia, Morocco and Jordan have made some progress. But many economies in the region - such as Egypt, Algeria, Syria, Iraq, Sudan, and Yemen - remain highly protected. The countries of the MENA region, except for the GCC countries, have also been unsuccessful at regional integration because they have often focused on political objectives that run counter to economic logic rather than using economic interests to achieve political ends.

The entry into force of the Euro-Mediterranean agreements and the establishment of a free trade area by 2010 will have far reaching consequences for the Mediterranean partners in terms of trade, intersectoral adjustments, tariff revenues, investment, employment, etc. Even if the creation of the free trade area involves a gradual abolition of external protection for the Mediterranean partners of the EU, competition may be damaging for some industries and tariff reductions may bring about considerable losses of government revenues in some countries. Bringing the tariff levels from an average of 30 to 40 percent in some countries of the region down to almost zero in a relatively short period of about ten to twelve years — as envisaged in the Euro-Med agreements — is a tremendous task. While some developing countries outside the region did well adapt to somewhat similar but not as extensive agreements, the Mediterranean countries face far-reaching agreements entailing significant adjustment costs. Current estimations show that the fiscal challenge is also a very important issue, which will have to be addressed to through the relevant economic policies and tax reforms.

The integration process within the Euro-Med region is a very complex one. Not only it involves rapid and multi-dimensional changes in many countries of the region, but also this regional integration process itself takes place in a very complex and rapidly changing international environment. In addition to this, the Euro-Med regional integration process is closely related to, or even imbedded into, other integration processes in the region: the forthcoming EU enlargement, the EU-GCC Cooperation Agreement, Great Arab Free Trade Area (GAFTA) project, the Mediterranean Arab Free Trade Area (MAFTA) project, EU-Russia Partnership and Co-operation Agreement, and finally the idea of implementing the system of pan-Euro-Mediterranean cumulation of origin. In addition to all new policies have been gradually implemented in the EU and other parts of the world following the Kyoto Agreement on the reduction of greenhouse gas emissions. This is an important element to consider as the forthcoming environmental policies may have significant impacts on the oil market, a major source of income for some countries in the region.

There is a large body of qualitative as well as quantitative research on the Euro-Med relations. Most of the impact assessments of the Association Agreements rely upon general equilibrium modeling and focus on Morocco, Tunisia, Egypt and Turkey (see the papers by P. Augier, G. Harrison, D. Tarr, T. Rutherford, A. Bayar, M. Gasiorek,

E. Yeldan, H. Kose, D. Brown, A. Deardoff, R. Stern, R. De Santis, B. Decaluwé, M. Souissi, J. Mercenier, R. Chatti, S. Dessus, D. Konan, B. Hoekman). CGE models are useful for analyzing the economic effects of various types of trade liberalization and related policy changes since they can incorporate economy-wide relationships both within and between countries and provide numerical estimates of the aggregate effects of different policies as well as details on how individual sectors may respond. However, most of the CGE modeling results cannot be fully compared because the models differ somewhat in conceptual structure, database. Moreover the computational scenarios are not similar.

This paper discusses the role of trade and trade policies in development, and investigates the impacts of various liberalization and domestic reform scenarios on Algeria, Egypt, Morocco, Tunisia, and the other countries of the MENA region within a multinational and multisectoral dynamic general equilibrium framework[1].

2. The WTO and the Developing Countries

From a recent detailed study, Safadi (2001) establishes four important propositions:

- Trade is important to developing countries since it is often the primary mean for achieving global integration.
- Trade liberalization contributes to economic development, but is no substitute for good development policies.
- The trading interests of developing countries are better served in the context of the multilateral trading system that promotes and maintains liberal trade regimes buttressed by transparent, predictable and enforceable international trade rules.
- The global trends, while positive overall, have not benefited developing countries equally.

While improvements in market access conditions hold the promise for further benefits to accrue from multilateral liberalization efforts, it is worth noting that the majority of developing countries benefit from preferential access to many OECD markets, and an even more favorable access is granted to the poorer countries. What follows is an attempt to describe the actual and potential role the WTO could play to help countries with their integration efforts.

More than two thirds of the WTO current 140-strong members are developing countries.[2] Despite extensive references in the WTO Agreements to special provisions, rights and obligations accorded to developing countries, there is no official definition of what constitutes a “developing country.” Rather, GATT Contracting Parties have self-elected their designation, most recently when the WTO was created.[3] However, there is an official list of UN-designated least-developed countries (LDCs) that includes a total of 48 countries, of which 29 are WTO members

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[1] The simulation results for the individual countries will be included in the final version of the paper.

[2] Membership in the WTO as of 30 November 2000.

[3] However, other members can challenge the self-proclamation as a developing country. In fact, this was the case in specific areas such as in respect of intellectual property. This challenge can then lead to negotiations to clarify the position. For countries that have negotiated to join the WTO after 1995, their status is a matter taken up during accession negotiations.

(Appendix 2 examines in detail Laces' trade performance). In the remainder of the paper, reference to developing countries follows WTO practice.

