International Trade Centre

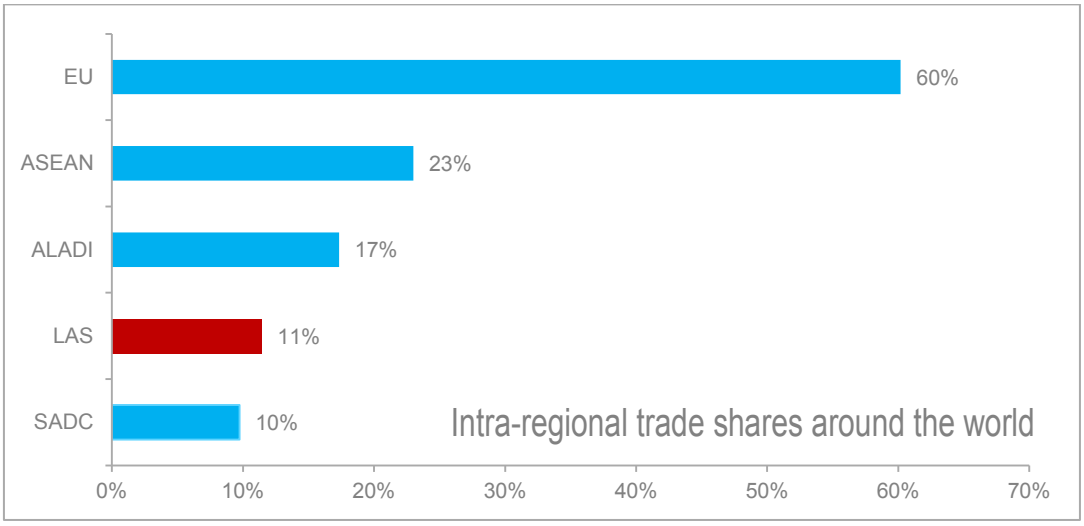
EXPORT IMPACT FOR GOOD

LEAGUE OF ARAB STATES' REGIONAL INTEGRATION

OPPORTUNITIES FOR TRADE AND EMPLOYMENT

EXECUTIVE SUMMARY

ABSTRACT



The League of Arab States region has one of the lowest levels of intra-regional trade in the world despite preferential market access and significant cultural homogeneity. Trade potential exists but is as yet untapped. The International Trade Centre's (ITC's) analysis finds that by removing remaining obstacles to trade, there is the potential to increase total trade of member states by 10% and create at least 2 million jobs

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LEAGUE OF ARAB STATES' REGIONAL INTEGRATION IN SUMMARY

In light of stagnating multilateral negotiations, regional integration has come back into vogue. All but a handful of countries have signed preferential trade agreements within their region, some of which are even overlapping. Yet intra-regional trade has not surged everywhere in response to these agreements.

The Arab League comprises countries which are relatively homogenous in terms of religion and language. Moreover, in recent years efforts have been undertaken to largely remove bilateral tariffs. Still, compared to other regions, trade among the League of Arab States (LAS) members is low (see Figure 1).

- **While more than 60% of the European Union's (EU's) total trade is with one of its member states, only 11% of the LAS' trade takes place inside the region.**

The remaining obstacles which go far beyond conventional tariff measures prevent these markets from integrating further.

As a consequence, instead of enhancing regional integration, the LAS remains largely dependent on trade with the outside world. As youth unemployment is an issue in LAS countries, creating new export opportunities is one important way to create new jobs for this segment of the population. This paper explores the untapped opportunity for governments, firms, trade, employment and eventually also for welfare.

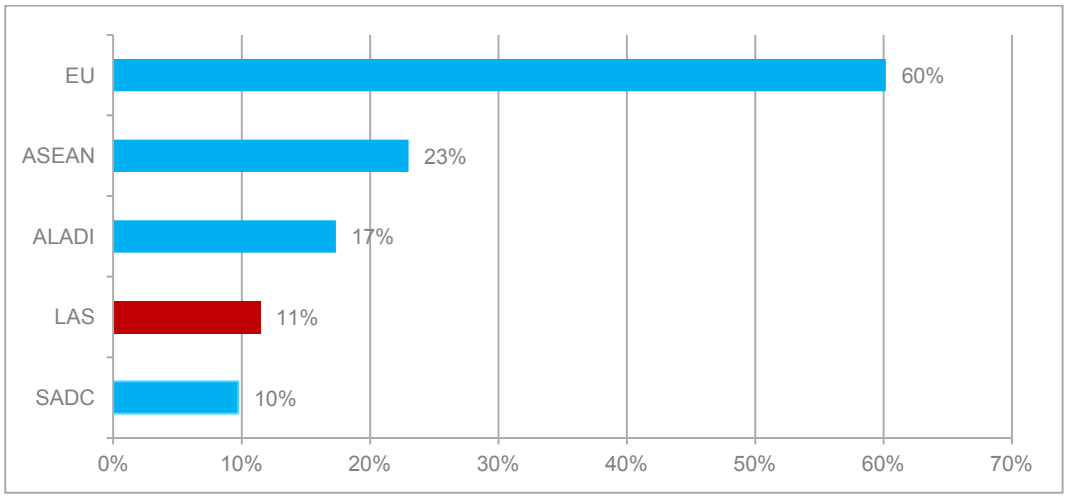
Against this background, we try to answer the following questions:

- What is the current state of regional integration?
- Which major bottlenecks still hinder greater intra-regional trade?
- How can the region's employment and welfare be improved by removing these obstacles?

Overall, we find that despite the substantial tariff privileges that LAS countries enjoy on LAS markets, regional integration has been declining since the mid-1990s. Other – non-tariff – obstacles are in place, which prevent LAS members from trading more with each other.

- A future reduction of these trade barriers would increase total trade by 10 per cent and create over 2 million additional jobs.
- Given that currently most intra-regional LAS trade is in unskilled manufacturing, in order to ensure that the trade created is beneficial overall, this paper recommends targeted national development programs favouring skill-intensive value-added sectors, and sectors where women and youth have a high participation like clothing and services.
- Regional integration is not automatic but requires efforts which go beyond the removal of 'conventional' tariffs

Figure 1: Intra-regional trade shares around the world (excl. oil)



Note: ITC staff calculations. Data comes from Cepii's BACI database. Intra-regional trade is given as a percentage of total trade by region. Total trade is defined as (exports+imports)/2. Data is for 2010 and excludes oil (HS 27). The European Union (EU) is the group of the 27 current member states except Belgium and Luxembourg. The Association of Southeast Asian Nations (ASEAN) comprises all ten member states. ALADI (Asociación Latinoamericana de Integración – a trade agreement among 12 Latin America countries). The South African Development Community (SADC) has a membership of 15 Member States.

Even though the removal of tariffs remains a precondition for achieving greater regional integration, tariff preferences do not automatically translate into integration. Only a few countries have actually achieved closer trade links with other LAS countries compared with non-LAS countries, despite major efforts.

