Current World Trade Agenda:
Issues and Implications for the MENA Region

by

Dipak Dasgupta
Mustapha Kamel Nabli
T.G. Srinivasan
Aristomene Varoudakis

May, 2004

Views expressed are those of the authors' alone and should not be necessarily attributed to the organization that the authors are associated with. Comments from Farrukh Iqbal and Jennifer Keller are gratefully acknowledged. Valuable research support was received from Masakazu Someya, Hazem Shunnar, and Marianne El Khoury. Isabelle Chaal and Brigitte Wiss provided valuable word processing support. Comments may be sent by email to tsrinivasan@worldbank.org.

Table of Contents

Section 1. The Current World Trade Agenda: Its Relevance for MENA 1
The Imperative for Trade Reform in MENA countries 2
MENA global integration is not commensurate with its middle income status 3
Section 2. MENA and Multilateralism 5
2.1. MENA participation in WTO negotiations 5
2.2. The Relevance of the Doha Agenda to the MENA Countries 5
Faster Track Accession to WTO for MENA countries is Vital 5
Section 3. Implications for MENA of key issues 8
3.1. Agricultural Liberalization – Turning adversity into opportunity 8
3.2 Opportunities in Services Liberalization: What's at stake? 17
Current Set of MENA Countries Commitments in Services 19
3.3 Threat or Opportunity ? The abolition of MFA for Textiles and Clothing 24
The World Scene: Intensifying Competition in the run up to the abolition of MFA 24
The critical role of Textile and Clothing in sustaining MENA manufacturing jobs and exports 26
How competitive is MENA in textile and clothing exports? 27
Potential Effects of MFA Abolition 31

Conclusions 32

References 34

Tables

Table 1. Status of entry of MENA countries into WTO 7
Table 2. Applied Tariff MFN Rates on Agricultural Products 12
Table 3. GATS market access commitments by MENA countries 20
Table 4. Importance of textile and clothing in MENA economies 27
Table 5. Top 20 Clothing Exporters to EU 28
Table 6. MENA Countries' Quota Utilization Rates in US Market for 2000 32

Figures

Figure 1. Trade to GDP ratio (GNFS volume, %) Real GDP per-capita growth (%, p.a.) 3
Figure 2. Static Welfare gains from agricultural liberalization dominates among merchandise trade (incremental income in 2015 compared to 1997 in 1997 US$ billion) 9
Figure 3. MENA Net Agricultural Exports, Average 1998-00 10
Figure 4 . Food Imports Cover and Agricultural Population 11
Figure 5. World agricultural tariff averages, by region 12

Box

Box 1. Key Areas in the Doha Agenda 2

Annex

Table A. WTO Negotiations Calendar 37
Table B. RCA Benchmarking for MENA countries in textiles and clothing 38

Section 1. The Current World Trade Agenda: Its Relevance for MENA

The "Doha Development Agenda" has placed development concerns at the center of a new round of trade negotiations. The November 2001 declaration of the Fourth Ministerial Conference in Doha provides the mandate for negotiations on a range of subjects. These include, most importantly, those on agriculture and services. A number of other issues have also been added (including areas such as competition policy, investment, procurement, anti-dumping and others). The declaration sets 1 January 2005 as the date for completion of negotiations. Ministers also approved a linked decision on implementation—problems developing countries have faced in implementing the current WTO agreements. The directions in the Doha Agenda are clear (Box 1).

In the coming three years, the challenge confronting the trade and development communities—trade officials, donor agencies, and international trade and development organizations—is to achieve a significant breakthrough in these negotiations. The two central issues on the table, agriculture and services, are of vital importance to all developing countries and regions. They are also of great importance to the MENA region. The region is a net food importer and agriculture continues to employ very large numbers of people in the region. Agriculture is also of central concern for food security, water and poverty reasons. The services sectors, on the other hand, have become the single-biggest sectors in terms of GDP in all MENA countries. In addition to these two issues, in implementation areas the negotiations aim to come to closure in implementing the existing agreement on textiles and clothing. Within the non-oil manufacturing sectors of MENA countries, no other sector is as important as textiles and garments.

As in all multilateral trade negotiations, countries are being asked to commit themselves to reduce their trade restrictions in specific sectors and areas, and correspondingly gain better market access in others' markets. Within such negotiations in a rules-bound system, there are expected to be substantial and very large benefits, but also adjustment and transition costs for individual countries and regions. Three key related questions for the MENA region are:

- How will trade liberalization in agriculture, services and implementation-completion of the textiles and clothing agreements affect MENA prospects?
- How should the MENA countries position themselves going forward in these negotiations?
- How can the MENA countries shape their domestic policies and unilateral/multilateral trade policies to maximize the gains, and minimize potential downsides, from such prospective and far-reaching negotiations?

This paper focuses on these critical questions. We begin with the imperatives for trade reform in the MENA region and an overview of the process and rules of the game of multilateral negotiations and MENA countries' involvement. We then turn to successively examine the three sector areas of focus---agriculture, services and textiles & clothing---in the upcoming negotiations.

Box 1. Key Areas in the Doha Agenda

(1) Agriculture. Member governments committed themselves to comprehensive negotiations aimed at: improving market access, substantial reductions in exports subsidies and reductions of, with a view to phasing out, all forms of domestic support and substantial reductions for supports that distort trade. The declaration provides special and differential treatment for developing countries in the negotiations, both in countries' new commitments and in revised rules and disciplines. It says the outcome should be effective in practice and should enable developing countries meet their needs, in particular in food security and rural development. The ministers also took note of the non-trade concerns (such as environmental protection, food security, rural development, etc) reflected in the negotiating proposals already submitted. They confirmed that the negotiations will take these into account, as provided for in the Agriculture Agreement.

(2) Services. The WTO General Agreement on Trade in Services (GATS) commits members governments to undertake negotiations and to enter into successive rounds of negotiations to progressively liberalize trade in services. Services negotiations started officially in early 2000. The Doha Declaration endorsed the work done, reaffirmed the negotiating guidelines and procedures, and established some key elements of the timetable including, most importantly, the deadline for the conclusion of the negotiations.

(3) Implementation Issues. "Implementation" is short-hand for developing countries' problems in implementing the current WTO Agreements, arising from the Uruguay Round negotiations. Ministers agreed to adopt around 50 decisions clarifying the obligations of developing country member governments with respect to issues including agriculture, subsidies, textiles and clothing, technical barriers to trade, trade-related investment measures and rules of origin. Many other implementation issues of have not yet been settled, however, and Ministers agreed on a future work program for addressing these matters.

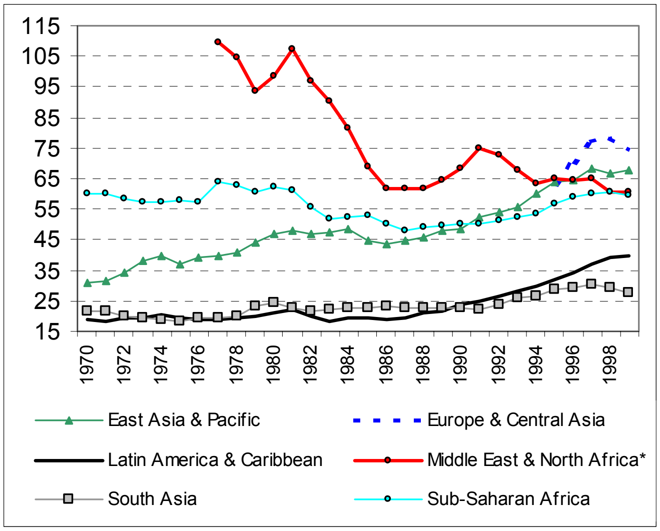
(4) Textiles and Clothing. From 1974 until the end of the Uruguay Round, trade was governed by the Multifibre Agreement (MFA), a framework for bilateral agreements or unilateral actions that established quotas limiting imports into countries whose domestic industries were facing serious damage from rapidly increasing imports. Quotas were the most visible feature. Since 1995, the WTO's Agreement on Textiles and Clothing (ATC) has taken over from the Multifibre Arrangement. By 2005, the sector is to be fully integrated into normal GATT rules. In particular, the quotas will come to an end, and importing countries will no longer be able to discriminate between exporters[1]. The Agreement on Textiles and Clothing will itself no longer exist.

The Imperative for Trade Reform in MENA countries

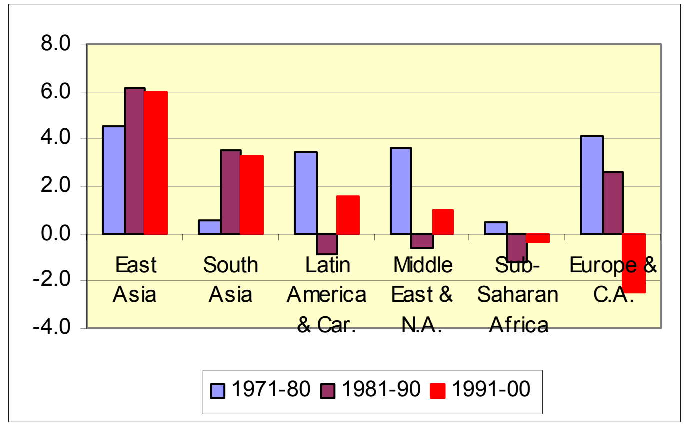
In no other region of the world is this agenda of trade and development more relevant than MENA – MENA lags the rest of the developing country regions in the pace of trade integration[2] and in real GDP per-capita growth (barring Sub-Saharan Africa and Eastern Europe and Central Asia), as illustrated in Figure 1. There is growing evidence that trade liberalization raises growth[3], and, more importantly for the MENA region with high levels of unemployment, increases employment opportunities in the long-term[4], particularly when supported by enabling labor market and investment policies.

[1] Though no discriminatory tariff rates may be applied, preferential tariff rates within a regional trading area could continue to be allowed under WTO.
[2] The change in trade to GDP ratio over 1985-99 is the smallest for MENA.
[3] Some recent studies providing evidence of trade on growth are Dollar and Kraay (March 2001), Ben-David and A. Winters (2000).
[4] Some country studies with supportive evidence of the beneficial effects of trade on employment are Iqbal and F. and W.E. James (2002) for Indonesia and Ravenga (1995) for Mexico World Bank (1999) for Panama. Rama (2001) surveys evidence across countries to suggest that more open economies have lower unemployment rates.

Figure 1. Trade to GDP ratio (GNFS volume, %)



Real GDP per-capita growth (%, p.a.)



Source: The World Bank (GDF , WDI)

MENA global integration is not commensurate with its middle income status

According to a number of measures, MENA's trade integration has declined, or at best remained flat, in recent years through the late-1990s compared to its performance through the first half of the decade. MENA's trade integration, measured in volume terms (GNFS as a share to GDP), has been stable at an average of 65 percent in both the first and second half of the 1990s, although the average speed of integration has decelerated from –0.2 percent during 1990-94 to -0.8 percent during 1995-99.

Excluding the value-added of services in GDP (Goods GDP), to correct for non-tradables in GDP, MENA's degree of merchandise trade openness is only above that of South Asia. MENA's merchandise trade openness position shifted from the middle income to low income grouping over 1985 to 1999.

Even in terms of PPP GDP, a measure that makes GDP across countries comparable, the last two years of available data (1998 and 1999) reveal that MENA has fallen behind ECA and LAC. While in the latter half of the 1980s MENA's ratio of merchandise trade openness (on a PPP basis) was on par with the average ratio for the high income countries, in the latter half of the 1990s its ratio was on par with the average for middle income countries. MENA's relative decline reflects not only a decline in its openness, but also improvements across other regions.

In a study by Yeats and Ng (2000) which examined the MENA trade characteristics until the mid-1990s note two key negative attributes of MENA trade. First, the Middle East is highly dependent on European markets for its exports in a narrow range of goods, such as fuels, agricultural products, textiles, chemicals. Second, the MENA region has a small base for intra-industry trade and not fully engaged in international production sharing, a growing segment of world trade. An update of the study through 2000 reveals two new adverse developments:

- Many Arab countries have been facing losses in international competitiveness in the recent years through 2000, unlike the early-1990s examined in Yeats and Ng (2000).