Prior to the Uruguay Round, developing countries received special and differential treatment (S&D) in six different areas. One from Article XVIII of GATT 1947 that gave developing countries the right to protect infant industries and to use trade restrictions for balance-of-payments purposes. Another from three articles (XXXVI, XXXVII and XXXVIII) under Part IV of GATT 1964 that recognized the special needs of developing countries in the trading system and exempted them from making reciprocal tariff concessions.

Under the Enabling Clause, specific legal cover was provided for the Generalized System of Preferences (GSP), for special and differential treatment under the Tokyo Round Codes, for regional arrangements among developing countries, and for special treatment in favor of the least developed countries. Two other features of the Enabling Clause deserve mention here. These are the juxtaposed statements on reciprocity and graduation. On the one hand, the Enabling Clause states that industrial countries do not expect to receive reciprocal commitments from developing countries that are inconsistent with the latter's individual development, financial and trade needs. On the other hand, the Enabling Clause also states that developing countries expect to participate more fully in the framework of GATT rights and obligations as their development and trade situation improves.

In short, S&D up until the Uruguay Round rested on two pillars. One conferred on developing countries special treatment under the rules, and preferential access to OECD markets. Non-reciprocity in trade negotiations and graduation formed the other pillar.

The Uruguay Round chipped away at the two pillars of S&D, though neither was completely stripped. Preferential access continues to apply independently of the outcome of the Uruguay Round, while special treatment under the rules has been constrained.

The Uruguay Round results embodied in the Marrakech Agreement Establishing the World Trade Organization and the Annexes to that Agreement and the associated Ministerial Decisions, Declarations and Understandings are a "single undertaking" to which all WTO members subscribe. Thus, in practice non-reciprocity in trade negotiations under Part IV no longer applies as every WTO member has to submit schedules of bindings in goods and in services.

In recognition of special difficulties in implementation of some of the agreements and associated adjustment costs, additional S&D provisions were introduced, bringing the total to 145.[4] Within these provisions, more benefits were targeted towards least developed countries, net food importing developing countries (NFIDCs), and Annex VII Countries (defined as those with a per capita income less than US$ 1000).

2.1. Developing Countries' Concerns

Most of the new S&D provisions were introduced to help developing countries implement the new agreements and to alleviate the burden of adjustment. As such, S&D provisions have in effect triggered a debate on the special problems and barriers that developing countries face as they seek fuller integration into the world

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[4] The 145 S&D provisions are spread across the different Multilateral Agreements on Trade in Goods; GATS; TRIPS; the Understanding on Rules and Procedures governing the Settlement of Disputes; and various Ministerial Decisions. Of the 145 provisions, 107 were adopted at the end of the Uruguay Round, and 22 apply exclusively to the least-developed WTO members (Document WT/COMTD/W/77, October 2000, WTO, Geneva).

economy. And by including additional benefits in favor of least developed, Annex VII countries and net food importing developing countries, the Uruguay Round has also opened the door on the concept of tiering of S&D benefits across different groups of developing countries.

Following WTO practice, concerns over the different provisions included in S&D have been grouped under five main headings: (1) provisions aimed at increasing developing countries' trade opportunities; (2) provisions that call upon WTO members to safeguard the interest of developing countries; (3) flexibility of commitments; (4) transitional time periods; and (5) technical assistance. As will be described below, developing countries have raised concerns under each of the headings, except in the case of flexibility in commitments.

2.1.1. Provisions to Increase Trade Opportunities

2.1.1.1. Preferential access

The Generalized System of Preferences (GSP) is the most extensive and explicit expression of an attempt to use trade preferences as a tool of development. It is a scheme under which all developing countries are supposedly eligible for trade preferences where preference-giving countries exempt imports from developing countries from MFN duties. The GSP was founded on three principles - that it be "generalized," non-discriminatory and non-reciprocal. However, the unilateral, non-contractual basis on which preference-giving countries have always maintained their GSP schemes has meant that in practice, not all of these principles have been fully observed in all of the schemes.

Considering that GSP has always been regarded as a temporary phenomenon, or as a mechanism to help developing countries "catch up" with their industrial country counterparts, it is hardly surprising that the notion that GSP should be generalized and non-discriminatory has given rise to interpretative differences. If GSP is to be transient, countries and/or products must inevitably be graduated from preferences over time. And since GSP is unilateral, consistency as to the coverage of schemes can hardly be expected. Product and country exceptions, variations in eligibility rules, different approaches to the determination of preference margins, and an assortment of conditionnalites all add to the heterogeneity of the schemes.

In theory, preferences can increase the exports of a recipient country, but if the expansion derives from trade diversion rather than trade creation, it will be at the cost of the preference-giving country and third parties. Export expansion in beneficiary countries may contribute to development in a broad sense, via increased investment, growth and employment, and diversification of the production base away from exclusive reliance on production of primary goods. The non-preferential creation of new market access opportunities would hold out the same promise, but with the vital difference that no particular country or group of countries would be accorded such opportunities to the exclusion of others. This competitive "edge" provided by preferences, supposedly on a temporary basis, is generally justified as a mechanism to help developing countries catch up with their more developed counterparts.