The modest evidence of regional integration among the LAS trading partners hints at factors other than 'conventional' tariffs hindering the free exchange of goods across LAS markets. Exporting companies seeking access to foreign markets, and companies importing products, do indeed need to comply with a wide range of requirements including technical regulations, product standards and customs procedures. These non-tariff measures (NTMs) affect intra-regional trade in the LAS, especially in manufacturing products. This is despite the fact that preferential agreements are in place which include provisions for the elimination of non-tariff barriers to trade.

Against this background, it appears crucial to not only sign but fully implement existing preferential agreements for their positive effects on intra-regional trade to take place.

Regional integration should only be the first step in a broader world integration process.

Simulations show that a reduction of non-tariff barriers to trade within the LAS region would only favour the sectors that are already traded significantly within the region, in particular food products that initially face high obstacles. As a consequence, these sectors would become more profitable and attract more investment. Due to limited financial resources, however, this might in turn reduce production in some other sectors, which are initially more internationally oriented.

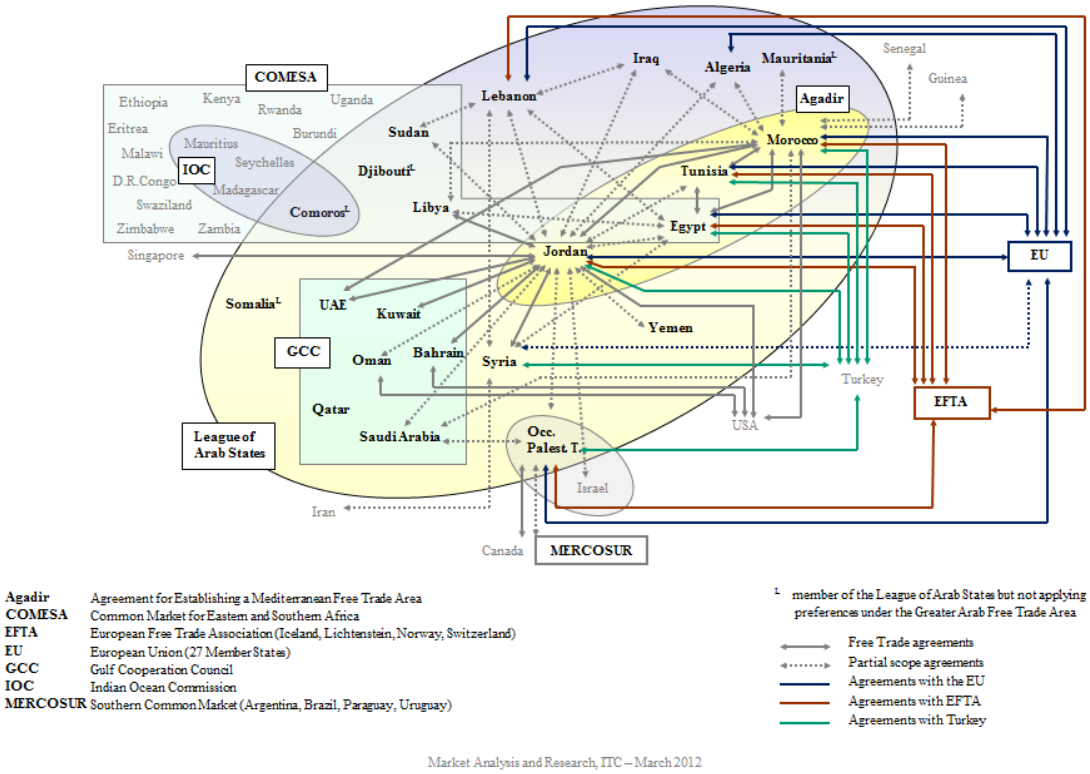
In all LAS countries, services tend to rely on a more skilled workforce, while available data on countries like Morocco, Egypt and Algeria show that the presence of women is higher in the clothing industry than in other manufacturing sectors. While such a scenario would enable the creation of many jobs in the exporting sectors, policy makers would need to take particular care to ensure that job creation is not skewed towards male unskilled jobs at the expense of female skilled labour. In order to ensure sustainable growth it is fundamental to develop sectors that require skills and allow female workers to be integrated into the economy. Specific efforts would be required to ensure that overall gains at the regional level would also benefit the services and clothing sectors.

This analysis has focused on the elimination of trade impediments within the LAS region and the impact it would have on intra-regional trade, assuming the status quo with other regions. The most likely future scenario however is that while intra-regional LAS trade increases as NTMs fall, so do trade barriers with other regions and trade increases extra-regionally at the same time. By taking into account all LAS extra-regional trade agreements and negotiations, we would expect that the job and welfare gains would be even greater than those shown in our analysis. Given the stimulation of new sectors due to increased intra and extra-regional trade, one would expect youth and gender employment also to be positively affected.

OVERLAPPING PREFERENTIAL AGREEMENTS AMONG ARAB LEAGUE MEMBERS STATES

LAS members have signed a number of trade agreements on preferential market access, many of them overlapping (see Figure 2). Most notably, the Greater Arab Free Trade Area (GAFTA) comprises all League members except Comoros, Djibouti, Mauritania and Somalia.

Figure 2: Trade agreements involving LAS members



Note: This graph reflects, to the best of ITC's knowledge, the situation as of January 2012. Included are (implemented) agreements concerning trade in goods only. The number and list of products to which preferences are granted varies from country/territory to country/territory. Only agreements with reciprocal preferences are shown. It should be borne in mind that the displayed countries may be granted preferential tariffs resulting from trade regimes such as the General System of Preferences (GSP); that is, from countries providing non-reciprocal preferential tariffs to developing and least developed countries.

Within GAFTA, the six Gulf countries form the Gulf Cooperation Council (GCC) and Egypt, Jordan, Morocco and Tunisia are party to the Agadir agreement for establishing a Mediterranean free trade area.

At the same time a number of bilateral agreements between Arab states, most of which were implemented before GAFTA, still formally exist. These agreements may still be used for preferential trade, in particular where rules of origin differ from the ones stipulated by GAFTA, although they are, in principle, superseded by GAFTA.

LAS COUNTRIES ENJOY PREFERENTIAL ACCESS TO THE LAS MARKET

Average tariffs applied by LAS countries to other League members are low.

Based on the LAS' import structure during 2006-2010, a weighted average of 0.4% tariff duty was applied among LAS members. By contrast, non-LAS members faced tariffs on LAS markets in the range of 5% to 6%. With respect to the weighted average tariff applied on imports from other LAS members, the LAS can be split into three subgroups of countries:

- Representing less than 1% of LAS' total imports, the first subgroup of the LAS comprises Djibouti, Comoros and Mauritania, all not party to GAFTA. The three countries apply to other LAS members a rather high import tariff duty of 21%, 11% and 10% respectively. For instance, Djibouti does not grant any tariff advantage to imports from other LAS members. High technology products such as "optical, photographic, medical instruments and apparatus" face an import duty of approximately 25% on the Djiboutian market. On the Comorian, market many LAS products even face tariff disadvantages compared with products exported by the Rest of the World (RoW).