- Fewer countries are enjoying dynamic export growth. The few export sectors enjoying dynamism have also increased in capital intensity thus creating fewer jobs.

Section 2. MENA and Multilateralism

Given the twin challenges to the global negotiation agenda on world trade discussed in Section 1, we turn successively to evaluate the MENA track record in participating in the negotiations, the outcomes on trade integration efforts thus far, and to an assessment of the relevance of the Doha agenda for MENA countries. Our key findings are that with the participation of MENA countries limited to the few countries that are members of WTO, not surprisingly, the trade integration outcomes for the region are weak, and that awareness and capacity of MENA countries to seize the opportunities provided by the rule-based world trade negotiations needs to improve.

2.1. MENA participation in WTO negotiations

The MENA countries that are members of WTO are actively participating in WTO negotiations. The Doha Round held at the end of 2001 is a welcome sign to enhance the visibility of and debate about the WTO in the region. At Doha, one of the six working groups on the so-called "Singapore issues" was chaired by the Egyptian minister for foreign trade, H.E. Y. Boutros-Ghali. The Chairman of the conference, the host country's Minister of Trade (H.E. Kamal), played an active and constructive role in the process of hammering out compromises.

2.2. The Relevance of the Doha Agenda to the MENA Countries

Faster Track Accession to WTO for MENA countries is Vital

Less than half the population of MENA region is benefiting from WTO membership. This record is worse than that of Sub-Saharan Africa, where at least two-thirds of the population lives in WTO member countries. As of August 2002, 10 of the 19 MENA[5] countries are members of WTO, with 6 others in different stages of accession (Algeria, Saudi Arabia, Lebanon and Yemen have working parties established, and Syria and Libya have submitted formal request) and the remaining three (Iraq, Iran and West Bank and Gaza) have not even begun any process yet. The "working parties" for Algeria and Saudi Arabia have been established way back in 1987 and 1993, respectively, and yet the road to membership has proved to be very long. Iran, Iraq and West Bank and Gaza have not even requested membership yet.

There are several reasons for the slow pace of MENA countries joining WTO. First, the trust in rule-based international trading is slow to build in a region which has a disproportionate share of countries under trade and foreign investment sanctions: Iran, Iraq and Libya. Second, for the Mediterranean MENA countries, preferential trading arrangements with EU have immediate incentives because of geographic proximity and the EU financial and technical support package that helps finance the implementation of the agreements, in contrast to such support as yet inadequate from the multilateral forum. Third, the primary oil exporters with little diversified trade, perceive ambivalence in global attitude towards bringing oil trade under WTO. When prices are rising there is the threat of "disciplining" the oil cartel for production quotas deemed to be in violation of Article X of WTO, particularly from the US. However, when prices are declining, countries, for example, EU, are reluctant to reduce the import tariffs on oil products. Despite being an important item in international trade, oil still remains excluded from the discussions of the WTO. An OPEC report indicated that "4 European countries earned more from taxing oil than did the 11 member countries of

[5] MENA: GCC-6, Morocco, Algeria, Libya, Tunisia, Egypt, Jordan, Lebanon, Syria, West Bank and Gaza, Iraq, Iran, Yemen, and Djibouti.

OPEC from producing and exporting oil!" (Dr. Anas Faisal al-Hajji, "WTO Should Treat Oil as a Commodity", Al Majalla, Dec. 12 and 18, 1999). Fourth, the large rents derived (either directly, or, indirectly through migrant remittances) from oil exports or strategically distributed aid, combined with poor political organization for the potential gainers from reforms, helps in delaying reforms that could help improve global integration.

Despite the backlog of MENA countries waiting to acquire full membership of WTO, there is a compelling case for speeding up the process and an active participation in the Doha agenda. The key benefits from WTO membership have been discussed by Hoekman and Roy (2000). These are:

- WTO rules such as national treatment, MFN and primacy of tariffs as trade policy instrument ensure better allocation of resource and efficiency in their use.

- WTO consistent laws and regulations establish good practices, policies and institutions.

- Non-discriminatory market access is guaranteed for all WTO members with multilateral dispute resolution mechanisms.

- Indirect benefits of credibility to government policies as the commitments to WTO help local and foreign investors come to view the pro-trade policy changes with seriousness to make long-term investment decisions.

The 21-point agenda set in Doha in November 2001 (Table A) is comprehensive and negotiations are set to conclude on several items by January 1, 2005. Therefore, in less than three years, crucial agreements on agriculture, services, non-agricultural products are to be concluded. As late starters in the negotiations, several MENA countries will have a huge load of negotiations to complete. Though all the agenda items are relevant for the region, country groups may be affected more intensely in selected items. For example, agricultural market access is more important for the MENA countries in the Mediterranean region. TRIPs are relevant for pharmaceutical exporters in the region such as Jordan. On most of these, "draft offers" have to be made during 2003 so that the ministerial meeting later that year can take stock of the negotiations.

Table 1. Status of entry of MENA countries into WTO

MENA countries	WTO membership status as of August 2002
Algeria (1)	**Non-member**, observer government. Working party established on 17 June 1987
Bahrain	Member, 1 January 1995
Djibouti	Member, 31 May 1995
Arab Republic of Egypt	Member, 30 June 1995
Islamic Republic of Iran	Non-member
Iraq	**Non-member**
Jordan	Member, 11 April 2000
Kuwait	Member, 1 January 1995
Lebanon (2)	**Non-member**, observer government. Working party established on 14 April 1999
Libya*	Non-member
Morocco	Member, 1 January 1995
Oman	Member, 9 November 2000
Qatar	Member, 13 January, 1996
Saudi Arabia (3)	**Non-member**, observer government. Working party established on 21 July 1993
Syrian Arab Republic*	Non-member
Tunisia	Member, 29 March 1995
United Arab Emirates	Member, 10 April 1996
West Bank and Gaza	Non-member
Republic of Yemen (4)	**Non-member**, observer government. Working party established on 17 July 2000

Source: www.wto.org

Note: Observers must start accession negotiations within five years of becoming observers.
*Requests for accession have been circulated from Syria (WT/ACC/SYR/1 on 30 October 2001) and Libya (WT/ACC/LBY/1 on 10 December 2001). Working parties have not yet been established.

(1) Algeria's Working Party was established on 17 June 1987. The Working Party met for the first time in April 1998. Topics under discussion in the Working Party include: agriculture, the customs system, State trading, transparency and legal reform, and TRIPS. Initial contacts on market access in goods have taken place. Conditions and terms of entry have not been discussed. The next meeting of the Working Party will be held on 7-8 February 2002.

(2) Lebanon's Working Party was established on 14 April 1999. The Memorandum on the Foreign Trade Regime was circulated in June 2001.

(3) The Working Party on the accession of Saudi Arabia was established 21 July 1993. The last meeting of the Working Party was in October 2000. Bilateral market access negotiations on goods and services are continuing on the basis of revised offers. Topics under discussion in the Working Party include: agriculture, pre-shipment inspection, SPS and TBT, TRIPS and services. The Working Party is also focusing on a Draft Report and Protocol of Accession.

(4) Yemen's request for accession was circulated on 14 April 2000. The General Council established a Working Party on 17 July 2000. Yemen has not yet submitted a Memorandum on the Foreign Trade Regime. The Working Party has not yet met.

Section 3. Implications for MENA of key issues

In this section we discuss the implications of three important elements of global trade agenda for MENA countries – two from Doha meeting and one from the Uruguay Round. The new items on the agenda – agriculture and services – provide opportunities as useful vehicles for MENA region to catch up to global integration. An old item from Uruguay Round , MFA abolition, looms large in the horizon, set to be integrated into global non-discriminatory rule based system on January 1, 2005. Will this provide an opportunity or challenge the gains MENA countries have already made? This question is taken up as the third key issue in this section.

3.1. Agricultural Liberalization – Turning adversity into opportunity

Historically, trade in agricultural products attracted higher tariffs than all other products, restrained by numerous and complex non-trade barriers, and affected by domestic support policies. Partly as a result, the share of agricultural products in world merchandise trade has been on a declining trend to reach 9 percent in 2000 from 15 percent in early 1980s. Over 1990-2000, world agricultural exports grew in current dollar terms at 3 percent annual rate, half as fast as overall merchandise trade. After the conclusion of the UR in 1995, world agricultural export growth picked up only to falter after the onset of Asian crisis in 1997. Against this backdrop, world agricultural market shares of MENA countries has remained under one percent through 1974-2000.

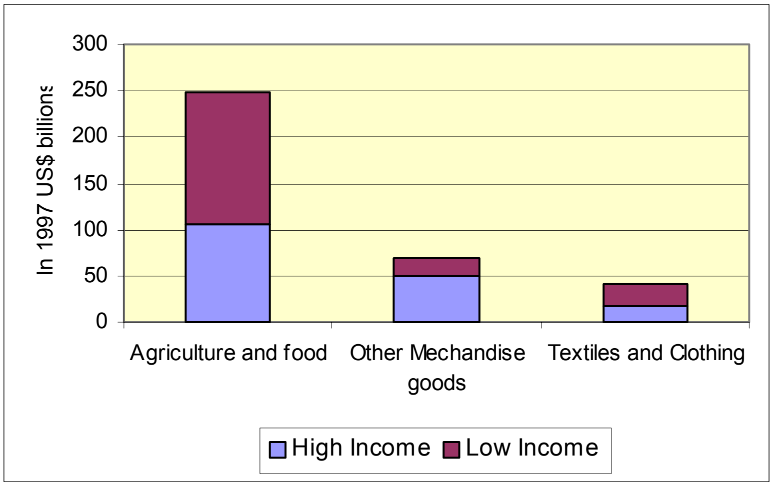
The Uruguay Round Agricultural Agreement (URAA) concluded in 1994 initiated the first steps towards liberalization of trade in agriculture by negotiating improvements in market access through tariff reductions, cuts in national support for production and exports and setting bounds for protection. The progress on agricultural negotiations is turning out to be slow and contentious[6]. The full round of negotiations, though planned to start in 1999, a year ahead of full implementation for developed countries, could only begin in March 2000. Most assessments of results and implementation of URAA are not encouraging. For example, a recent USDA(2001) report notes, the agricultural reforms are proving to be fragile with (i) bound tariff rates remaining very high (Figure 5, below), (ii) instead of decreasing, domestic support levels increasing because of decline in market prices[7], and (iii) unused export subsidies in the earlier phase of implementation have being brought forward in later years utilizing the flexibility provisions.

Though the share of agriculture in the industrial economies is much smaller (about half) of that twenty years ago, and in most countries representing less than 3% of GDP, the political power of agricultural lobbies remains immense. At Doha, agriculture remained the single most divisive issue facing negotiators. The US proposal for reforms[8] announced on July 25, 2002 received some criticism by EU and Japan for "not being a good basis for negotiations, excessively focusing on tariff cuts and ignoring environmental or traditional farming" concerns. The main bone of contention was between agricultural exporters on one side (Cairns group[9]) and the EU (and Japan) on the other over wording on launching negotiations to eventually eliminate export subsidies. The latter represent a fifth of total subsidies to European farmers. The EU's resistance to envisaging eventual phasing out of export subsidies and France's threats to withdraw from the negotiations almost prevented the

[6] Ingco (1995), Anderson and Morris (2000), Burfisher (2001).
[7] By 1998, agricultural support by OECD countries exceeded by US $ 36 billion the level in 1994,per Anderson and Morris (2000).
[8] The key elements of the US proposal are: (i) phase in a maximum tariff rate of 25 percent over five years (ii) elimination of export subsidies, state trading, prohibition of export taxes and interventions in export credit and (iii) limit total value of protection to 5 percent of agricultural production.
[9] The 18 member group of agriculture-exporting countries.

launch of a new round. The strength of disagreement is especially striking in light of the fact that the imminent accession to the EU of some 10 Eastern European countries, most with large agricultural sectors, will in any event imply a large rise in the cost of agriculture subsidies and require a thorough review.

Figure 2. Static Welfare gains from agricultural liberalization dominates among merchandise trade (incremental income in 2015 compared to 1997 in 1997 US$ billion)



Source: World Bank (2002)

Yet, global agricultural liberalizations remains the single most significant agenda in post Doha phase of world trade negotiations, as its potential benefits far outweigh either the abolition of MFA (discussed in the end) or other merchandise products. The potential benefits of a full liberalization of agriculture and food for both developing and developed countries are estimated to be US$ 250 billion, six times greater than that of MFA abolition (Figure 2).