Two obvious disadvantages in using preferences as a means of according a temporary economic advantage are, firstly, that the preferences may induce beneficiaries to specialize in activities in which they will never be competitive, and secondly, that they create vested interests opposed to multilateral trade liberalization. Inappropriate specialization may be particularly acute where preferential access entails economic transfers arising from privileged access behind high non-tariff barriers, as has been the case, for example, with certain agricultural preferences. Not only is the reversal of reliance on such high rent transfers likely to prove extremely painful unless it is carefully managed over an extended period, but the preferences themselves have perpetuated mono-cultural dependence rather than promoting diversification of the production base. This observation leads to the conclusion that preference margins can be too high for the long-term good of beneficiaries.

Most available research suggest that with the exception of a few of the larger developing countries, and in relation to a few products, the preference schemes have had limited success in generating significant export growth or improving the trade shares of beneficiaries. By extension, the effects of preferences on income levels and economic growth have not been great for the majority of beneficiaries. While it appears that in the early years of the program many benefits went to lower-income countries, more recent data suggest that the countries that have benefited most from preferences have been high-income developing countries with pre-existing supply capacity, and some agricultural exporters receiving high-income transfers because of high non-tariff protection.

In broad terms, supply-side constraints should be distinguished from other explanations for the limited economic success of preferential trade arrangements. For example, some beneficiaries of a particular preferential scheme have largely enjoyed unrestricted access across almost the entire range of their exports. While the arrangements could doubtless be improved in various ways from the point of view of the beneficiaries, it would be difficult to point to significant obstacles to access inherent in the arrangements themselves. The only valid conclusion, therefore, is that the limited success of trade preferences in increasing the trade shares of beneficiary countries, and in fostering growth and economic diversification, must be explained primarily in terms of other constraints to development in the beneficiary countries.

The observation that preferences have made a limited contribution to economic development is not an argument for imposing obstacles upon the trade of beneficiary countries. But it does make the case against the deployment of arguments opposing multilateral trade liberalization in the name of preserving preference margins, and for dealing with the shortcomings of the schemes.

Benefits have undoubtedly been compromised through significant restrictions, in terms of product and country coverage, and through uncertainty, the unilateral nature of the schemes, frequent changes in eligibility, complex rules of origin, and various other restrictions.[5] In fact, these are the concerns that developing countries have expressed in respect of the actual operation of the GSP schemes. In terms of products excluded from the GSP, developing countries have explicitly mentioned walnuts, raw coffee, meat, dairy products, vegetables, cereals, cigars, silk, cotton, woven fabrics of cotton and footwear. Developing countries have also expressed concern that some schemes include binding ceiling quotas on certain products where they enjoy distinct comparative advantage including wood, leather, footwear, electrical machinery and equipment. They have also pointed out that specialization and development indices that some schemes employ can lead to discrimination between developing countries as such indices favor producers of raw materials and low-processed goods while penalizing more advanced suppliers.

In the absence of such obstacles, there would have been higher utilization ratios and greater trade benefits. But is there any reason to believe that these additional benefits would have reached much beyond the restricted group of high-income beneficiaries that captured the lion's share of what benefits there were? The only answer to this question is to better target preferences to countries that do in fact

[5] Developing countries have mentioned that the linking of benefits in some schemes to non-trade objectives, such as environmental and social standards, as well as intellectual property rights and the fight against drugs curtail the benefits under the schemes and introduce elements of discrimination and reciprocity into the GSP.

need and require them as a condition for their integration into the world economy and hence development. It is precisely because a few, relatively well-off developing countries have enjoyed most of the GSP benefits available, and at the same time have registered impressive levels of growth and development, that the need for a better targeting and tiering of benefits is called for. However, it is important to note that some developing countries remain opposed to such an approach. They have put forward the view that sector and country graduation schemes are contrary to the principles of non-discrimination and non-reciprocity that underpin the GSP.

2.1.1.2. Services

Article IV of GATS foresees the participation of developing countries in the service liberalization to be gradual, and to proceed along the developmental requirements of each member. This is to be achieved via the negotiation of specific commitments that would strengthen their domestic service capacity, efficiency and competitiveness through access to technology on commercial basis, the improvement of their access to distribution channels and information networks, and the liberalization of market access in sectors and modes of supply of export interest to them.

Developing countries have expressed concerns over the lack of a specific mechanism to operationalize the provisions in Article IV of GATS for liberalization of market access in sectors and modes of supply of interest to them, and the need to move ahead with implementation of Article 66.2 of the TRIPS Agreement that deals with incentives for the transfer of technology to least developed countries. As stated earlier, some developing countries have also argued that IP protection under the TRIPs Agreement is largely oriented towards areas of interest to developed countries, leaving aside areas that particularly interest them, like indigenous knowledge or geographical indications for traditional handicrafts.

2.1.2. Provisions to Safeguard the Interests of Developing Countries

A number of WTO Agreements provide provisions that call on members to take into account the interest of developing countries. For example, the TBT Agreement provides that in the preparation and application of technical regulations, standards and conformity assessment procedures, WTO members should aim to take into account the special development, financial and trade needs of developing countries. Similar provisions are also included in the Sanitary and Phyto-Sanitary (SPS) Agreement. The Anti-Dumping Agreement (ADA) also stipulates that constructive remedies should be explored before applying anti-dumping duties in cases where they affect the essential interests of developing countries. The Agreement on Subsidies and Countervailing Measures also stipulates the termination of countervailing duty investigations against a product originating in a developing country if the level of subsidization or the share of imports is less than a prescribed level. A similar stipulation is also included in the Agreement on Safeguards for the non-application of safeguard measures on imports from a developing country if the import share falls below a prescribed level.