- The second subgroup applies tariffs within a range of 1% to 2% to intra-LAS imports and comprises Sudan, Morocco, Algeria, Yemen and Egypt. Sudan and Yemen benefited from a longer phasing-out of applied tariffs under GAFTA. With the latest tariff data being available for 2009 (Yemen) and 2010 (Sudan), the tariff applied to League members principally reflects the situation before implementing the full elimination of tariffs under GAFTA. For Egypt and Morocco, the average is driven by tariffs applied to Comoros, Djibouti, Somalia and Mauritania. In addition to higher tariffs applied to the aforementioned counties, for Algeria, which implemented GAFTA preferences in 2009, a list of exemptions exists covering in total 384 tariff lines.

- The third subgroup imposes a comparatively low tariff duty on imports from other LAS members with the average tariff ranging between 0.0% and 0.3%. This country group includes Tunisia, Syria, Jordan, Lebanon, Saudi Arabia, Qatar, Kuwait, Bahrain, United Arab Emirates, Oman and Libya (sorted in descending order of restrictiveness).

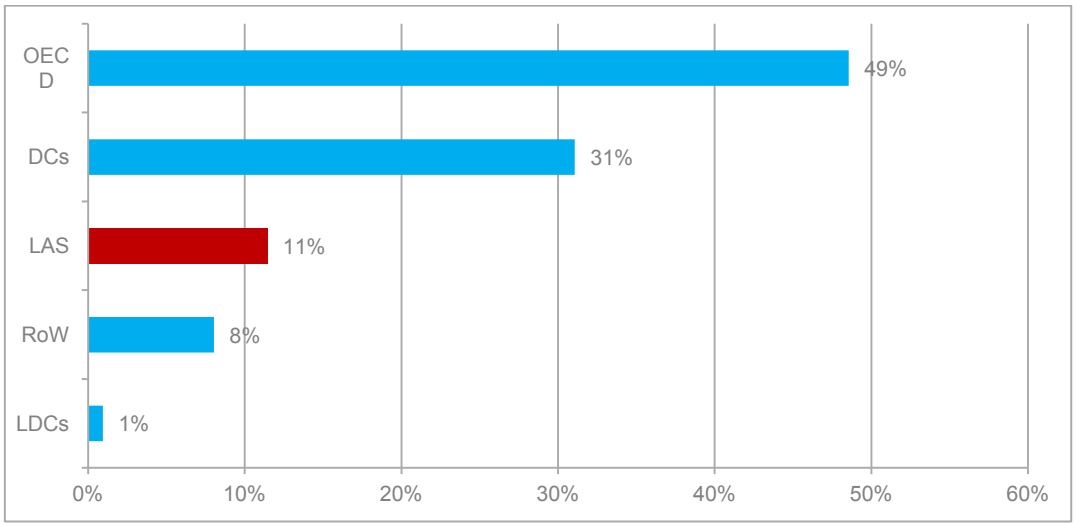
TARIFF PREFERENCES HAVE NOT TRANSLATED INTO REGIONAL INTEGRATION

In spite of ongoing efforts to cut tariffs and to sign and implement preferential agreements, regional trade integration among the member states of the Arab League is moderate compared to other common markets, such as the European Union (EU) and the Association of Southeast Asian Nations (ASEAN).

In fact, the share of total trade which takes place inside the League amounts to a mere 11%, and thus represents only a fraction of the trade conducted with the member states of the Organisation of Economic Co-operation and Development (OECD) or with other developing countries (DCs) (see Figure 3).

The share of trade conducted with other LAS members varies considerably, however, across the individual member states. The share of the LAS in each country's total trade ranges from 0.9% in the case of Comoros to 42% in the case of Palestine. Although some LAS members trade substantially within the region (Jordan, Somalia, Oman and Bahrain), most LAS countries' trade is directed towards non-LAS countries. In fact, 10 out of 22 LAS members have an intra-LAS trade share of below 10%. Due to Free Trade Agreements (FTAs) most of Mediterranean countries' trade (particularly that of Algeria, Morocco and Tunisia) is heavily directed towards the EU.

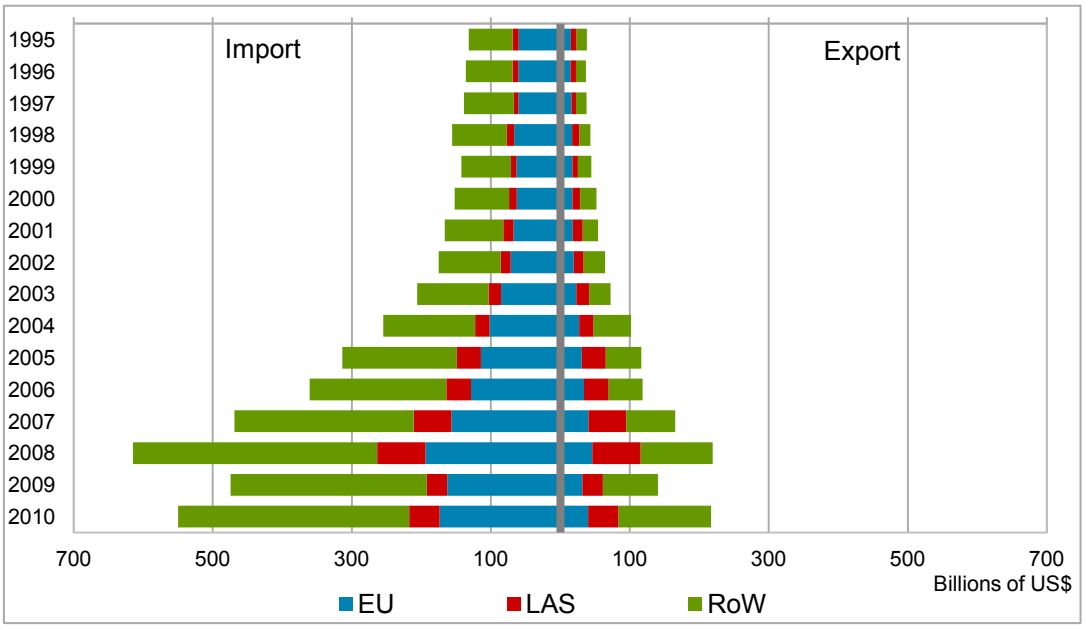
Figure 3: LAS trade partners (excl. oil)



Note: ITC staff calculations. Data comes from Cepii's BACI database. Total trade is defined as (exports+imports)/2. Data is for 2010 and excludes oil (HS 27).). The Organisation of Economic Co-operation and Development (OECD) comprises all 34 member states except Belgium and Luxembourg. DCs are developing, LDCs are Least Developed Countries. RoW comprises all countries which are not member of one of the other groups.

Figure 4 shows the general evolution of the LAS' intra- and extra-regional non-oil imports and exports over the past 15 years. Overall, LAS trade has experienced strong growth since 1995 irrespective of the source region with an expected dip in 2009 due to the global economic crisis. The left bars refer to LAS' imports whereas the right bars display LAS' exports. Note that even though still high, the EU's share in the LAS' imports and exports has actually declined over time. The EU's declining importance is especially striking when one considers exports: the share of exports directed to the EU member states fell from 40% (1995) to 18% (2010). Yet, intra-regional trade has not stepped up and keeps being a tiny fraction of total trade.