From another perspective, the stakes for the developing countries can be seen from the fact that total annual subsidies to production and exports in OECD countries amounted to US$362 billion, far exceeding total official aid flows at US$ 53 billion[10]. Dynamic welfare gains after allowing for investment growth and productivity gains are valued at US$ 46 billion per year, split roughly 65 and 35 percent between developing and developed countries[11].

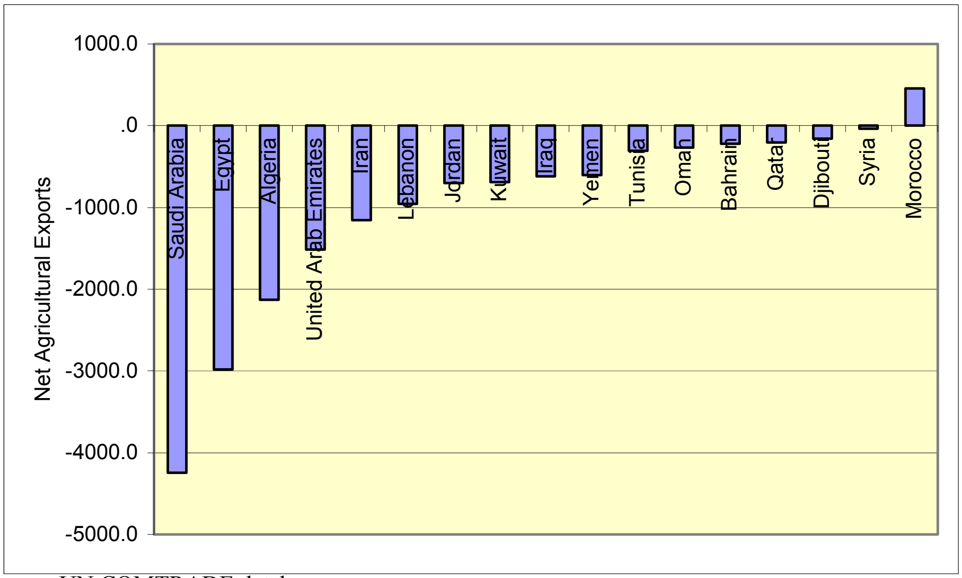
MENA agriculture is a quite diverse sector whose contribution to economic development is important, considering the current stage of MENA's development. The agricultural sector contribution to GDP ranges from a high of more than 25 % for Syria to a low of less than 2 to 4 % range for Jordan and Libya[12]. This type of contribution to GDP does not reflect the true importance of agriculture in employment. Most MENA countries tend to have an important rural population (30-60%) with few exceptions (less than 20% in Lebanon and Libya)[13]. With high population growth rates and limited areas of arable land and water resources for irrigation development, MENA is facing a clear challenge: how to increase agricultural production and reduce the threats to the environment.

---

[10] Estimates for subsidies are for 1997, expected to have risen higher by now. ODA estimate is for the year 2000.
[11] Estimates vary from study to study. Anderson and others (2002) have an estimate of US$ 56 billion, whereas Anderson and Morris (2000) compute a higher estimate of US $ 80 billion.
[12] Excludes GCC countries which have even smaller share of agriculture to GDP.
[13] Excludes GCC.

Figure 3. MENA Net Agricultural Exports, Average 1998-00

(US $ million)



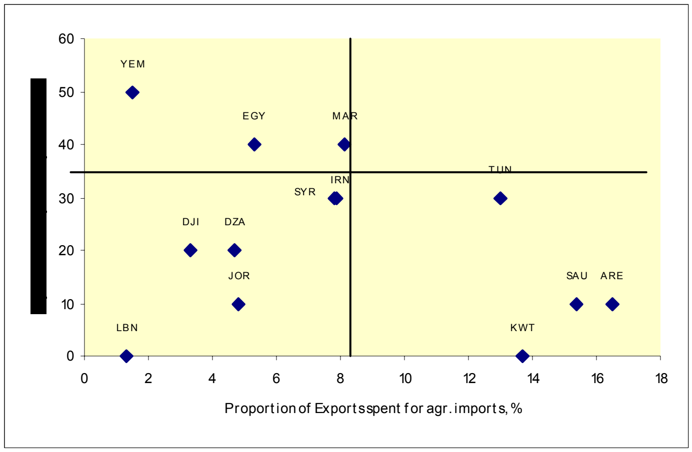
Source: UN COMTRADE database

MENA is a net importer of agricultural products[14], and is thus dependent on trade for its basic needs in cereals, cooking oil, sugar, etc. Figure 3 shows that all MENA countries with the exception of Morocco are net importers of agricultural products. Over the last two decades, MENA net agricultural imports have ranged between US$ 16 –20 billion.

However, a large net food import bill by itself need not indicate low food security (net imports to consumption ratio) because it could still be small as a proportion of exports. Alternatively, low net food-import bill could hide the large (gross) food import bill as a proportion of export earnings.

[14] Agricultural products are the sum of SITC 0, 1, 2 and 4 less 27 and 28. Note that this definition includes non-food crops and fishing.

Figure 4 . Food Imports Cover and Agricultural Population



Source: Data from Diaz-Bonilla and others (2001)

Note: The two intersecting lines represent the averages for net food importing Developing countries as defined by WTO.

Three MENA countries – Egypt, Tunisia and Morocco – have already been identified by WTO as belonging to the group of Net Food Importing Developing Countries (NFIDC). NFIDCs have more favorable treatment under agricultural liberalization and also qualify for technical assistance to improve productivity. However, identification by just one measure – net food imports – could be misleading. Alternatively, some authors have argued for taking into account the population dependent on agriculture as an additional indicator of vulnerability. Figure 4 presents gross food imports as a ratio of exports (including tourism) for MENA countries together with the proportion of population dependent on agriculture. With a third or more of population depending on agriculture and food imports using up reaching up to 8 percent or more of export earnings, the cluster of countries Syria, Iran, Morocco[15] and Tunisia appear to be more vulnerable in MENA. Among, GCC countries, only Saudi Arabia and United Arab Emirates have significant risk to food security. Cluster analysis by Diaz-Bonilla and others (2001) using a set of five indicators[16] classifies most MENA countries in "food neutral" clusters being neither food insecure, nor secure, but, with "trade stress".

[15] The inclusion of Morocco as a net *food* importer is not inconsistent with Morocco as net *agricultural* exporter in Figure 3 because food is a sub-group of agriculture.
[16] The five indicators are: food production per-capita, ratio of total exports to food imports, calories per-capita and proteins per-capita, non-agricultural population.

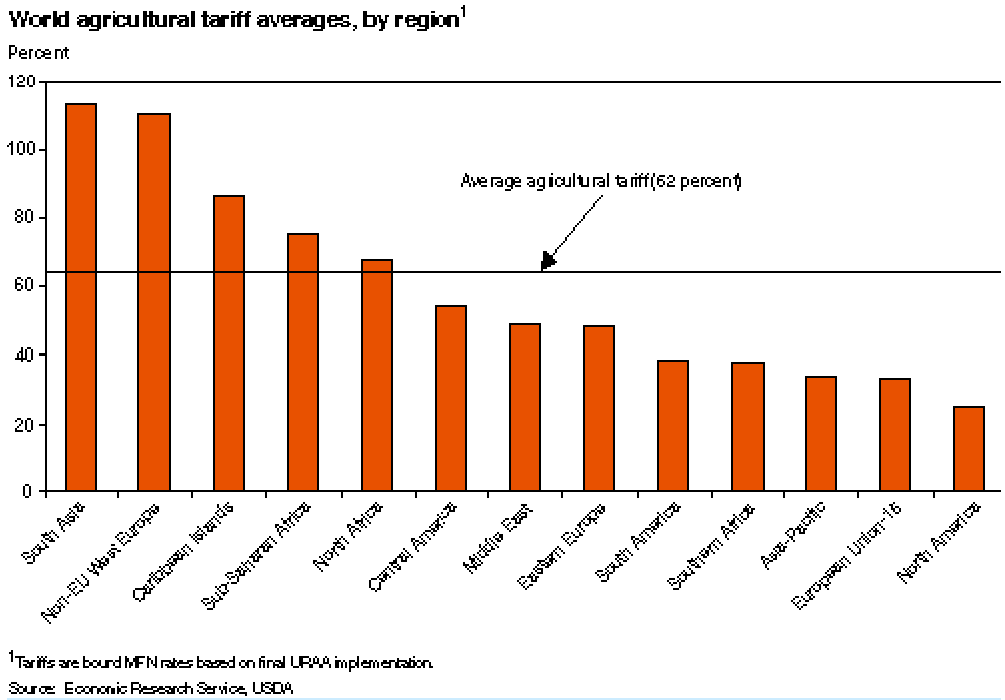


Figure 5. World agricultural tariff averages, by region

Protection for agricultural products remains high among North African MENA countries. Applied tariff rates (Table 2) are at least twice as high as the developing country average of 19 percent[17]. Within agriculture, livestock products, cereals, and fruits and vegetables are protected more than the rest, leaving aside "beverages" (alcoholic), which also attract high tariffs for cultural reasons. "Bound" tariff rates are also higher in North Africa compared to the rest of the Middle East, suggestive of the upside risk, though it is near the world average of 62 percent (Figure 5). For example, Tunisia's bound tariff rate for agricultural products stood at 110 percent compared to the applied rate of 35.4 percent in 1998. Non-tariff barriers on trade and import monopolies are also widely prevalent in virtually all countries.

Table 2. Applied Tariff MFN Rates on Agricultural Products

	Morocco 2001	Tunisia 1998	Egypt 1998	Jordan 2001	Lebanon 2001	Oilx 2000
Live animals	112.3	34.2	22.1	5.0	12.2	13.3
Meat and meat preparations	123.3	40.7	32.5	18.5	12.1	16.6
Dairy products and eggs	87.8	26.7	20.5	17.9	20.7	10.4
Fish and fish preparations	49.6	41.0	18.7	22.1	5.0	13.7
Cereals and cereal preparations	50.6	37.7	16.8	13.6	5.4	10.9
Fruit and vegetables	48.3	41.6	28.6	23.8	33.8	19.3
Sugar, sugar preparations and honey	37.4	32.8	22.0	18.0	8.5	15.5
Coffee, tea, cocoa, spices & manufacs. thereof	42.8	38.0	23.2	26.0	7.8	16.6
Feed.-stuff for animals excl. unmilled cereals	30.5	26.6	8.3	7.0	5.0	6.9

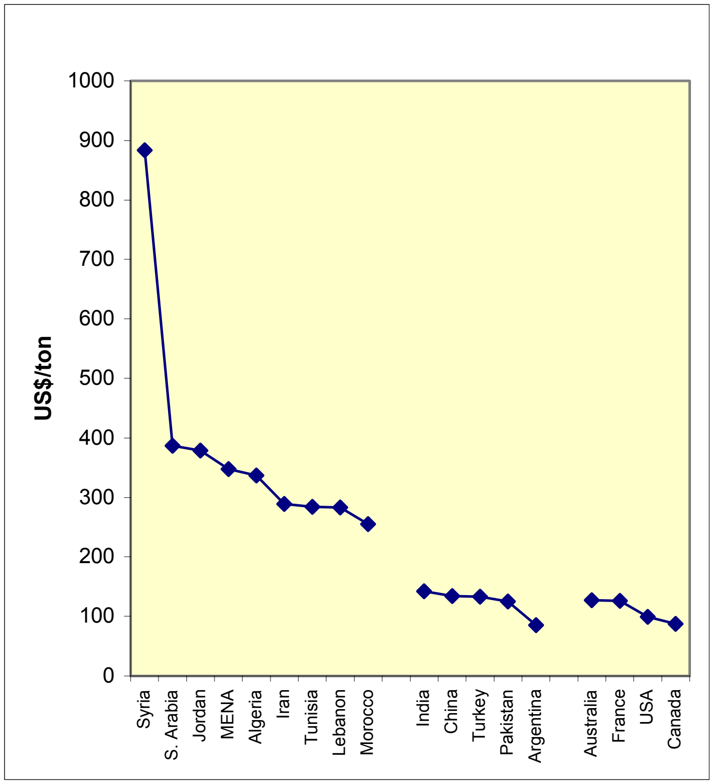
[17] Note, however, that tariff rates are lower among MENA oil exporters.