A number of developing countries have expressed the view that many such provisions have been largely ineffective. For example, where it concerns the TBT and SPS Agreements, some have complained that developed countries have not adequately taken into account their special needs in preparing and applying sanitary and phyto-sanitary measures, technical regulations, standards and conformity assessment procedures. They have also expressed concerns over a lack of initiatives to facilitate their participation in standard setting organizations.

In addition, concerning the Anti-dumping Agreement, some developing countries argue that developed countries applying anti-dumping measures have paid inadequate attention to the special situation of developing countries and have not adequately explored possibilities for constructive remedies. Developing countries feel that they should be accorded more flexible procedures, e.g. by being allowed higher *de minimis* dumping margins and import share thresholds in anti-dumping proceedings. Moreover, these countries call for a “grace period” during the initiation of proceedings, as well as special considerations when setting the investigation period.

2.1.3. Flexibility of Commitments

Of the 145 special S&D provisions, 30 impart more flexibility to developing countries in the implementation of certain rules and commitments. For example, the Agreement on Agriculture provides a longer time frame and lower reductions in tariffs and subsidies for developing country members; they are also not required to make commitments in respect of subsidies for marketing costs and internal transport and freight charges on export shipments during the implementation period. For non-agricultural subsidies, developing countries with per capita income less than $1000 (Annex VII countries) have been exempted from the prohibition on export subsidies as long as these do not disrupt other countries’ markets. Developing countries that are not Annex VII countries have until 2003 to phase out export subsidies. There is, however, some provision for extension.

The Safeguard Agreement allows developing countries to maintain safeguard measures for a period of 10 years, instead of 8; and they may re-impose safeguard measures after half the time of a previous application in case the minimum two-year period of non-application has elapsed. The GATS also allows developing country members to open fewer sectors and liberalize fewer types of transactions while progressively extending market access in line with their level of development.

Developing countries were also given the flexibility to bind their tariffs at ceiling levels that are more often than not significantly higher than autonomously applied tariffs. In most cases, the lower applied tariffs have been introduced in the context of adjustment programs outside the WTO reciprocal bargaining process. Thus, developing countries were given bargaining chips that they can use in future negotiations. This outcome also gave rise to the concept of “Credit for Concessions Given”.

GATS Article XIX offers in addition “appropriate flexibility for individual developing countries for opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their developmental situation and, when making access to their markets available to foreign service suppliers, attaching to it conditions aimed at achieving the objectives referred to in Article IV.”

2.1.4. Transitional Periods

Longer time periods to facilitate implementation are provided for in all WTO agreements, save in the cases of the Agreements on the Implementation of Article VI (anti-dumping) of GATT 1994 and on Preshipment Inspection. For example, the TRIPS Agreement grants developing countries a 5-year transition period (except for the national treatment and MFN commitments), while least-developed economies are afforded up to 11 years to follow suit, with the possibility of further extensions.

Some developing countries have expressed the view that the transitional periods neither provide adequate time to deal with specific capacity constraints that many of them face, nor do they take into account their particular development needs. Specific areas in which extensions have been referred to include those related to non-agricultural export subsidies, TRIMS, TRIPS and the Customs Valuation Agreement.

2.1.5. Technical Assistance

The provision of technical assistance to developing countries has become part and parcel of S&D under the WTO Agreements. It aims at assisting developing country governments in their efforts to build institutional capacity needed to implement the Agreements and participate more fully in the multilateral trading system. This seems particularly important for implementation of SPS, TBT, Customs Valuation, GATS and TRIPS. Nevertheless, individual S&D provisions on technical assistance can be seen as “best endeavor” clauses rather than legal obligations, as they are expressed in imprecise and hortatory language.

Developing countries are asking for a substantial increase in the WTO core budget to be devoted to technical assistance programs, and for acceleration in the implementation of the programs under the Integrated Framework following the submission of needs assessment by Laces.

2.2. Tiering of S&D

Most of the concerns listed above reflect developing countries’ dissatisfaction with the actual operation of a large number of S&D provisions. They consider them as inadequate instruments to help them integrate more fully into the multilateral trading system.

However, no fruitful discussion of the actual or potential contribution of S&D to integration efforts and hence economic development is complete without a full appreciation of the problems originating from the lack of an official definition of what constitutes a developing country. These problems can be illustrated by the fact that Singapore, with a per capita income of $26600 in 1998 has in principle the same access to special provisions as Ghana with a per capita income of $400. At the most basic level, no single system can pretend to address the interests and concerns of countries with such a wide difference in economic performance. Even in the unlikely event where problems and their magnitudes can be seen as more or less similar, the remedies that fit a country like Singapore must surely be different from those that Ghana could undertake. Assume for the sake of argument that even where the remedies are the same, then surely the capacity of Singapore to adopt them is different from Ghana’s.

Two alternative approaches to a more differentiated treatment of developing countries can be distinguished. One approach would continue the practice initiated during the Uruguay Round of targeting more benefits to a select group of developing countries. The inevitable consequence of this approach is that the blanket special provisions under S&D would eventually become less responsive to the needs and concerns of some of the excluded countries. Thus, pressure would build to add this or that country to the list of the poorer developing countries.