Figure 4: Evolution of LAS' trade with… (excl. oil)



Note: ITC staff calculations. Data comes from Cepii's BACI database. Data excludes oil (HS 27) and is given in current values. EU is the group of the 27 current member states except Belgium and Luxembourg. RoW comprises all countries which are neither members of the EU nor of the LAS.

With declining EU-trade shares and almost unchanged intra-regional shares, the RoW, comprising the fast-growing emerging market economies, has been able to substantially increase its weight as a LAS trading partner. The export share going to the RoW has even outpaced the import share: starting from 37%, the share of LAS' exports directed towards the RoW has surged to 61% in the most recent year.

THE COMPLEMENTARITY OF LAS MEMBERS' EXPORTS AND IMPORTS IS MODERATE BUT THERE IS ROOM FOR IMPROVING INTRA-LAS' TRADE

Before looking deeper into the actual evolution of regional integration, we present results on the complementarity of the LAS members' import and export structures. We measure this as the degree to which the trade structures of two trading partners overlap. If a product accounts for a similar share of a country's exports and of its trading partner's imports, the two countries' trade in this product is complementary. In the case of a complete overlap, the index would take the value of 100, in the case of no overlap, it would be 0. Assuming that complementary trade structures of two countries favour their bilateral trade, the index may be interpreted as a measure of the intra-regional trade potential.

Table 1 compares the trade complementarity index to the actual shares of the LAS and other country groups in LAS' total exports. Owing to the region's focus on oil, the complementarity among the trade structures within the Arab League, and also with other country groups, is rather poor.

Products which account for a large part of LAS members' exports, account for only a small part of their trading partners' imports, suggesting a substantial gap between supply and demand. Still, results can be compared across groups. Although the differences are only moderate, the LAS' export structure shows a slightly higher overlap with the import structures of both the OECD and the group of other DCs. At the same time, however, these two country groups absorb a disproportionately larger share of LAS' exports. The OECD and some developing markets are of course much larger than LAS states making them attractive markets, so this can explain some of the divergence, but nevertheless there seems to be some room to improve intra-regional trade despite the modest complementarity.[1]

Table 1: Potential and actual trade of different country groups (incl. oil)

LAS exports to…	LAS	OECD	Developing countries	LDCs
Trade complementarity	29	34	35	26
Actual export share	6.2%	44.3%	26.1%	0.8%

Note: ITC staff calculations. Data used for the calculation of the complementarity index comes from ITC TradeMap. Data used for the calculation of export shares comes from Cepii's BACI database. The complementarity index ranges from 0 (complete dissimilarity between the exporter's supply structure and the importer's demand structure) to 100 (perfect match between the two structures). The Organisation of Economic Co-operation and Development (OECD) comprises all 34 member states except Belgium and Luxembourg.

Merely comparing LAS' trade inside the region to LAS' trade outside the region is not sufficient to assess the extent of regional integration. If, for example, LAS' exports increase in general, irrespective of whether the destination is a LAS or a non-LAS market, the fraction of intra-regional imports will increase, even though greater intra-LAS trade can, in fact, not be ascribed to regional integration. In what follows, we will therefore put imports from LAS countries and from the RoW always as a proportion of their total exports.

We assess the current state of integration among the LAS countries by comparing the evolution of the LAS' share in the total exports (and thus, in the total supply) of the LAS and of the RoW. Regional integration is then defined as the difference in the growth rate of the LAS share in the total supply of LAS countries and the growth rate of the LAS share in the total supply of the RoW.

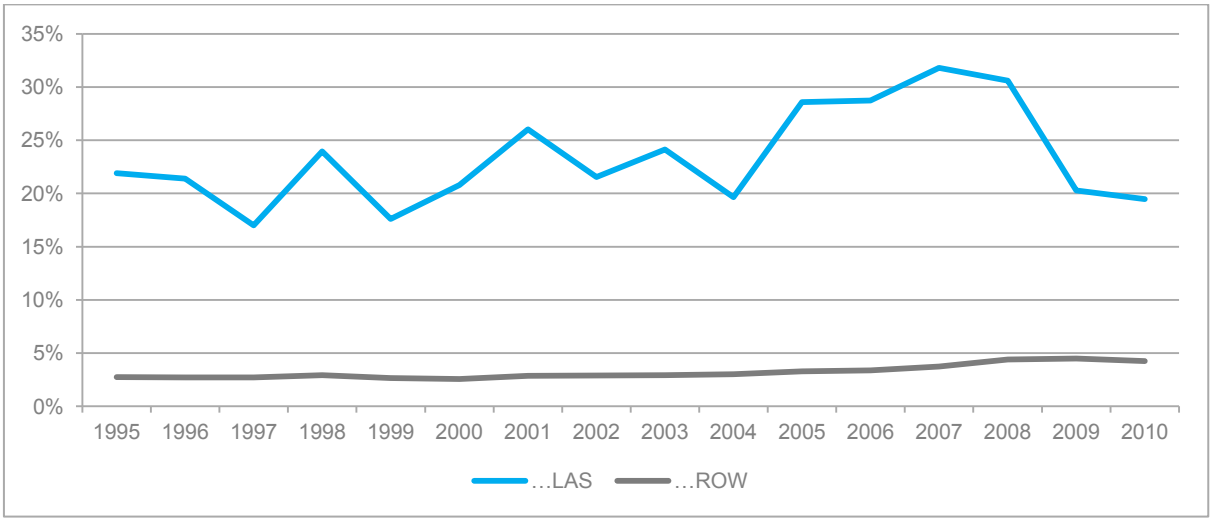
Figure 5 shows the evolution of the LAS' share in the total supply of the LAS and of the RoW. The intra-regional supply share is substantially higher than the extra-regional supply share since the LAS absorbs a greater part of total LAS exports than of total RoW exports. Furthermore, it is higher when discounting oil since oil is predominantly traded with the RoW. The blue line indicates a growth of the LAS' share in the total supply of the LAS on average for the years prior to 2007. After 2007 the LAS records declining

[1] The complementarity of trade structures is of course only one of the reasons why countries trade. Other factors, like cultural dissimilarities or mismatches between the quality of a good and the demand, to name only two, are likewise important determinants of regional integration.

shares. By contrast, the LAS' share in the total supply of the RoW steadily increased until 2009. This evolution speaks in favour of increasing regional trade integration until 2007 and a decline thereafter.

Looking at the entire period 1995-2010, we see that regional integration has decreased. Figure 4 shows that the share of the LAS in the total supply of the LAS in 2010 is below its 1995 level. Since the opposite is true for the share of the LAS in the total supply of the RoW, it is clear that regional integration has decreased.

Figure 5: Evolution of the LAS shares in the total supply of… (excl. oil)



Note: ITC staff calculations. Data comes from Cepii's BACI database.

Despite the overall decline in regional integration, some product groups and countries are worth highlighting: 'textiles and t extile articles' show the best performance in terms of regional integration, followed by 'animal or vegetable fats' and; 'prepared edible fats' and 'mineral products'. For most manufacturing products, LAS' trade integration has substantially declined. The negative trend can also be observed at the country-level: out of all LAS members, only Qatar, Lebanon and Mauritius managed to build closer links within the group than with other non-LAS countries.