Miscellaneous food preparations	45.9	41.3	26.3	23.7	17.0	21.3
Beverages	51.1	42.0	1206.1	134.1	26.5	29.9
Tobacco and tobacco manufactures	23.4	36.0	72.0	49.7	60.0	12.0
Hides, skins and fur skins, undressed	18.7	30.4	17.3	5.5	2.0	18.7
Oil-seeds, oil nuts and oil kernels	41.1	27.3	8.9	16.8	0.3	9.8
Crude rubber including synthetic and reclaimed	24.5	20.0	8.6	7.4	0.0	6.5
Wood, lumber and cork	26.9	21.5	9.2	11.6	0.4	10.3
Pulp and paper	22.0	18.4	5.0	5.0	0.0	4.4
Textile fibres, not manufactured, and waste	6.9	21.0	10.3	3.6	0.2	9.4
Crude animal and vegetable materials, nes	30.4	27.6	14.4	14.4	6.2	11.3
Animal oils and fats	31.9	26.6	20.6	15.5	3.8	13.9
Fixed vegetable oils and fats	30.7	36.9	11.1	17.4	13.6	7.8
Animal and vegetable oils and fats, processed	30.8	24.9	14.0	13.4	3.5	6.1
Memo Items						
All products	***35.7***	***29.9***	***28.1***	***14.9***	***6.3***	***13.5***
Agricultural products, exc. Bev.	***44.5***	***31.2***	***19.7***	***16.1***	***10.5***	***12.0***

Source : Staff estimates based on WITS database
Note: Simple average rates based on 2 digit SITC Revision 1. Agriculture is defined to include sections 0,1,2 and 4, but excluding 27 and 28. Estimates shown for oil exporters (oilx) are the average for Algeria, Libya, Oman, Iran and Saudi Arabia

MENA agriculture harbors significant domestic distortions induced by artificially low prices in the international markets and domestic input subsidy policies, particularly in the water sector. However, the combination of product price support policies and exchange rate policies have raised the producer prices for key cereal crops. Wheat producer prices, for example, are exceptionally high (three times higher) compared to efficient unsubsidized prices prevailing in US , as shown in Figure 6. The domestic agricultural support policies in MENA reduce efficiency in agriculture, prevent progress as resources are allocated for protection, and create social pressure as agriculture and rural areas have to buffer the increasing demands for employment. These conditions limit efficient growth in the agricultural sector in MENA and induce ill-afforded subsidies and protection for low productivity agriculture, mainly cereals. Subsidized cereal production in marginal areas also has adverse environmental effects, some of which result in irreversible degradation of the natural resource base. This support for low productivity agriculture inevitably provides incentives such that resources are taken away from what could be more efficient production within agriculture (e.g., scarce and valuable irrigation water used for cereals) and in the economy as a whole. One particular area is that of cash crops, namely tree fruits and horticultural products. The distortions in agriculture towards low productivity field crops, mainly cereals, affect potential investments to improve product quality and water use efficiency in fruit and vegetable production. As such, a potentially and actually competitive element of agriculture in MENA suffers.

Figure 6. Producer Prices of Wheat, 1998



Source: Staff Estimates

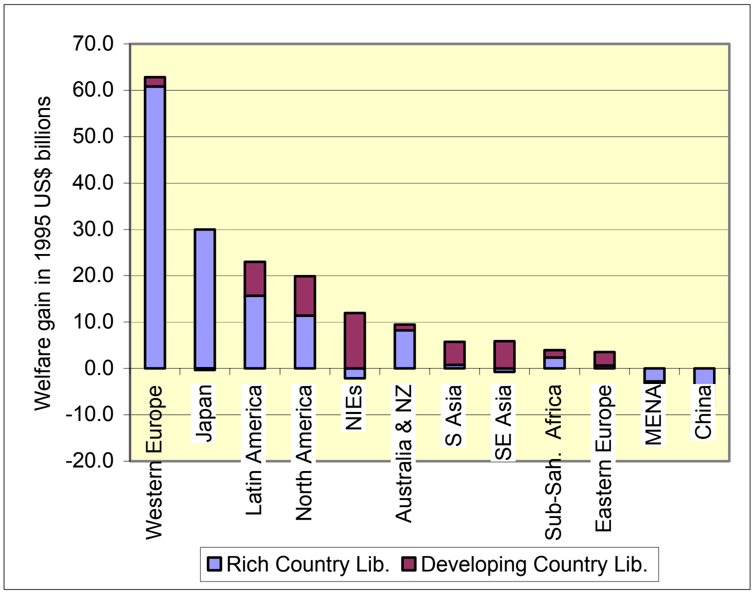
By most counts, eliminating global agricultural policy distortions (international trade barriers and national subsidies for production and exports) causes the long-run real food prices to rise by as much as 12 percent[18]. In three critical products where MENA self-sufficiency is very low (less than about 50 percent), expected price increases are sugar (16.4 %), vegetable oils (11.2 %) and cereals (16.5 %)[19]. On the other hand, in vegetables and fruits, a product group important to MENA as an exporter, the prices are expected to rise by 8.3 percent. In net terms, MENA terms of trade worsen, i.e., imported agricultural product prices rise.

The declining terms of trade (higher import prices relative to export prices) makes consumers worse off, as they have to pay more for their purchases of food. In addition, in the presence of significant pre-existing distortions in the MENA agricultural sector, there will also be the effect of attracting resources more into domestic production, which can be termed as loss of allocative efficiency.

[18] Burfisher (2001)

[19] For vegetable oils, the estimate for oil and oil seeds is used. For cereals the average price increases of wheat and coarse cereals are used.

Figure 7. MENA loses income under Agricultural Trade Liberalization



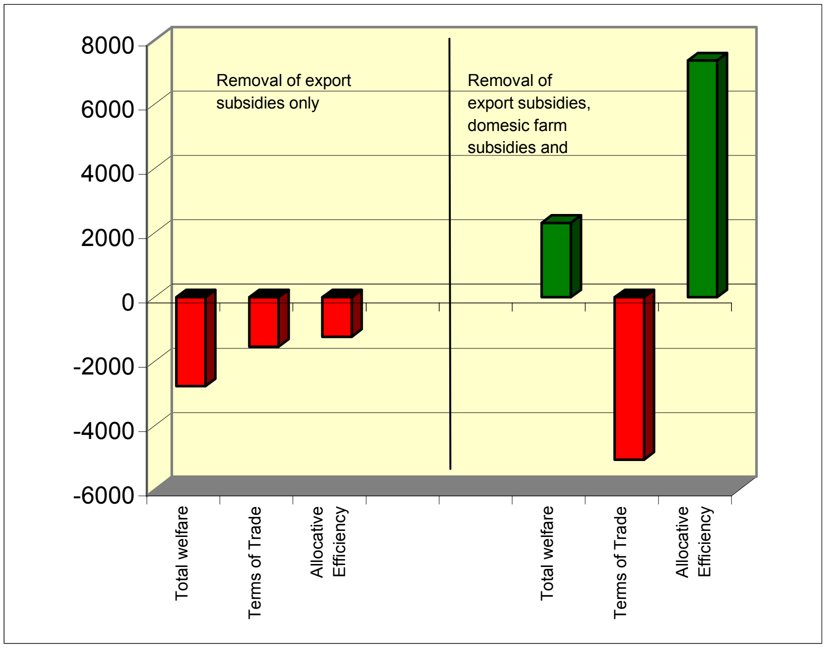
Source: Anderson and others (2002)

The combined effects of these two factors account for a welfare loss of about US$ 3 billion in 1995 prices by 2005[20], as shown in Figure 7. Interestingly, China is the other losing country because it also is a net agricultural and food products importer like MENA. However, unlike in China, much of the loss in MENA originates from allocative inefficiency which can be corrected by removing distortions in domestic agriculture. Figure 8 illustrates how removing domestic farm subsidies can offset the adverse effects of export subsidy removal, improve allocative efficiency and create positive welfare effect.

There are important caveats to the analysis presented immediately above. Both the analyses cited, Anderson and others(2002) and Elbehri and Leetmaa (2002) rely on Global Trade Analysis Project (GTAP) database version 5. This database does not capture domestic distortions in MENA adequately. Turkey is included in Middle East and North Africa, unlike in the standard classifications followed in World Bank publications. Individual country data are present only for Morocco and Turkey. The rest of the GTAP MENA region is aggregated into "rest of Middle East" and "rest of North Africa". Data on domestic input subsidies are reported as zero except for Turkey in MENA. With better estimates of distortions in MENA, the estimated sizes of the effects would change (both in baseline and scenarios), but it is expected that the key simulation result – welfare losses would trun to welfare gains with the removal of doemstic distortions.

[20] Based on Anderson and others (2002).

Figure 8. Welfare effects of removing agricultural trade distortions on MENA (changes in millions of US$ per year in 1997 constant prices)



Because of high protection levels enjoyed by field crop and livestock sectors, elimination or significant reduction in tariff reduction in these sectors will pose serious challenges[21]. In higher potential agro-ecological zones and in irrigated areas, adaptation to trade liberalization will be relatively easier. Most studies indicate that the typically subsidized, low productivity rain fed cereal production in the drier agro-ecological zones, characterized by small producers, will bear the brunt of trade liberalization. A general equilibrium study of Morocco by Lofgren (1999) showed how disadvantaged rural populations could suffer welfare losses at the same time when the country as a whole makes welfare gains under agricultural liberalization. The implicit labor displacement would be significant. Hence, the agricultural and agro-industrial sectors and labor transfers within and from these sectors would be critical issues in the context of managing the transition.

<u>Issues at stake</u>

- As net food importers and assuming domestic distortions are unchanged, the MENA region suffers a significant net welfare loss from rising food prices.

- However, the structural adjustments in agricultural sector and income distribution impacts would need to be carefully managed by leveraging the situation of most of developing countries in MENA qualify as *Net Food Importing Developing Countries*[22]. A transition strategy needs to be negotiated, including compensation payments under WTO.

[21] Views expressed in this paragraph draw on Chaherli (2002).
[22] WTO has no standard definition of developing country. Countries can self-declare their status which can be challenged by others.

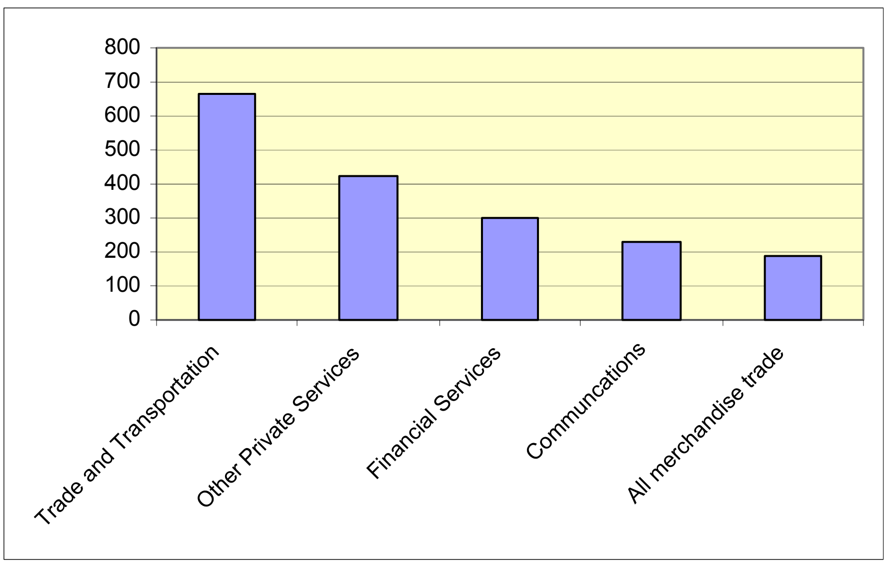
- These net welfare losses have especially important implications for low-income and household groups.