The alternative approach would be to encourage the more advanced developing countries to abandon the group either on an autonomous basis, or through the elaboration of some analytical criteria for “graduation” that are based on measurable economic data. Whichever approach dominates, it is clear that multilateral co-operation in this area is of critical importance to all WTO members.

In the context of the Generalized System of Preferences (GSP), tiering contains elements from the two approaches listed above as it entails the calibration of benefits to the level of economic development achieved by a beneficiary country. Three principal tools are available for this purpose:

- The extension of deeper benefits to those beneficiaries that are deemed to be the least-developed countries.

- The graduation (i.e., removal from GSP status) of specific products imported from beneficiaries that are deemed to be sufficiently competitive in the production of those items, and
- The graduation of the more advanced beneficiary countries from the program altogether.

Preference-granting countries or sponsors can use these tools to adjust the status both of countries and of products. The original GSP proposal suggested that the program as a whole lasts for just ten years, and also implied that the benefits might be reduced for the more advanced beneficiary countries. It did not directly address the question of whether individual countries might be graduated from the program altogether. Nor was this matter clarified by the Enabling Clause, which is more properly known as the "Differential and More Favorable Treatment, Reciprocity, and Fuller Participation of Developing Countries." This 1979 agreement granted the permanent waiver of the GSP in the GATT system. Though a preferential approach has become deeply ingrained and the principle of non-reciprocal concessions was codified in the Enabling Clause, the text of the Enabling Clause itself contains a provision to the effect that such preferential treatment should not be indefinite and should evolve through time, as developing countries state the expectation that:

> "their capacity to make contributions or negotiated concessions or take other mutually agreed action under the provisions and procedures of the General Agreement would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement."

This formulation, which has been described as "quite vague and ambiguous,"[6] can be read in two different ways. In a narrow interpretation, the provision suggests that countries should be expected to engage more fully in the exchange of concessions as their economic development advances. A broader interpretation would hold that this clause constitutes the developing countries' acceptance of graduation as a basic principle.

Whatever the original intent of the sponsor and beneficiary countries may have been, it is quite apparent that the graduation of countries and/or products has become a key element of the program. All four of the schemes reviewed here provide for the graduation of countries and/or products. These two forms of graduation should be considered together, insofar as they are often closely related. Countries often are graduated in stages, such that the more advanced beneficiaries see many of their products graduated before they are removed from the program altogether.

2.2.1. Subjective adjustment of privileges

Not all removals of countries and products have been made solely on the basis of objective considerations of economic development and competitiveness. Sponsor countries can use these privileges to exert influence on the beneficiary countries. For at least two of the schemes reviewed here, the sponsors have used either positive inducements (i.e., expanded benefits) or negative sanctions (i.e., the removal of countries or products) as a means of inducing changes in the policies of beneficiary countries.

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[6] Abdulqawi A. Yusuf, "'Differential and More Favourable Treatment': The GATT Enabling Clause," *Journal of World Trade Law* Volume 14 Number 6 (November-December, 1980), page 505.

The beneficiaries of the GSP do not have a legally enforceable right to these preferences, which are not “bound” in the sponsors’ tariff commitments. It is within the authority of those sponsors to adjust the privileges that they extend to the beneficiaries. This aspect of the program is due to the fact that the GSP is fundamentally inconsistent with the core GATT rule of non-discriminatory treatment, and thus required a waiver of GATT Article I. The GATT Contracting Parties granted a ten-year exception in 1971, and later made this waiver permanent in the 1979 Enabling Clause. This product of the Tokyo Round allowed the GATT Contracting Parties to “accord differential and more favorable treatment to developing countries, without according such treatment to other Contracting Parties.” The Enabling Clause also isolated the GSP from the scope of GATT rules. This meant that beneficiary countries that were also Contracting Parties to GATT had no recourse to multilateral rules in any disputes regarding the implementation of the program.

The EU provides a number of means to encourage compliance with internationally recognized environmental, labor, and drug policies. Section 4, Article 7 of the Regulation applying the 1999-2001 GSP program outlines the “special arrangements supporting measures to combat drugs.” This incentive is meant to reward Central and South American countries for their domestic efforts to combat drugs. Customs duties are suspended entirely for a wide range of industrial products. Notable exceptions are parts and accessories of arms and ammunitions and various sensitive agricultural products. Countries benefiting from this special arrangement are the Andean Community[7] and Central American Common Market[8] members.

Title II of the same document enumerates the EU’s “special incentive arrangements concerning labor rights and environmental protection.” Environmental incentives apply only to a handful of tropical forest products such as cashew apples (HS 0813.40.70) and a variety of tropical wooden products. These tariff reductions range from 90% to 65%.