The linkage between regional integration and tariff preferences is particularly interesting. Do changes in preferential market access translate into deeper trade integration? At first sight, this does not seem to be the case. Overall, regional integration has declined and there are very few product groups for which intra-LAS imports (as a share of total LAS' exports) have grown faster than extra-LAS imports in spite of tariff privileges. Yet tariffs are specified at the very detailed product level, and any aggregation across products might balance out individual tariff changes. We, therefore, assess the relationship between the development of regional market access and the development of regional integration at the HS 4-digit product level. To investigate changes over time, we compare the levels of tariff preferences and regional integration in an initial period (before the creation of the GAFTA) to the levels in a recent period (after the creation of the GAFTA).2

The correlation between regional integration and changing market access conditions is positive but rather minor (the correlation coefficient amounts to 0.03). Hence, even though LAS' exports directed towards the LAS now face more tariff preferences than they did in the initial period, regional integration has not caught up.

[2] Note that we do not have tariff data for all countries in all years. For evaluating the evolution of tariff preferences, we therefore compare a base period (using data in the range of 1996 in the case of Sudan to 2002 in the case of Syria, Kuwait and Qatar) to a final period (using data in the range of 2006 in the case of Libya to 2011 in the case of Comoros). The base period aggregates data from 15 LAS member states whereas the final period aggregates data from 19 LAS members. The evolution of regional integration compares 1995 to 2010 and uses data from all 22 countries.

INTRA-REGIONAL TRADE IN THE LAS AFFECTED BY NON-TARIFF BARRIERS

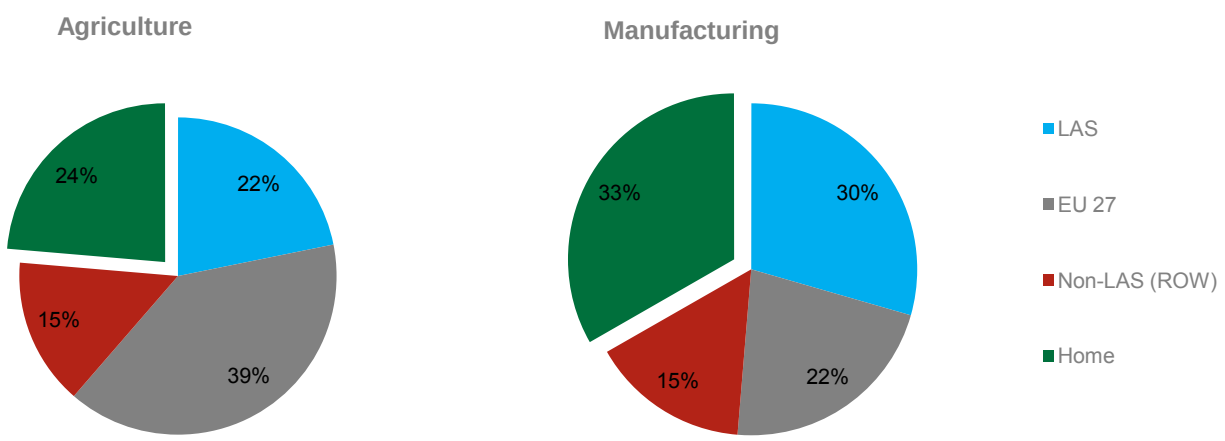
The modest evidence of regional integration among LAS trading partners hints at factors other than 'conventional' tariffs that seem to hinder the free exchange of goods across LAS markets. In a global context of increasing economic liberalization and falling tariffs, the relative importance of trade barriers resulting from non-tariff measures (NTMs) has risen in recent years. Exporting companies seeking access to foreign markets, and companies importing products, need to comply with a wide range of requirements including technical regulations, product standards and customs procedures. NTMs vary across products and countries, and can change quickly. Most of these regulations do not have protectionist objectives, but are meant for the preservation of health or the environment. Sometimes, however, compliance with those requirements may be beyond the reach of companies, particularly small and medium-sized enterprises (SMEs).

ITC has conducted large-scale business surveys as part of its NTM programme, and evidence of these consequences of some NTMs is presented here. These surveys are a viable and proven mechanism for deepening understanding on t he perception and impact of NTMs, which by their nature are hard to quantify, and they build on the experience and knowledge of export and import businesses in dealing with non-tariff barriers. They identify at product, sector and partner country-level the predominant obstacles the business sector currently faces when complying with NTMs, as well as potential bottlenecks at the national level with regards to the capabilities and technical capacity to meet regulations and demonstrate compliance.

The ITC programme on NTMs covers more than 20 countries, including LAS members. To date, surveys covering all major export sectors are finalised in Egypt and Morocco. In addition, survey data for the agricultural sector in Tunisia is available. While admittedly being unrepresentative for the LAS region as a whole, it is worth taking a closer look at the survey results for these three countries to identify obstacles reported by exporters that concern trade with other LAS members.

Figure 6 summarises the 'origin' of challenging NTMs reported by exporting companies in Egypt, Morocco and, for the agricultural sector, Tunisia. For both the agricultural and manufacturing sector, a significant share of challenging measures affecting exports, 24% and 33% respectively, is applied by the home country. This is in line with the findings of NTM surveys in other countries and r egions, which have revealed that many trade impediments originate at home and, therefore, constitute domestic problems.

Figure 6: Share of NTM cases by sector and country applying the NTM – simple average[a/]



a/ Agriculture: simple average across Egypt, Morocco and Tunisia; Manufacturing: simple average across Egypt and Morocco

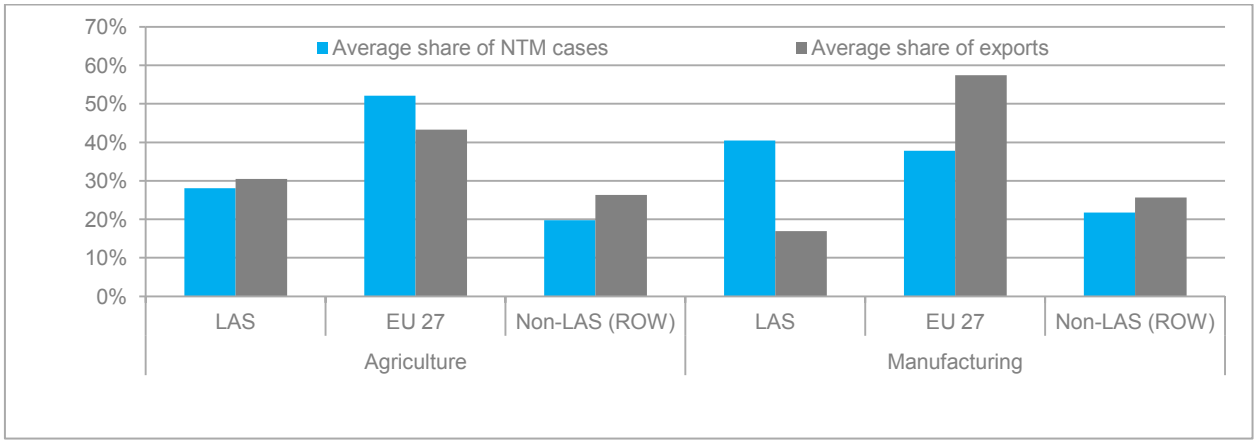
Note: ITC staff calculations. Data comes from ITC NTM surveys in Egypt, Morocco and Tunisia. Only burdensome NTMs reported by exporters are considered.