- If MENA countries are able to remove domestic distortions in the agriculture sector, analysis shows that much of the welfare loss can be reversed, and opportunities for new dynamic export products (fruits and vegetables with low water content) can be created, with efficiency gains off-setting terms of trade losses.

- With domestic adjustment policies, there may also be significant and large gains for environment and water use as scarce resources are utilized more efficiently.

3.2 Opportunities in Services Liberalization: What's at stake?

Figure 9. Static Welfare Gains from Services Liberalization (in 1997 US$ billion, for 2015)



Source: World Bank (2002)

Since the mid-1980s, growth of trade in services[23] has outpaced that of goods to reach US$ 1.4 trillion in 2000, amounting to 22 percent of merchandise trade. Though developing country shares in world service exports have been rising, there is a huge untapped potential for further intensifying service trade in the developing countries. The potential benefits of global service trade liberalization are huge with developing countries capturing more than the developed. Illustrative calculations using general equilibrium models show that benefits to developing countries from services liberalization is nearly six times that of liberalizing merchandise trade (Figure 9). In fact, the estimated static gains for any single component of the four categories of services – trade and transport, financial services, communications, and other private services – exceed that of remaining merchandise trade liberalization.

[23] Based on WTO Annual report, 2002.

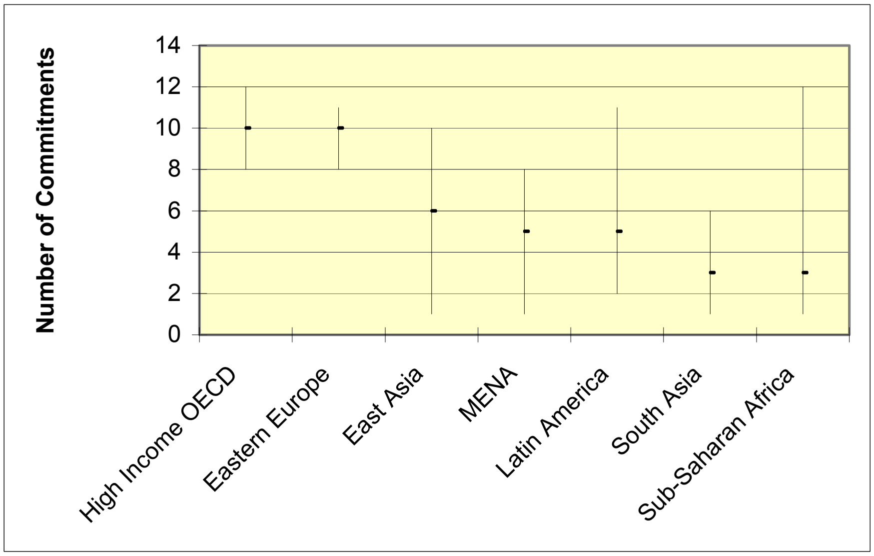
International experience suggests that reforms that inject more competition in domestic markets for services have the potential of improving the quality and lowering the cost of backbone services—such as transport, utilities, finance, and communications. These services hold a key role in improving linkages to the global markets and production networks. But because in many developing countries domestic providers of services operate below international efficiency standards, opening up markets to competition has to go in tandem with lowering trade barriers in services and making room for increased foreign entry in domestic markets.

The WTO General Agreement on Trade in Services (GATS) commits member governments to undertake negotiations on specific issues and to enter into successive rounds of negotiations to progressively liberalize trade in services. The first round was scheduled to start no later than five years from 1995. Accordingly, the services negotiations started officially in early 2000 under the Council for Trade in Services. The Doha Declaration endorses the work already done, reaffirms the negotiating guidelines and procedures, and establishes some key elements of the timetable including, most importantly, the deadline for the conclusion of the negotiations as part of a single undertaking (WTO, 2001).

However, contrary to steps taken elsewhere in developing countries, and despite recent initiatives, MENA still lags behind in regulatory reform aimed at opening up services markets to competition.

Current Set of MENA Countries Commitments in Services

Figure 10. Median sectors with market access commitments under GATS



Source: WTO database on GATS commitments, cut off date January 2000

Note: The chart displays minimum, maximum and median number of sectors (out of potential 12) for which countries have granted market access commitments under GATS. Important omissions because of the cut off date are Jordan and China. High income OECD country average excludes EU. The 12 sectors are listed in Table 3, column 1.

MENA country commitments for market access for broad groups of service sectors (median of 5 sectors) are in the middle range among country groups as displayed in Figure 10. Countries in Eastern Europe, close competitors to MENA in the EU market, have shown greater eagerness to commit for service sector liberalization with very little variability among countries, almost on par with high income OECD countries.

More MENA countries have granted commitments for financial and tourism services than other sector groups, which is likely help further realize the substantial tourism potential of the region and improve efficiency of financial transactions. The lukewarm commitments under transport and distribution sectors are not encouraging for improving the trade intensity of the region. In the context of identification of education and knowledge gaps in MENA in Arab Human Development Report, 2002, the absence of commitments under the education sector is worrisome.

Table 3. GATS market access commitments by MENA countries

Service Sub-Sector	*Kuwait*	*Morocco*	*Qatar*	*UAE*	*Djibouti*	*Egypt*	*Tunisia*	*Bahrain*	*Total*
Financial Services	x	x	x	x		x	x	x	7
Tourism and Travel Related Services	x	x	x	x	x	x	x		7
Business Services	x	x	x	x	x				5
Communication Services		x	x	x	x		x		5
Construction and Related Engineering Services	x	x	x	x		x			5
Environmental Services	x	x	x	x					4
Recreational, Cultural and Sporting Services	x				x				2
Transport Services		x				x			2
Distribution Services	x								1
Health Related and Social Services	x								1
Educational Services									0
Other Services not Included Elsewhere									0
TOTAL:	8	7	6	6	4	4	3	1	

Source: WTO GTAS database, cut off date January 2000

Without further in-depth analysis of the nature of commitments (which sectors, limits, MFN exclusions, modes of participation, etc), it is hard to evaluate the likely impact of the commitments on MENA trade performance. Even with this crude measure of counting open sectors, it is apparent that only four GCC countries (excluding Bahrain with only the financial sector opened and Saudi Arabia which is not yet a member of WTO) are in the forefront of service liberalization. In rest of the region, the agenda is pretty much open with huge potential rewards waiting to be taken.

The stakes of more ambitious liberalization in services are high for a number of reasons.

Liberalization in services can create more investment opportunities for the domestic private sector, and help attract more non-debt creating foreign financing such as FDI and portfolio investment. FDI in services has been a main driver of the FDI flows around the globe in the 1990s, and now accounts for about half of the inward FDI stock in the world (UNCTAD, 2001). Developing countries used to be traditional recipients of FDI in manufacturing and the primary sector. However, by the end of the 1990s, the shares of these sectors in inward FDI stock were about 60 per cent, down from more than 70 per cent in the late 1980s. This shift reflects important steps in liberalization and privatization that stimulated large flows of FDI in activities such as financial services, telecommunications, and utilities. But it also reflects the emergence of new services (e.g., software, back-office services, call centers, data entry) where there is considerable scope for international trade and the location of facilities in different places around the globe.

But MENA countries find it difficult to benefit from these global trends because they have tended to approach service reform in a piecemeal fashion. Privatization has been slower than in other parts of the world; barriers to entry often remain forbidding, both for domestic and foreign investors. Privatization proceeds generated in the MENA region constituted only three percent of the worldwide total in the 1990s. While the trend is upward, the role of the state in industry and services remains much higher than in other regions. And the inadequate regulatory framework that restricts competition also inhibits private sector participation in infrastructure that could remove pressures from vulnerable public finances and accelerate the build up of productivity-enhancing infrastructure. In the MENA region, between 1984 and 1997, private sector participation projects in the region added up to only US$ 9 billion, compared to a worldwide total of US$ 650 billion (Council on Foreign Relations, 2001).

Inefficient services, provided mostly by the public sector, and the high cost of key backbone services such as transport, are important factors that raise the cost of MENA exports, while also impeding trade expansion in the MENA region. Poor and high-cost infrastructure services such as transport, telecommunications, storage and distribution reduce the competitiveness of MENA firms. For example, public monopolies in ports and port services, combined with poor infrastructure for loading and storing goods, results in high costs for traders. In the mid-1990s it cost two to three times more to discharge a container in Alexandria than in other Mediterranean ports (World Bank, 1995). Port service charges in MENA can reach up to 10 percent of the value of imported intermediate components (Cassing et al., 2000). This has the potential of limiting the scope for the participation of MENA countries in global production sharing schemes, which have been a main driver of trade creation elsewhere, especially in East Asia (Ng and Yeats, 2000).

Overall, monopoly shipping and domestic policies favoring national carriers results in low quality, low frequency, and high cost services. Similar observations can be made for air transportation, telecommunications and utilities. Policies restricting trade in land transport services impose high costs on intra-MENA trade. Examples include denial of visas for professional drivers of certain nationalities (such as Saudi Arabia and other GCC nations), arbitrary changes in documentary requirements, surcharges and discriminatory taxes, and prohibitions on obtaining cargo in the country of destination to take back to the country of origin (Zarrouk, 2000).

In addition to its benefits for trade, opening up of services markets to competition can offset the costs of adjustment stemming from merchandise trade liberalization (Council on Foreign Relations, 2001). Pro-competitive reforms that facilitate entry by new firms can generate large employment opportunities for skilled and unskilled workers who are employed by government in low-productivity jobs or in threatened import-competing private manufacturing. Because services often cannot be traded, increasing access to service markets is likely to entail the entry of foreign competitors through FDI. This will not only lead to the introduction of new technologies, but also entail the hiring of *domestic* labor.

This is confirmed by the recent experience in regions such as Eastern Europe, where privatization, trade liberalization and service sector reform generated a large increase in service sector employment. Simulation studies for Egypt and Tunisia (Konan, 2001), point to similar results. In the case of Tunisia, service reforms give rise to gains that are more than three times greater than what would be generated by trade liberalization alone. Similarly, in the case of Egypt, the potential real income gains from service reforms are double those resulting from liberalization of trade in goods only. This is because reforming the service sector affects the economy as a whole, not just the external sector; eliminating distortions that create social waste in the form of needless transactions costs. This differs from merchandise trade liberalization, which despite the potentially high efficiency gains, is accompanied with significant redistribution of income.

Liberalization of key services, such as for example Telecommunications, is a facilitator for the development of export capacity in other services, especially in the ICT sector. Good examples of developing country success stories are the booming Indian exports of ICT business services and software, while Malaysia has become an international hub for B2B trade in ICT products and especially semiconductors. Indian software exports grew from US$ 225 million in 1992-93, to US$ 1.75 billion in 1997-98. According to estimates, by 2008 the Indian IT sector could provide about 2.2

million jobs, account for 35 per cent of India's exports, and attract US$ 5 billion of FDI per year (World Bank, 2001a).

MENA has not been a center for export-oriented IT services. However, a number of countries have the human resources and capabilities for doing so. While software development and related activities are starting to create export niches—as for example in Tunisia (World Bank, 2001b)—the provision of IT services remains at the very beginning stages of development. However, a number of countries have taken advantage of existing opportunities. Several Jordanian firms are engaged in a variety of data conversion tasks for export markets. Call centers have been a significant growth opportunity in Morocco since 2000, resulting in large part from significant telecom sector deregulation. Egypt has a few companies engaged in offshore engineering and design, as well as remote education activities.

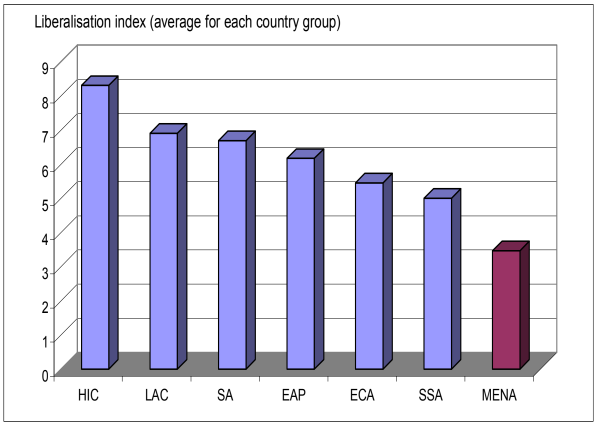
The status of telecommunications services liberalization conveys a sense of the unrealized potential in services liberalization in MENA. It also conveys a sense of the lost export and growth opportunities, because telecommunications have a high leverage on ICT development, while they affect productivity and costs of ICT-using sectors (OECD, 2000). Opening up of telecommunications markets to competition has been fast-track in many developing countries (Cowhey and Klimenko, 2000). Countries in Latin America have been ahead of others, closely followed by countries in South Asia and in East Asia and the Pacific. By contrast, regulatory reform in telecommunications has been slow in MENA, where markets remain less competitive than elsewhere in the developing world. This gap is measured by an indicator that takes into account the degree of effective competition in different segments of the Telecommunications markets; the openness to FDI; and the existence of pro-competitive regulation and of an independent Regulatory Body in the sector (Varoudakis and Rossotto, 2001; Figure 2a).