The same tariff cuts are available for a variety of products to any GSP beneficiary (including Laces) provided that:

The authorities of those countries have applied to the Commission in writing to take advantage of the special arrangements for their originating products, giving details of:

- their domestic legislation incorporating the substance of the standards laid down in ILO Conventions No 87 and No 98 concerning application of the principles of the right to organize and to bargain collectively and Convention No 138 concerning the minimum age of admission to employment; the full text of such legislation must be attached, together with an official translation into one of the Community languages,
- the measures taken to apply and monitor these provisions effectively, any sectoral restrictions on their application, any breaches observed and a breakdown of such breaches by production sector,
- a commitment by the government of the country in question to take full responsibility for monitoring application of the special arrangements and the relevant administrative cooperation procedures.[9]

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[7] Bolivia, Colombia, Ecuador, Peru, and Venezuela.

[8] Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

[9] “Council Regulation (EC) No 2820/98 of 21 December 1998 applying a multiannual scheme of generalised tariff preferences for the period 1 July 1999 to 31 December 2001.” *Official Journal* L 357, 30/12/1998, page 0001-0112.

- In addition to rewarding beneficiaries for their acceptable policies, the European Union also provides for reduced benefits for countries that do not comply with certain standards. Section 1 of Title III outlines the possible scenarios for temporary withdrawal of preferences. These include:
- practice of any form of slavery or forced labor as defined in the Geneva Conventions of 25 September 1926 and 7 September 1956 and International Labor Organization Conventions No 29 and No 105;
- export of goods made by prison labor;
- manifest shortcomings in customs controls on export or transit of drugs (illicit substances or precursors), or failure to comply with international conventions on money laundering;
- fraud or failure to provide administrative co-operation as required for the verification of certificates of origin form A;
- in manifest cases of unfair trading practices on the part of a beneficiary country. The withdrawal shall be in full compliance with the WTO rules;
- manifest cases of infringement of the objectives of international conventions such as NAFO, NEAFC, ICCAT and NASCO concerning the conservation and management of fishery resources.[10]

The 1997 temporary removal of Myanmar from the EU list of beneficiaries, a policy still in force today, was a result of this title.

In the US, the “designation criteria” that the President employs in deciding whether any specific country would be granted benefits also provide the means by which a country can be removed. A country’s benefits can be reduced, suspended, or terminated if it is found not to comply with these criteria. The US policy on this matter took a new turn with the Trade and Tariff Act of 1984, which — in addition to re-authorizing the GSP - made three important changes in the program.[11] First, the designation criteria for the GSP were expanded to cover additional items (e.g., labor rights). Second, the law provided for a “general review” that could lead to increases or reductions in countries’ benefits. Third, the law allowed the Office of the U.S. Trade Representative (USTR) to offer countries more secure benefits by waiving the limits on GSP benefits. The USTR used these provisions in a general review of the GSP in 1985-1987, and continued to use them in subsequent annual reviews. The general review allowed interested parties (e.g., firms, labor unions, interest groups, etc.) to bring complaints regarding country practices, including trade issues such as alleged restrictions on market access or failure to protect intellectual property rights. The issues raised in these petitions were discussed in the consultations that US trade officials conducted with beneficiary countries in 1986. These practices have been continued in annual reviews of the GSP.

The workers’ rights criterion has been the single most common issue cited in the petitions filed with the GSP Subcommittee. Of the 224 country practices petitions that were filed with the USTR during 1985-2000, 128 concerned workers’ rights.[12] Failure to meet this criterion has led to the temporary or permanent suspension of GSP

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[10] *Ibid*.

[11] See Stephen Lande and Craig VanGrasstek, “Renewal of the Generalised System of Preferences: Neoreciprocity and the Newly Industrialised Countries.” Chapter 4 of *The Trade and Tariff Act of 1984: Trade Policy in the Reagan Administration* (Lexington, Massachusetts: D.C. Heath, 1986).

[12] Secretariat’s calculations based on data provided by USTR.

privileges for Chile, Maldives, Mauritania, Paraguay, Sudan, and Syria, and their termination for Liberia, Nicaragua, and Romania. Other common topics of complaint in annual reviews concern expropriation disputes (which led to the suspension of Ethiopia's benefits during 1980-1993), intellectual property rights, and market-access issues.

The protection of intellectual property rights is among the most important designation criteria. The United States demonstrated the potential use of GSP privileges in trade disputes when in 1997 "the U.S. Government announced the suspension of 50 percent of Argentina's GSP benefits effective in April 1997 because of Argentina's lack of patent protection for pharmaceuticals."[13]

The benefits extended to countries can also be modified as a result of other policy considerations, such as the extension of more preferential treatment to favored trading partners. On three occasions, US officials have conducted special reviews of the GSP to grant speedy and favorable treatment to the petitions submitted by partners from specific regions. The United States conducted special reviews for Andean countries in 1989-1990, Eastern European countries in 1991-1992, and sub-Saharan African countries in 1997. In the last case, only the Laces can receive duty-free treatment for the newly designated items.[14]

3. Estimated Effects of Further Liberalization

In this draft version of the paper we use an aggregated version of the MenaMod model[15] to have some insights on the possible effects of the further trade liberalization on the MENA region. MenaMod is a multiregion and multisector dynamic general equilibrium model focusing on the MENA region. The model distinguishes Turkey, Lebanon, Jordan, Syria, Israel, Palestine, Kuwait, Saudi Arabia, Egypt, Tunisia, Algeria, Morocco, Rest of Middle East, Rest of North Africa, the European Union (EU), the EU candidates, NAFTA, Japan, China, South East Asia, Central and South America, Former Soviet Republics, Rest of the World.