The majority of burdensome NTMs faced by exporting businesses in the three countries under consideration are, however, applied by partner countries, in particular EU and LAS members. That is despite the existing free trade agreements with both. In other words, trade agreements providing preferential market access do not insulate against problems related to NTMs. In agriculture, more NTM cases concern the EU than LAS, whereas in manufacturing, the share of cases related to LAS members is higher. In both sectors, only 15% of cases reported by businesses in Egypt, Morocco and Tunisia concern NTMs applied by the rest of the world (i.e. countries which are neither EU nor LAS members).

The sampling for the surveys is closely linked to the trade pattern of each country and, therefore, leads to a correlation between export shares and number of NTM cases (for both sectors and partner countries). The reported NTM cases have, therefore, to be put into the trade context to assess the perceived difficulty of different (groups of) trading partners.

Figure 7 shows that for agricultural exports, the EU seems to be the most challenging destination. While less challenging than the EU, LAS members are reportedly more difficult in terms of NTMs than countries outside LAS and EU, at least for Egypt and Tunisia. In Morocco, no NTM case was reported by the (very few) companies that export agricultural products to LAS countries. In manufacturing, export destinations within the League of Arab States are perceived by far as most challenging whereas all other countries, whether EU or not, seem relatively accessible.

Figure 7: Share of burdensome NTMs and exports across trading partners

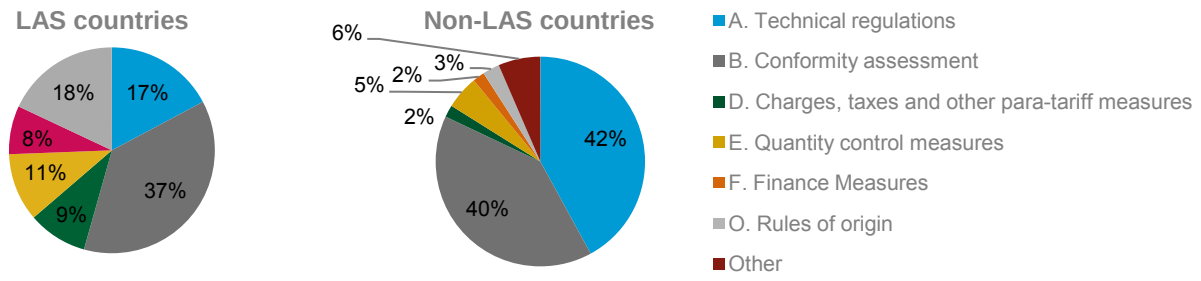


Note: ITC staff calculations. Trade data comes from ITC Trade Map. Trade data for 2010, minerals and arms excluded. NTM data comes from ITC NTM surveys in Egypt, Morocco and Tunisia. Agriculture: simple average across Egypt, Morocco and Tunisia; Manufacturing: simple average across Egypt and Morocco. Only burdensome NTMs reported by exporters are considered.

The types of burdensome NTMs experienced by companies when exporting agricultural products to other LAS members are summarized in the left panel of Figure 8. Sanitary and phytosanity (SPS) measures and technical barriers to trade (TBT) are perceived as most challenging. More than half (54%) of the NTM cases fall into this category, which comprises technical regulations i.e. product-specific requirements such as tolerance limits for residues, hygienic requirements or measures on l abeling and packaging, and conformity assessment measures aiming at proving compliance with technical regulations e.g. through testing and certification.

It is worth noting that companies have significantly more problems complying with conformity assessment measures applied by LAS partner countries than with technical regulations themselves. This stands in contrast to the cases reported for partner countries outside the LAS (whether EU or not), where both technical regulations and conformity assessment seem equally challenging (see right panel of Figure 8).

Figure 8: Agricultural exports: types of burdensome NTMs applied by partner countries



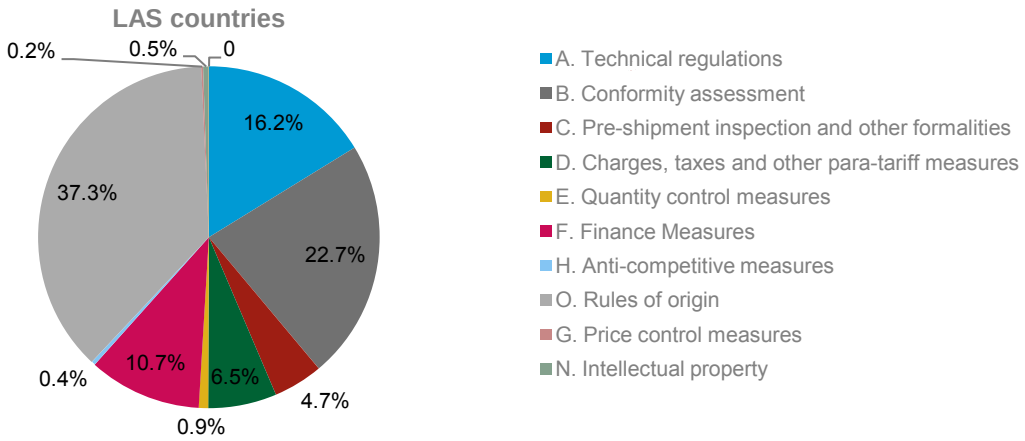
Note: ITC staff calculations. Data comes from ITC NTM surveys in Egypt, Morocco and Tunisia. LAS: Simple average of types of challenging measures applied by LAS partner countries that were reported by companies in Egypt and Tunisia (no cases in Morocco); non-LAS: simple average of types of measures applied by non-LAS partner countries that were reported by companies in Egypt, Morocco and Tunisia.

Next to SPS and TBT measures, rules of origin represent a significant problem for companies exporting agricultural products to other LAS members. As previously discussed, GAFTA and numerous bilateral agreements between Arab States have in principle established tariff-free market access; however, in order to benefit from tariff preferences, companies have to prove the origin of their products. As such, trade agreements 'replace' the tariff by a non -tariff measure. This is not necessarily problematic – as an example, for the EU only 2.7% of reported NTM-related problems concern rules of origin. These rules however seem to be a major challenge when trading with LAS countries.

Other burdensome measures reported for LAS partner countries include quantity control measures (licenses, quotas etc.), charges and taxes, and finance measures (such as regulations concerning terms of payment for imports or on official foreign exchange allocation). These measures represent together about 30% of challenging NTMs applied by LAS members – in contrast to only 10% in countries outside the LAS.

The types of NTMs reported by exporters in the manufacturing sector are displayed in Figure 9. In comparison to agricultural exporters, companies in this sector report fewer problems related to conformity assessment when exporting within the LAS. However, the challenges related to rules of origin are much more pronounced with 37% of NTM cases concerning this type of measure. This is not limited to partner countries in the LAS – the same problem is reported for EU countries and, even more so, the rest of the world. Again, finance measures as well as charges and taxes turn out to be relatively more problematic for LAS trading partners than for partners in other countries.