Greater market openness props up expenditure in telecommunications, by lowering prices to consumers and thus bolstering demand, and also by expanding the size of the networks and the array of services offered to users. International evidence seems to confirm that increased market openness is indeed associated with a greater size of the telecommunications sector—as measured by the share of Telecommunications revenues in GDP. This is more evident from the booming growth in the mobile network seen in countries that have opened up markets to competition. But more competition in areas such as leased lines and backbone networks, along with appropriate pricing policies designed to stimulate demand, are key in supporting internet penetration and broader ICT sector development. After accounting for other structural factors, the spread of the internet—as measured by the relative number of internet hosts—turns out to be greater in countries with greater market openness in telecommunications (Figure 11b).

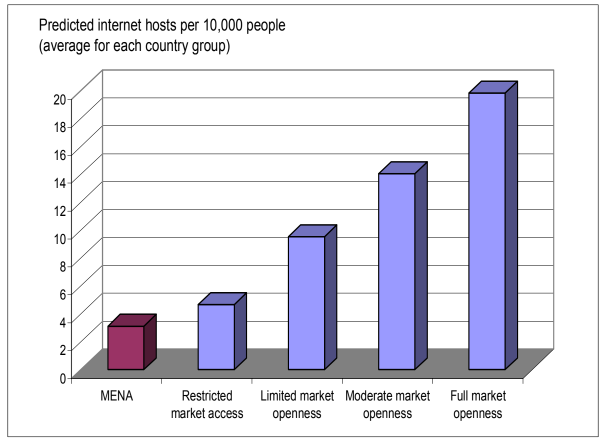
Figure 11. Telecommunication liberalization in MENA—gaps and lost opportunities

Telecommunications markets remain less competitive in MENA …

…Internet penetration improves with Competition in Telecommunications…



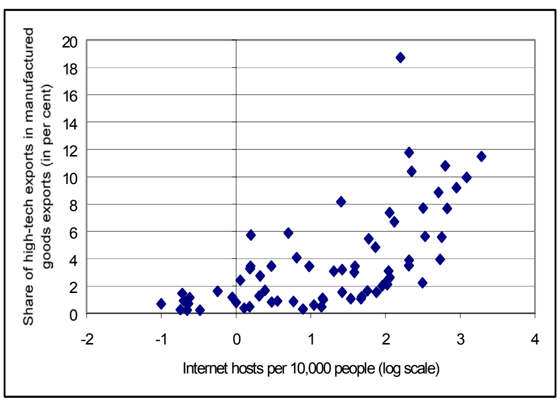
(a)



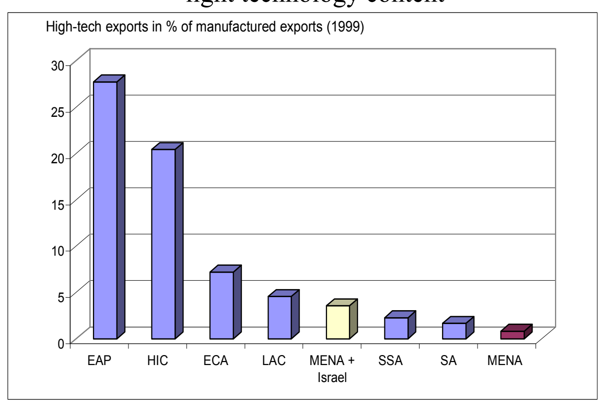
(b)

High-tech exports increase with internet connectivity…

… manufactured exports in MENA still have a light technology content



(c)



(d)

Source: Varoudakis and Rossotto, 2001

Note: Predicted rates of internet penetration shown in Figure 9b, are calculated after controlling for differences in structural determinants across countries other than telecommunications market openness. High-tech shares in Figure 9c are calculated after controlling for structural determinants other than internet hosts.

Efficient and low-cost telecommunications can help improve the poor position of MENA countries in global production sharing schemes that stretch increasingly across borders (Hummels *et al.*, 2001). But they may also help bridge part of the "quality gap" in MENA trade. International evidence suggests that a good level of internet connectivity (measured by internet hosts penetration) is positively related to the size of high-tech shares in manufactured goods exports (Figure 11c). Internet connectivity facilitates faster diffusion of codified knowledge; allows to link up technological developments more closely to businesses; and thus facilitates international technology transfers (OECD, 2000). This has the potential of speeding up innovation in high-tech industries, helping high-tech exporters better position themselves in the global market place. Similarly, in developing countries, better internet connectivity facilitates assimilation of existing technologies and enables producers to move up in the scale of technological specialization (World Bank, 2000).

A number of developing countries have taken advantage of specialization opportunities in high-tech exports created by those global production links. And in the late 1990s, manufactured exports from countries in East Asia and the Pacific were more tech-heavy than high-income countries' exports (Figure 10 d). Instead, the high-tech content of MENA countries' manufactured exports remains low—the lowest, on average, among developing regions, when Israel is excluded.

Issues at stake

- Liberalization in services can create more investment opportunities for the domestic private sector, and help attract more non-debt-creating foreign financing such as FDI and portfolio investment.

- Inefficient services, provided mostly by the public sector, and the high cost of key backbone services such as transport, are important factors that raise the cost of MENA exports, while also impeding trade expansion in the MENA region.

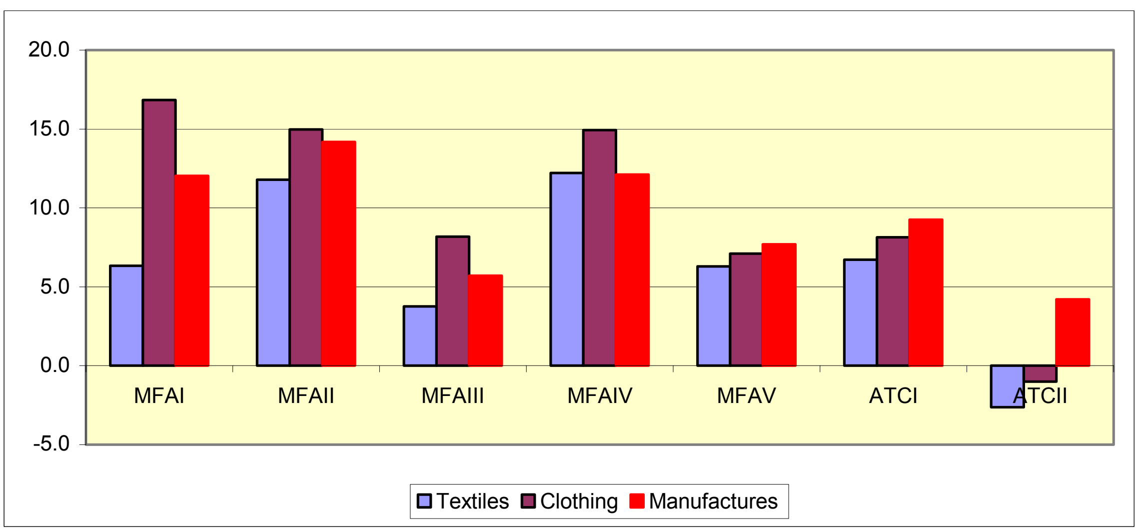
- In addition to its benefits for trade, opening up of services markets to competition can offset the costs of adjustment stemming from merchandise trade liberalization

- Liberalization of key services, such as for example Telecommunications, is a facilitator for the development of export capacity in other services, especially in the ICT sector.

3.3 Threat or Opportunity ? The abolition of MFA for Textiles and Clothing

The World Scene: Intensifying Competition in the run up to the abolition of MFA

Figure 12. Growth in world exports of textiles and clothing
(per cent per year, current US dollar terms)



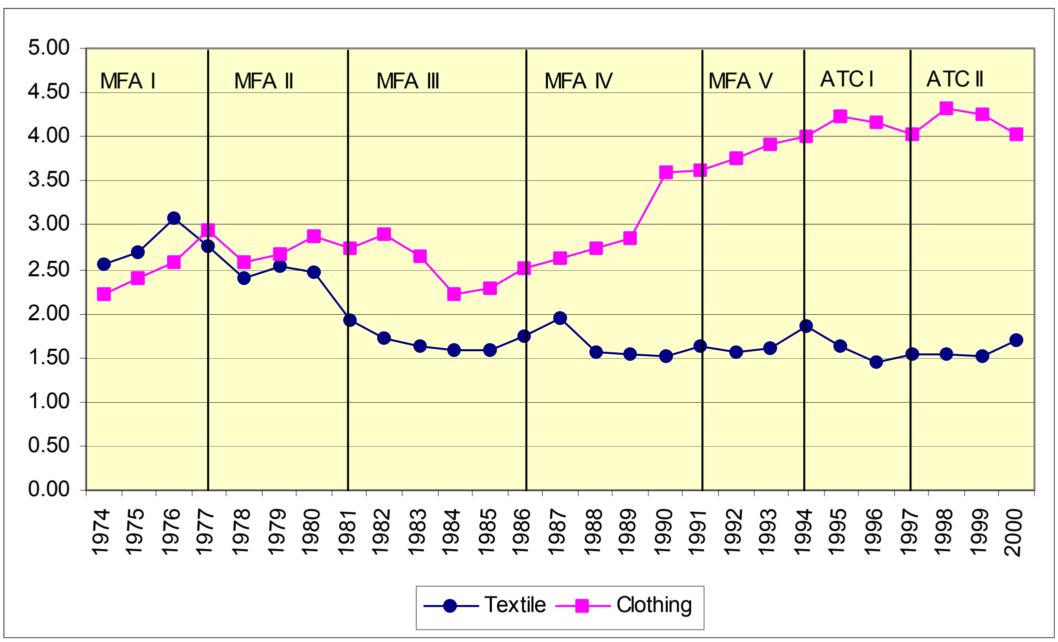
Source: Staff estimates based on COMTRADE data. Time period are: MFA I: 1974-77, MFA II: 1978-81, MFAIII: 1982-86, MFA IV: 1987-91, MFA V: 1991-94, ATC I: 1995-97 and ATC II: 1998-2001. For ATC II growth rate of only 1998-2000 is reported.

World export of textiles and clothing[24] amounted to about US$ 356 billion in 2000, or, 6 percent of world exports, with the relatively labor-intensive clothing sector valued higher than textiles at US$ 199 billion. Since 1962, when Japan became the first dynamic exporter, importing industrial countries have sought to limit import penetration by exporters under various quantitative controls such as "Long-Term Agreements" (1963-74), "Multi-Fiber Arrangement" (1974-94), and, the currently in force, "Agreement on Textile and Clothing" (1995-2004). While the pace of growth in textile exports has always lagged behind that of manufactures, the clothing sector outpaced it through the 1970s and 1980s, but witnessed a slowdown since the 1990s (Figure 12). Particularly, under the current phase of ATC, growth has been negative in the run up to the total lifting of all quantitative restriction on January 1, 2005.

The weakness in growth witnessed in last decade, measured in current US dollar values, is attributable in part to intense competition among exporters[25] (the share of top 10 countries in EU and US markets, for example in clothing, have declined from 65 to 53 percent and 84 to 59 percent, respectively, over 1980 to 2000), the slump in raw material prices of cotton (near 50 % drop in cotton prices between 1995 and 2001), and the strong productivity gains in the textile sector (27 of the 43 countries registered a decline of 8 to 59 % in labor costs relative to US between 1990 and 2000).

A rising concern: MENA market gain in Clothing has stalled; in textiles the loss has not been recouped.