As all the applied general equilibrium models, MenaMod is characterized by an input-output structure that explicitly links industries in a value added chain from production factors to the final demand. The model captures all the fundamental complex structure of production and consumption. Being a multinational model, MenaMod also captures the international linkages between countries, industries and households.

On the production side, perfect competition is allowed in agriculture where products from different regions/countries are assumed to be imperfect substitutes following the so-called Armington assumption. We model manufacturing and services as involving imperfect competition. For the demand side, we use the representative consumer approach where an aggregate utility function is used to represent the consumption of all varieties. To capture the effect of variety on utility, the average consumer's utility is defined over the quantities of the different varieties consumed and the total number of varieties consumed.

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[13] Office of the U.S. Trade Representative, *1997 National Trade Estimate: Argentina*. (Washington, D.C.: U.S. Government Printing Office, 1997), page 11.

[14] Both the Andean and the African reviews preceded the establishment of special programmes for those respective regions (i.e., the Andean Trade Preferences Act and the African Growth and Opportunities Act).

[15] The database of the MenaMod is currently being updated. The final version of the paper to be handled later will be based on the full version of the model with detailed disaggregation of the regions and sectors.

The preliminary policy experiments involve a hypothetical 20 percent reduction in import protection for agricultural and industrial goods and for services. Four simulations are considered[16]:

- **SR**: Short-run effects of a 20 percent reduction in the protection rates in manufactures and services;
- **LR**: Long-run effects of a 20 percent reduction in the protection rates in manufactures and services;
- **ASR**: Short-run effects of a 20 percent reduction in the protection rates in all the sectors including agriculture;
- **ALR**: Long-run effects of a 20 percent reduction in the protection rates in all the sectors including agriculture.

Table 1: Welfare effects (in billions of 1995 US$)

	SR	In % of total	LR	In % of total	ASR	In % of total	ALR	In % of total
MENA	1271	2.7	9702	6.3	1700	2.2	10722	5.5
EU	7844	16.7	10072	6.5	12180	16.1	15576	8.0
USA	4785	10.2	13533	8.8	5388	7.1	15254	7.9
JAPAN	4709	10.0	8242	5.4	23729	31.3	37778	19.5
ASIA	17090	36.4	65281	42.4	20965	27.6	63436	32.7
CEEC	517	1.1	1219	0.8	622	0.8	1363	0.7
FSU	762	1.6	1401	0.9	806	1.1	1569	0.8
ROW	10025	21.3	44342	28.8	10479	13.8	48256	24.9
TOTAL	**47003**	**100.0**	**153792**	**100**	**75869**	**100**	**193954**	**100**

Table 1 shows that the overall welfare effects of a further reduction in the tariffs are important and range from US$ 50 billion to 200 billion annually. In terms of regional effects from the total set of liberalization experiments, the greatest gains consistently accrue to the Asian countries and to the major developed countries. MENA would gain from multilateral trade liberalization about $ 1-2 billion in the short run and $ 10 billion in the long run. MENA’s share in total welfare would be 2-3 percent in the short-run and 5-6 percent in the long run. The gains are bigger if agriculture is included in the liberalization scheme.

[16] In these preliminary simulation exercises we do not take into account the phasing out of MFA.

Table 2: Effects on real GDP (in percent)

	SR	LR	ASR	ALR
MENA	0.3	1.5	0.3	1.6
EU	0.1	0.1	0.1	0.2
USA	0.1	0.2	0.0	0.2
JAPAN	0.1	0.2	0.4	0.8
ASIA	0.7	3.0	0.9	2.9
CEEC	0.2	0.5	0.2	0.6
FSU	0.3	0.4	0.3	0.4
ROW	0.4	1.6	0.4	1.7

A multilateral reduction in the protection rates would also positively influence growth. Table 2 shows that MENA would highly benefit from a new trade round. Every year, real GDP would be higher by 0.3 percent in the short run and by 1.5 percent in the long run. Trade liberalization would also boost investment. In the long run, the capital accumulation would be higher by 1.5 percent annually (Table 3). The impact on the real wages is also positive for skilled and unskilled workers (Tables 4 and 5).

Table 3: Effects on capital accumulation (in percent)

	SR	LR	ASR	ALR
MENA	0	1.5	0	1.6
EU	0	0.1	0	0.1
USA	0	0.3	0	0.3
JAPAN	0	0.2	0	0.7
ASIA	0	3.4	0	3.0
CEEC	0	0.7	0	0.7
FSU	0	0.2	0	0.3
ROW	0	1.8	0	2.0

Table 6 provides the implications of trade liberalization on the sectoral production in the MENA region. We observe that the largest impact would be on the textile and clothing products. In these sectors output would increase by about 20 percent with respect to the baseline. The effect on the plant fibers is also fairly big and can go up to 16 percent in the case of liberalization in agriculture. In this case many other agricultural products would increase except for oil seeds and raw sugar.