Figure 9: Manufacturing exports: types of burdensome NTMs applied by partner countries



Note: ITC staff calculations. Data comes from ITC NTM surveys in Egypt and Morocco. Simple average of shares of the different NTM types reported by exporters in Egypt and Morocco for NTMs applied by partner countries.

Intra-regional trade in the LAS, in particular for manufacturing products, is indeed affected by non-tariff barriers, as indicated by the NTM survey results in Egypt, Morocco and Tunisia indicate. In particular SPS and TBT measures as well as rules of origin are perceived as major challenges to export to LAS members. This is despite the fact that GAFTA includes provisions on the elimination of non-tariff barriers to trade.

REMOVING TRADE OBSTACLES WILL CREATE JOBS

The previous analyses have shown that in spite of a broad removal of tariffs, LAS' intra-regional trade has hardly expanded. The analyses have also identified trade impediments stemming from NTMs as one possible barrier to regional integration. Besides low intra-regional trade shares, a major challenge within the LAS region is the high level of unemployment, especially among the youth. Finding new export opportunities for companies is one possible way to create jobs.

Given the current low tariffs applied within the Arab League, non-tariff barriers to trade are the main impediments to trade. The impact of such non-tariff barriers can be quantified using econometric techniques. Employing available estimates and a Computable General Equilibrium (CGE) model of the world economy (the so-called Mirage model), we predict the benefits from a reduction of these remaining trade obstacles. The advantage of using a comprehensive model of the LAS economies, rather than simply relying on trade data to measure the possibility of trade expansion, is that production capacity and global demand are also taken into consideration. For example, a low level of intra-LAS trade for a given sector may just be due to the fact that the sector is too broadly defined or that the quality of exports does not match the demand.

An analysis based on a CGE model allows inferring welfare and trade consequences of trade liberalisation for individual economies. In addition, it allows one to measure the possibility of creating jobs in the export sectors. With data on employment broken down by gender for three countries, Algeria, Egypt and Morocco, we can predict labour market impacts for men and women separately.

We compare two different scenarios: first, we assume a world without major policy changes (we only implement some minor changes that have occurred between 2007 and 2011). Second, we assume that LAS countries manage to significantly ease obstacles to trade (bringing them down to a fourth of their current level) with respect to other LAS members only. We then compare the evolution of trade, welfare and employment between 2007 and 2025 in both scenarios.[3]

Reducing non-tariff obstacles to trade will result in a lower price of imported goods from LAS countries in other LAS countries. This will increase the purchasing power of consumers, resulting in a rise of welfare of 2% in 2025 as compared to the reference scenario. While 2% may appear as a small increase, it should be kept in mind that CGE models capture only the very standard efficiency gains predicted by the economic theory without accounting for any possible productivity increase that may result from a more competitive economic environment.[4] Additionally, we only simulate a liberalisation of trade within the LAS, which represents only a small fraction of total LAS' trade.

The welfare gain is unevenly distributed across LAS countries, with gains ranging from 0.4-0.5% for Qatar, the United Arab Emirates (UAE), and Kuwait, to more than 10% for Tunisia. At the same time, Qatar, the UAE and Kuwait experience a rather small export growth, between 0.8 and 2.7% of their total exports, as compared to more than 50% in the case of Tunisia.

In 2007 and in the reference scenario, LAS intra-regional trade is stronger in manufactured products (with the exception of the textile and clothing sectors) that are more oriented towards external markets. Services are also traded internationally, with very low shares of intra-LAS trade. NTBs affecting services trade are of a similar magnitude as those affecting trade in most goods. Barriers to trade in goods are heterogenous; they are quite high in the food sector, rather low in textile and clothing, and almost zero for oil. Due to this initial specialization and the level of barriers to alleviate, a further integration of LAS trade focusing on NTBs would mostly create new opportunities in some sectors like food or metals and machinery. Even though exports of textiles and services to other LAS members would increase in percentage terms, it would

[3] We have not assumed a full liberalisation because it would imply that it is exactly as simple to sell abroad as it is to sell within the producer's own country.

[4] Dynamic effects due to higher investment are taken into account thanks to the dynamic structure of the model.

not represent a s ignificant increase globally. Sectors benefiting from new export opportunities would become more profitable, thus attracting more investments. Policy makers would thus need to take care to provide opportunities for women and youth to increase their participation in favoured sectors.

The new export opportunities would help create jobs in the export sectors (see Tables 2 and 3). In total, more than 2 million unskilled jobs would be created in the LAS' export sectors by 2025, as well as 80,000 skilled jobs. Some countries like Tunisia would need to take concerted action to facilitate industries where skilled jobs are concentrated to ensure unskilled jobs are not traded off for existing skilled jobs in export sectors.The relatively smaller increase of demand for skilled labour is due to the reduction of overall services exports. Services require a larger proportion of skilled labour than goods.

Table 2: Change in demand of unskilled labour in export sectors (2025)

	Unskilled jobs in the exporting sectors (thousands)	Growth (%)	Number of new jobs created (thousands)
LAS (Total)	26,394	9.2	2,422
Bahrain	138	4.3	6
Kuwait	269	3.5	9
Oman	110	18.0	20
Qatar	20	7.8	2
Saudi Arabia	3,956	3.1	124
United Arab Emirates	497	6.9	35
Iraq, Jordan, Lebanon, Palestine, Syria, Yemen	10,510	12.6	1,329
Egypt	3,743	3.9	145
Morocco	2,718	1.3	36
Tunisia	744	2.3	17
Algeria, Libya	950	1.9	18
Somalia, Sudan	2,739	24.9	681

Note: ITC's staff calculations. Mirage simulation based on GTAP8 data (2007).

Table 3: Change in demand of skilled labour in export sectors (2025)

	Skilled jobs in the exporting sectors (thousands)	Growth (%)	Number of new jobs created (thousands)
LAS (Total)	2,051	4.0	81
Bahrain	13	1.0	0
Kuwait	29	4.5	1
Oman	11	10.3	1
Qatar	2	6.2	0
Saudi Arabia	274	2.8	8
United Arab Emirates	36	5.8	2
Iraq, Jordan, Lebanon, Palestine, Syria, Yemen	851	5.2	44
Egypt	351	-0.2	-1
Morocco	189	2.5	5
Tunisia	65	-7.9	-5
Algeria, Libya	68	2.4	2
Somalia, Sudan	162	14.8	24

Note: ITC's staff calculations. Mirage simulation based on GTAP8 data (2007).

Given the limited availability of gender data, we have tried to map the general analyses on trade in goods and services to countries where gender data is available, namely Algeria, Egypt and Morocco. Table 4 and

Table 5 indicate that overall, women benefit less than men (in percentage terms) from the improved market access. Algeria is an exception with a small above-average increase in the female labour force. Thus policy makers would need to take action to facilitate the participation rate of women in export manufacturing.