Figure 13. MENA World Market Shares in Textile and Clothing



Source: Staff estimates based on COMTRADE data

[24] Textiles refer to products listed under Standard International Trade Classification (SITC, Revision 2) 2 digit code 65 covering products from yarn to fabrics. Clothing refers to SITC 2 digit code 84 covering products made out of textile materials such as coats, suits, jackets, dresses, shirts, blouses, undergarments, etc.

[25] Direct evidence on unit value realization of textile and clothing exports show a decline between 4 to 35 % in selected clothing categories over 1995-2000. In contrast to clothing, the market shares held by top exporters in textiles remained unchanged with no new comers (Spinnanger, 1999).

A rising concern discernible from analysis of market share trends is the recent weakening of competitiveness of MENA exporters in world markets. In the context of quota dominated regime for successful exporters in the world market, MENA countries, which have been mostly remained quota-free, have managed to improve their world market share in clothing from 2.5 percent in mid-1980s to 4 percent by 1995, as shown in Figure 13. This increase has come mainly from the market gains made by Morocco, Tunisia, United Arab Emirates and Egypt. Since then, however, under the more liberal regimes of ATC I and II, market share has remained stagnant. The decline in world textile market share observed in 1981 is dominated by Iran in the wake of the Iranian revolution. Since clothing exports of the MENA region are roughly four times as much as that of textiles in 2000, much of the analysis in this section will be confined to the clothing sector.

The success of United Arab Emirates is attributed to the presence of far-eastern foreign investors who are using the country as an export platform. However, to put it in perspective, the total clothing export from all MENA countries to Europe at US$ 6 billion is barely above exports from Turkey.

A related concern is the lack of geographical diversification in the last decade to different destination markets for clothing exports. The geographic orientation of the MENA country textile and clothing exports remains biased to Europe, understandable, given its proximity. The countries that relied mostly on EU, or, the US, for exports have either continued to be focused on the same market, or, intensified further their dependence. There are exceptions, however. Gulf countries, and, of late, Jordan, have tended to trade more with the United States. Israel, Egypt and United Arab Emirates have more or less balanced orientation to the US and EU markets, though neither is an important supplier in those markets. Both Israel and Jordan have special free-trade agreements with effect from 1985 and 2001, respectively, which has helped them to orient clothing exports to the US market.

The critical role of Textile and Clothing in sustaining MENA manufacturing jobs and exports

Between textile and clothing export, clothing exports are of greater importance to the MENA region now with clothing exports at US$ 8.3 billion in 2000 compared to textile exports of US$ 2.4 billon. This has not been the case all the time. In 1974, for example, textile exports were twice as big as clothing exports for MENA. The dominance of clothing emerging around 1980, with the beginning of Iranian revolution when textile (carpets) exports collapsed.

The increasing world market share of MENA countries in global trade in textiles and clothing implies that the dependence of these countries for non-traditional exports, jobs, and income generation has increased, as shown in Table 2. On average, between 10.0 (Jordan) to 41 (Tunisia) percent of employment in manufactures originates in the textiles and clothing sectors. The employment trends in the textile and clothing sectors are discussed in more detail in Box1. The employment effect of this sector is of greater importance than is apparent from these numbers because the social benefit of manufacturing jobs is greater than the private benefit as manufacturing jobs give greater opportunities for learning-by-doing and productivity boost. Between 2 (Iran) to 50 (Tunisia) percent of merchandise exports is earned by this sector. In manufacturing value added, between 4 (Israel) to 23 (Tunisia) percent is derived from textiles and clothing. In Tunisia, Morocco and Jordan the textile and clothing sector has grown in importance over time. In Egypt, however, the share of employment has remained almost unchanged even as export share increased and value added share declined. Interestingly, the dependence of MENA countries on textiles and clothing for exports is far greater than that of several Asian countries such as China or India. Tunisia with nearly 50 percent of its exports coming from this sector has greater dependence than Turkey, a country that exports twice as high as Tunisia to EU. This points to fragility of MENA countries because of inadequate diversification in the event of volatility in the market trend.

Table 4. Importance of textile and clothing in MENA economies (in percent)

	Employment			Exports			Value Added		
	1985	**1995**	**1998**	**1985**	**1995**	**2000**	**1985**	**1995**	**1998**
MENA									
Tunisia	27.1	41.0	41.4	26.8	50.7	49.6	15.2	22.6	22.5
Morocco	27.1	38.0	39.4	15.7	35	34.8	18.6	17	16.2
Egypt, Arab Rep.	29.2	28.9	29.2	4	20.1	23.1	17.3	10.7	12.9
Kuwait	13.8	19.5	18.8	.07	0.06	0.11	6.6	4.4	..
Malta	34.2	16.3	..	32.8	10.7	7.9	27.4	11	3.2
Israel	14.9	15.0	..	6.5	6.4	4.6	7.1	7.9	4.4
Jordan	7.5	10.4	..	0.4	4.7	11.6	4.1	5.5	..
Iran, Islamic Rep.	21.8	..	..	1.4	4.25	2.40	19.2	11.1	..
Comparators									
Bangladesh	64.6	..	..	24.6	31.7	84.54	27.5	33.7	…
China	..	..	..	26.2	22.8	17.75			
Hong Kong, China	43.9	37.5	30.0	33.1	28.4	25.37	38.9	26.3	23.0
India	22.8	21.0	20.4	21.5	29.6	27.76	15	10.5	11.4
Indonesia	21.8	23.9	..	2.39	13.00	11.96	14.5	15.4	..
Hungary	13.4	14.4	14.8	9.7	11.2	2.21	9	6.3	5.9
Poland	15.4	14.4	14.3	6.38	14.10	9.99	13.4	6.3	6.2
Turkey	24.0	31.4	34.2	27.3	41.9	42.78	11.7	16.4	16.9
Portugal	29.0	27.7	...	30.9	24	17.28	2.7	14.9	..

Source: Staff Estimates based on UNIDO and COMTRADE data
Note: Employment and value added estimates are expressed as a share of the respective aggregates for manufacturing sector. For, exports, the estimate is the share of all merchandise trade.

How competitive is MENA in textile and clothing exports?

Earlier, we noted how MENA countries managed to increase their market share until 1995, particularly in clothing, in the EU market, only to lose momentum in the subsequent period. What are the prospects for MENA countries preserving their market share, let alone improving, once the world textile and clothing trade is brought back to WTO rules with no discriminatory quantitative controls from January 1, 2005? As mostly middle-income countries with higher wage costs, would MENA countries lose to dynamic exporters from Asia? Will the Eastern European countries on fast track EU partnerships compete away the European market? As a prelude to answers for these questions taken up in the next section, here we evaluate the competitiveness of MENA countries as exporters of textile and clothing. We first review recent trends in market share movements at detailed *country levels* to see how individual MENA countries fared against competitors. Then the current revealed comparative advantage of MENA countries in world textile and clothing trade in 2000 is examined to support *product level* analysis of competitiveness. To complement these analysis from a *macro perspective*, an international comparison of labor costs is made between 1990 and 2000.

The emerging trends in competition in the EU clothing market under the influence of liberalization under ATC agreements and faster track accession of Eastern European countries serves to portend future prospects. When MFA quotas shackled efficient world suppliers over 1984-95, MENA countries of Tunisia and Morocco improved their ranks in the top 20 exporters to EU league, even as six new countries, mainly from Asia (Bangladesh, Pakistan, Sri Lanka, Indonesia, Malaysia and Mauritius), emerged to displace outgoing six of Taiwan, Macao, Israel, Switzerland, Malta, and Yugoslavia).

In the time period since then, 1995-2000, with accelerated quota growth under ATC still constraining quota bound countries though not as much as before[26], Tunisia surpassed India to move up the rank below power-house exporters of China (mainland and Hong Kong) and Turkey. Morocco yielded to Bangladesh descending the ladder one step. As we saw earlier in Table 2, Morocco's disadvantage seems to emanate from not quickly aligning its clothing products to changes in European import demand, unlike Tunisia.

Table 5. Top 20 Clothing Exporters to EU

Rank	1984	1995	2000
1	Hong Kong, Chin	China	China
2	Korea, Rep.	Turkey	Turkey
3	Yugoslavia, FR	Hong Kong, Chin	Hong Kong, Chin
4	Turkey	India	Tunisia
5	China	Tunisia	Romania
6	Taiwan	Poland	India
7	Tunisia	Morocco	Bangladesh
8	India	Bangladesh	Morocco
9	Romania	Indonesia	Indonesia
10	Macao	Romania	Poland
11	Morocco	Hungary	Thailand
12	Hungary	Pakistan	Hungary
13	Israel	Thailand	Korea, Rep.
14	Switzerland	United States	Pakistan
15	Poland	Malaysia	Sri Lanka
16	United States	Korea, Rep.	Vietnam
17	Thailand	Sri Lanka	Malaysia
18	Philippines	Czech Republic	Mauritius
19	Malta	Slovenia	Taiwan
20	Czechoslovakia	Mauritius	Bulgaria

Source: Staff Estimates based in UN's COMTRADE data

Table 5 shows that two new countries, Vietnam and Bulgaria, have entered the top 20 league ousting United States and Slovenia over 1995-2000. The intensity of competition for market shares is indicated by the leveling of market shares that seems to be taking place. The standard deviation of

[26] The two key elements of liberalization are the prescribed minimum rates of integration quota restricted categories to GATT and acceleration in quota growth for the restricted categories. With reference to import volumes in 1990, the liberalization set under ATC are minimum integration rates of 16, 17 and 18 percent for 1995, 1998 and 2002. The prescribed quota growth rate are 16, 25 and 27 percent from the same bench mark years, respectively. From January 1, 2005 all remaining products would be integrated and quota restrictions lifted totally.

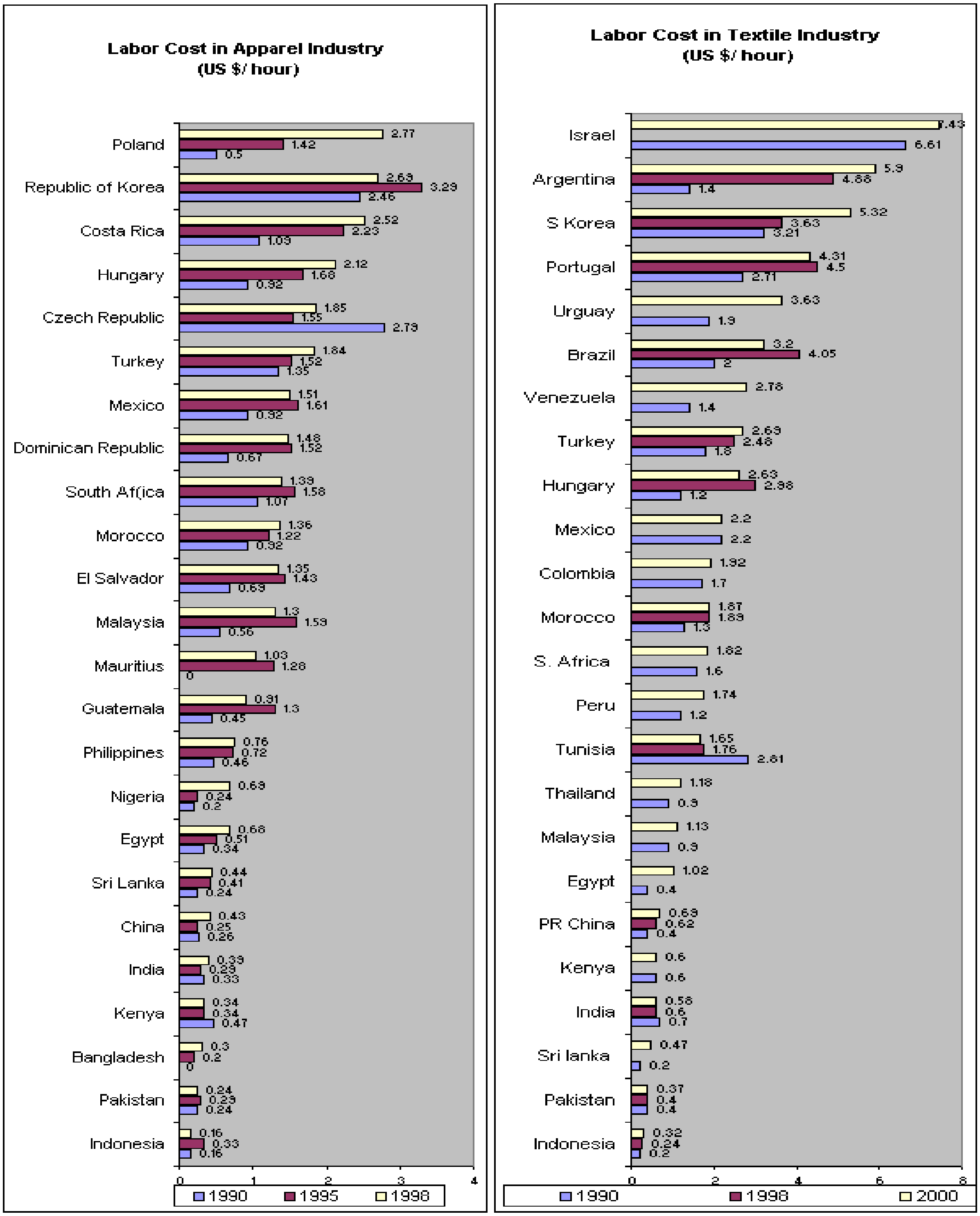
market share of the top 20 countries, which narrowed under the MFA regime of 1984-95 from about 5 percent to 3.5 percent, have since increased to 3.7 percent as the forced dispersion of export quotas under the earlier regime is slowly weakening.