Table 4: Effects on the real wage of skilled labor (in %)

	SR	LR	ASR	ALR
MENA	0.5	1.4	0.6	1.6
EU	0.2	0.2	0.3	0.3
USA	0.2	0.3	0.2	0.3
JAPAN	0.2	0.3	0.8	1.1
ASIA	1.4	2.9	2.1	3.5
CEEC	0.5	0.7	0.6	0.8
FSU	0.2	0.3	0.2	0.3
ROW	0.3	1.3	0.3	1.4

Terms of trade effects are reported in the Table 7. In the case of MENA terms of trade effects are negative, which means that the MENA countries will have to export even more to buy the same quantity of imports. Fortunately, exports from MENA to the other regions would be higher by 7-8 percent annually (Table 8). This would be within an expanding World trade in most of sectors, especially in the processed food, textiles, clothing, and motor vehicle industries. For agriculture, World trade in plant based fibers would increase by more then 10 percent in the long run, and even by more than 16 percent in the case agricultural liberalization (Table 9).

Table 5: Effects on the real wage of unskilled labor (in %)

	SR	LR	ASR	ALR
MENA	0.3	1.3	0.3	1.4
EU	0.2	0.2	0.2	0.2
USA	0.0	0.1	0.0	0.1
JAPAN	0.1	0.2	0.5	0.7
ASIA	1.7	3.4	2.3	3.7
CEEC	0.5	0.7	0.5	0.7
FSU	0.1	0.1	0.1	0.1
ROW	0.2	1.2	0.2	1.3

Table 6: Effects on the production in MENA (in percent)

	SR	LR	ASR	ALR
Grains	0.1	0.4	0.4	0.7
Vegetables	-0.1	0.2	-0.1	0.1
Oil seeds	0.7	1.0	-4.5	-4.3
Raw sugar	-0.8	-0.4	-2.6	-2.2
Plant fibers	5.0	6.0	15.0	16.0
Animal products	-0.8	-0.5	-1.2	-0.9
Other agricultural prod.	2.2	2.7	0.3	0.8
Fishing	-0.3	0.1	-0.2	0.3
Energy & minerals	0.3	0.6	0.3	0.6
Processed food	-5.0	-4.6	-5.3	-4.9
Textiles & clothing	22.4	19.9	20.8	18.2
Leather	-10.1	-12.7	-10.5	-13.0
Wood products	-2.6	-1.6	-2.5	-1.5
Metals	-3.7	-1.5	-3.4	-1.0
Motor vehicles	-13.7	-10.3	-13.2	-9.6
Machinery & equipment	-12.5	-7.8	-12.0	-7.1
Other manufactures	2.1	2.6	2.2	2.8
Services	0.4	1.4	0.5	1.5

Table 7: Effects on the terms of trade

	SR	LR	ASR	ALR
MENA	-0.4	-0.3	-0.4	-0.3
EU	0.1	0.1	0.1	0.1
USA	0.1	0.2	0.2	0.3
JAPAN	0.1	0.1	0.2	0.1
ASIA	0.0	-0.2	-0.1	-0.3
CEEC	0.0	0.0	0.0	0.0
FSU	-0.6	-0.4	-0.6	-0.5
ROW	-0.3	-0.3	-0.3	-0.3

Table 8: Effects on export volumes (in percent)

	SR	LR	ASR	ALR
MENA	6.7	7.3	7.2	7.8
EU	1.7	1.9	1.8	2.0
USA	4.1	4.8	4.4	5.2
JAPAN	5.6	6.1	5.1	5.7
ASIA	10.1	11.9	10.9	12.5
CEEC	6.4	6.8	7.0	7.3
FSU	7.6	7.7	8.0	8.1
ROW	8.5	9.5	8.7	9.8

Table 9: Effects on the World exports (in percent)

	SR	LR	ASR	ALR
Grains	-2.6	-0.8	14.6	16.3
Vegetables	-0.6	0.0	6.6	7.2
Oil seeds	-0.6	0.6	1.7	2.8
Raw sugar	-2.1	-0.5	12.2	13.5
Plant fibers	9.6	12.3	13.9	16.3
Animal products	2.0	4.3	1.3	3.1
Other agricultural prod.	-1.5	-1.5	7.4	7.5
Fishing	-3.0	-2.5	4.4	5.0
Energy & minerals	0.9	1.4	1.0	1.4
Processed food	18.1	18.7	15.7	16.3
Textiles & clothing	16.3	17.2	16.7	17.5
Leather	5.9	7.7	6.4	8.0
Wood products	1.5	2.1	1.5	2.1
Metals	4.4	4.5	4.6	4.9
Motor vehicles	10.7	11.4	10.9	11.9
Machinery & equipment	1.3	2.3	1.3	2.2
Other manufactures	3.8	4.3	3.9	4.4
Services	1.5	2.0	1.6	2.2

4. Conclusion

The MENA countries will have to face important challenges with the ongoing Euro-Med integration, the EU-GCC trade negotiations and the current WTO Doha Round. They will also have to answer the questions raised by the candidacy of several MENA countries. The preliminary simulation results show that the gains from further liberalization can be important for some countries/regions including the MENA regions, especially in the long run. As noted by Francois (2000), multilateral, broad-based liberalization offers the opportunity for terms of trade losses and gains to cancel so that efficiency and pro-competitive gains can dominate the net effects. However, the precise numbers should be considered with a lot of care. More research and reliable data are needed to provide a detailed and consistent assessment, in particular for the MENA region.

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