Table 4: Change in demand of unskilled labour, manufacturing export sector (2025)

	Export manufacturing, unskilled labour (men and women, thousands)	Growth (%)	Export manufacturing, women unskilled labour (thousands)	Growth (%)
Egypt	913	26	90	10
Morocco	647	9	244	3
Algeria	15	55	1	59

Note: ITC's staff calculations. Mirage simulation based on GTAP8 data (2007).

Table 5: Change in demand of skilled labour, manufacturing export sector (2025)

	Exporting manufacturing, skilled labour (men and women, thousands)	Growth (%)	Exporting manufacturing, women skilled labour (thousands)	Growth (%)
Egypt	57	29	5	13
Morocco	41	11	14	4
Algeria	1	53	0	57

Note: ITC's staff calculations. Mirage simulation based on GTAP8 data (2007).

The low increase in female employment assumes that gender participation rates in different sectors does not change and results from its high share in the textile and garment sectors. These sectors benefit less from the increased market access than for example, the food sector, where initial obstacles are high and women are under-represented. The food export sector experiences, by contrast, a substantial removal of obstacles and absorbs at the same time a large share of the – mostly male – workforce. Accordingly, job creation is remarkable. In Egypt, the metals and machinery sector, which also employs a m ostly male workforce, also benefits significantly from a further LAS trade integration process. By encouraging changes in sector gender participation rates however, policy makers can help ensure that benefits accrue to all.

POLICY MESSAGES

This paper assesses the current state and the future opportunities of regional integration within the League of Arab States. In summary, we find that despite the substantial tariff privileges that LAS countries enjoy in LAS markets, regional integration has been declining since the mid-1990s. Other non-tariff obstacles are in place, which prevent LAS members from trading more with each other. A future reduction of these trade barriers could boost total regional trade by 10% and create over 2 million jobs.

Some important policy messages emerge:

- **Regional integration is not automatic but requires efforts which go beyond the removal of 'conventional' tariffs**:

Even though the removal of tariffs remains a precondition for achieving greater regional integration, tariff preferences do not automatically translate into integration. Despite major efforts, such as the GAFTA, which aims at the full elimination of tariffs among all but four LAS members, only a few countries have actually achieved closer trade links with the LAS than with the RoW. The modest evidence of regional integration among the LAS trading partners hints at factors other than 'conventional' tariffs hindering the free exchange of goods across LAS markets. Indeed, exporting companies seeking access to foreign markets and companies importing products need to comply with a wide range of requirements including technical regulations, product standards and customs procedures. These NTMs affect intra-regional trade in the LAS, especially in manufacturing products. Based on ITC surveys conducted in Egypt, Morocco and Tunisia, enterprises in these countries report in particular SPS and TBT measures as well as rules of origin as major challenges to export to LAS members. This is despite the fact that GAFTA includes provisions on the elimination of non-tariff barriers to trade. It seems thus crucial to not only sign but fully implement existing preferential agreements so that their effects on regional trade can unfold.

- **Regional integration should only be the first step in a broader world integration process**

Simulations show that a reduction of non-tariff barriers to trade within LAS members would only favour the sectors that are already traded significantly within the region, particularly sectors that initially face high obstacles. As a consequence, these sectors would become more profitable and attract more investment. Due to limited financial resources, however, this could reduce production in some sectors, which are initially more internationally oriented.

In all LAS countries, services tend to rely on a more skilled workforce, while available data on countries like Morocco, Egypt and Algeria show that the presence of women is higher in the clothing industry than in other manufacturing sectors. As a consequence, while such a scenario would enable the creation of many jobs in the exporting sectors, policy makers would need to take particular care to ensure that job creation is not skewed towards male unskilled jobs at the expense of female skilled labour. In dynamic terms, in order to ensure sustainable growth it is fundamental to develop sectors that require skills and allow female workers to be integrated into the economy. Specific efforts would be required to ensure that overall gains at regional level would also benefit the services and clothing sectors and encourage increased gender participation in sectors benefiting most from increased intra-regional trade.

FOR MORE INFORMATION

The full paper of LAS intra-regional trade potential is available from ITC upon request.

ITC's Market Analysis and Research (MAR) section produces and d isseminates online market analysis tools, conducts market research and trade analysis and delivers capacity building programmes in market analysis for the business community, trade support institutions and policy makers in developing countries.

For more information about ITC's market analysis and research activities, please contact **marketanalysis@intracen.org** or visit **www.intracen.org/marketanalysis**.

ITC's MARKET ANALYSIS AND RESEARCH PUBLICTIONS AND CONTRIBUTIONS

World Tariff Profiles – Published annually by ITC, WTO and U NCTAD (a 200 page comprehensive overview of bound and applied tariffs for WTO member countries and applied tariffs of non-WTO members)

World Trade Indicators – a World Bank publication to which ITC contributes

The Global Enabling Trade Report – a World Economic Forum publication to which ITC contributes

The Global Trade Analysis Project (GTAP) – ITC contributes market access data and aggregations

ITC Programs in Arab States supporting regional integration as well as analysis of opportunities and obstacles

ITC runs a number of programs in Arab States Enhancing Arab Capacity for Trade,

The EnACT program, sponsored by Canada's CIDA, covers Algeria, Egypt, Jordan, Morocco and Tunisia and is helping sectors which could best benefit from LAS integration. As an example, EnACT is working with a company in Tunisia, which produces buckles and components for high end leather bags then exports those to Morocco where the buckles are used for luxury leather handbags manufactured in Morocco for export to the rest of the world. EnACT is trying to identify more and more cases like this where AGADIR member countries (Egypt, Jordan, Morocco, Tunisia) could cumulate components from various member countries and compose a final product for export to Europe.

In another case, EnACT is helping a Jordanian cosmetics company deal with non-tariff barriers to enable exports to Egypt. There, the main challenge was that Egypt had to accept Dead Sea cosmetics as "cosmetics" rather than "pharmaceutical products". Two EnACT supported SMEs are now working together in Jordan and Egypt to make these exports possible since each product line had to be registered in Egypt under the classification of "cosmetics".

Through other capacity building efforts, EnACT is coaching young entrepreneurs to look for low hanging fruit afforded by existing trade agreements and develop trade between LAS countries. Other possible ideas mentioned among EnACT SME partners include the export of dates from Algeria to Egypt to be used in biscuits and snack bars for export to Asia. In all cases, EnACT is looking for rational solutions which could power trade among LAS countries and which are not exploited fully because of SME's lack of acess to information about the trade opportunities. Through its provision of a suite of free market analysis tools and related capacity building financed by EnACT, Trade Support Institutions (TSIs) in Algeria, Egypt, Jordan, Morocco and Tunisia are being empowered to better publicize and explain the intra-regional trade opportunities to their constituencies, be it with Sectoral Trade Associations or with SMEs directly.

Finally EnACT is also enabling systematic analysis of intra-regional trade potential among Arab countries as well as funding comprehensive national surveys of enterprises to estimate the impact of non tariff measures as obstacles to trade, including how sectors with a high proportion of women employees are affected. The program is building dialogue between the public and private sectors in these countries and empowering policy makers to take targeted action to remove burdensome obstacles and improve the business environment, thus helping companies become more internationally competitive.

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