In the post 2005 period with no quotas for any country, this agility to adapt fast to changing market trends is going to determine how markets shares are distributed. The privilege to market proximity enjoyed by Mediterranean MENA countries could be eroded quickly by decreasing communication costs, shipping transit times, and improving the efficiency of domestic trade related services in competitor countries relative to MENA. Of all the developing country regions, MENA has the least liberalized telecommunication sector. Successful exporters from the Asian region are at least twice as liberal as MENA countries.

Next, turning to Revealed Comparative Advantage (RCA) analysis, a detailed analysis of 3-digit categories of SITC2 shows that MENA countries have some niche advantages on the global market. One might wonder about the relevance of RCA analysis for evaluating competitiveness in global textile and clothing because of the distortions caused by the export quota regime. However, it is expected that the quota regime could have biased up the marginal exporters and not the strong ones. This is because, under the quota system, volumes are restricted and, when it is binding, values will be more, leaving the evaluation of strong exporters unchanged. Table 5 shows that MENA countries did possess RCAs that are equal to 50% or more of the best benchmark of a category for, in the descending order, floor coverings (Iran, Egypt), woven cotton fabrics (Bahrain), textile yarn (Egypt), women's outer garments of textile fabrics (Morocco), made up articles (Israel) and knitted or crocheted fabrics (Jordan). In fact, for two categories, floor coverings and woven cotton fabrics, Iran and Bahrain, respectively, hold the highest RCA. These extreme advantages are unlikely to be upset by liberalization.

From a macro perspective, a direct comparison of labor costs can be made as an indicator of evolving competitiveness, because textile and clothing sectors tend to be labor intensive.

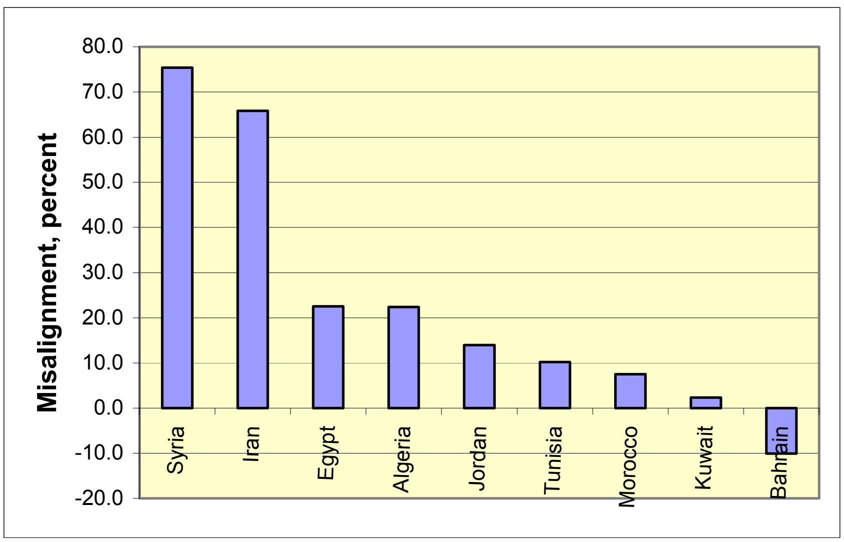
Figure 14. Labor Costs in apparel and textile industries



It is evident from Figure 14 that labor costs in MENA countries, excluding Israel, are higher than populous countries of Asia (China, India, Bangladesh), higher than Asian NIEs (Indonesia, Thailand, Malaysia), but lower than East European neighbors (Turkey, Hungary and Poland). Comparing the increase in wage costs between 1990-98 for the apparel industry, we note that Egyptian wages have risen at annual rate of 9 percent exceeding that of most Asian countries (Sri Lanka 8 %, China 6 %, India 2 %, Indonesia 0 %).

Looking at textile industry wage costs, Tunisia has managed to compress labor costs from US$ 2.81 in 1990 to US$1.65 in 2000, helped by a 54 % depreciation of its exchange rate between 1990 and 2000, bringing it lower than Morocco. Compared to Turkey, a major competitor in the EU market for MENA countries, Tunisia and Morocco have narrowed their cost to two-thirds of Turkey's costs. Egypt, however, has widened its cost relative to Turkey between 1990 and 2000. The relative position of Egypt would have changed in 2001 because of the depreciation of the Pound.

Figure 15. Average Real Exchange Rate Misalignment in MENA countries (1990-98)



Source: Estimates from Nabli and Veganzones-Varoudakis (2002)

Wage costs are the most significant local costs for an international investor in textile/clothing industry, the exchange rate policies of MENA countries constitute a key macro policy affecting competitiveness. Evidence on the appropriateness of exchange rates for MENA countries is not encouraging. Veganzones-Varoudakis (2001), for example, note that real exchange rate misalignment among MENA countries range from 7 to 70 percent over the 1990s.

Potential Effects of MFA Abolition

We learned from the last section that MENA countries have largely managed to stay competitive in the wake of liberalization of world textile and clothing market by virtue of preferences they have enjoyed, and the specific market niches they have acquired. So far, these advantages have overcome the tendency for labor costs to rise as exchange rates persistently deviated from their equilibrium values. However, as the liberalization of world trade and clothing accelerates towards the end of 2004, will MENA countries be able to retain their competitiveness? This section evaluates the effects of abolition of MFA expected to come into force from January 1, 2005.

Preferential access to European and US markets for MENA countries will not be completely removed after MFA abolition, though somewhat diluted with extension of such privileges to a larger group of countries. Only quotas will be removed on January 1, 2005, while peak tariffs by industrial countries will continue to apply, though they will also be subjected to periodic negotiations in WTO. The textile and clothing exports from GCC countries will be most subjected to risk, as the quota-free world from 2005 will offer little justification for continued import from these countries, given they enjoy neither the geographic closeness of the Mediterranean to EU market nor the low costs of Asian exporters.

By and large, MFA regime has not restrained MENA textile and clothing exports in a significant way. Europe has no quota limits on MENA countries at all. On Egypt, however, the EU maintains surveillance measures on yarn and fabric. The United States imposes quota on six MENA countries: United Arab Emirates, Oman, Egypt, Qatar, Bahrain, and Kuwait. Except for a few critical categories, quota utilization has been poor, as shown in Table 6.

Table 6. MENA Countries' Quota Utilization Rates in US Market for 2000
(in percent)

	UAE	Oman	Egypt	Qatar	Bahrain	Kuwait
Duck Fabric	7.6					
Cheese cloth / cotton sheeting	38.3					
Cotton twill fabric	10.6					
Cotton sateen fabric	49.4					
Other M/B coats cotton/ MMF	89.6	30.2				
W/G coats cotton/MMF/silk	96.6	8.6				
Dresses cotton/MMF	51.5					
Knit shirts M/B, W/G, cotton	79.5	64.9	68.3		54.0	
Sub-sector of above	100.0					
M/B shirts cotton / Not Knit	100.0	54.4	38.6	38.0	17.9	23.6
W/G coats cotton/MMF/silk	61.7	39.6		36.0		0.6
Skirts cotton/ MMF	90.3					
Cotton Trousers M/B, W/G	100.0	81.5		91.2		
Sub-sector of above	100.0					
Nightwear Cotton/MMF	95.3					
Cotton Underwear	38.2					
Cotton Terry Towels	64.4					
Other Cotton mnf.	81.1					
Sub-sector of above	34.9		46.9			
Knit shirts M/B, W/G, MMF	99.6					
Trousers/slacks M/B, W/G, MMF	89.8	42.2				
Trouser/breeches/shirts	25.3					

Source: Staff estimates based on United States Office of Textiles and Apparel

There are two indirect sources of preferences enjoyed by MENA countries. First, the MFN tariffs on textile and clothing that will not disappear after 2005, will continue to provide a price advantage of those MENA countries that enjoy privileged access to EU or US markets. The second source of preference, the quota imposed on dynamic exporters, can be viewed as an export tax on them, and this will disappear with the elimination of quotas in 2005.

On the first MFN tariff source of preference, several MENA countries enjoy privileged access to EU and US market for textiles and clothing, while dynamic exporters from Asia face quotas as well as peak tariffs. EU has tariffs for MFN exporters in the range of 3.5 to 12.4 percent, depending upon the stage of processing. United States has MFN tariffs ranging from 4.4 to 13.5 percent in the textiles and clothing categories. Though this would translate as a price advantage for eligible MENA countries, these preferences have been subject to steady erosion as EU and US have been extending preferential access to other countries. EU enlarged the GSP privileges under "Everything But Arms" program announced in 2001 to several Sub-Saharan African countries that can export quota and duty free. In the EU market both Bangladesh and Sri Lanka export under similar conditions. The United States under the "African Growth Opportunities" program and Caribbean Basin Initiative, announced in 2000, permits liberalized exports from beneficiary countries[27] that satisfy rules of origin. The Mediterranean MENA countries enjoy preferential access to the EU market in textiles and clothing with no quota limits, except for Egypt in two products as already noted. The three countries of Israel, Jordan and Palestine have quota-free and duty-free export opportunities under the Qualifying Industrial Zones program, provided they meet a joint import content requirement of 35 percent with 8 % minimum Israeli content.

On the second source of preference implied by quota system on dynamic exporters, the export tax on exporters constitutes an outer limit of the estimate. When the quotas are binding, quotas are traded in exporter's domestic market carrying a premium. When this premium is expressed as a ratio of unit price realized by exporters after who buy the quota, it becomes a measure of export tax. The estimated export tax equivalent for China in US market averages 6 % for textiles and 12 % for clothing (Martin and Ng, 2002). Hong Kong exporters in US and the EU markets were found to have implicit export up to 31 % in US market and 13 % in the EU market (François and Spinanger). In 1996, Indian exporters to US faced an export tax of 39 % (cotton based) and 16 % (synthetics); in the EU market the export taxes were 17 % (cotton based) and 23 % (synthetics), according to Kathuria and Bhradwaj (1998).

The theoretically expected results of MFA abolition are that product prices will fall in quota restrained markets (because hitherto restricted efficient exporters will supply more), and it will rise in unrestrained markets (because efficient exporters who were "dumping" in un-restrained markets would have no incentive to do so [Martin and Supachalasai, 1990]. The key export markets of EU and US for MENA country export of textiles and clothing will end quota restrictions in 2005, which would tend to lower the price of textiles and clothing in these markets. Applied General Equilibrium model simulations indicate an expansion in world textile and clothing trade of about US$ 20 billion (7 % of baseline) and welfare increase of about US$ 88 billion (0.38 percent of total world consumption) in the short-run, with all developing countries in Asia and the middle-east gaining market shares at the expense of other countries (Diao and Somvaru, 2001). In a study that focused on the Mediterranean region , Kheir-El-Din and Abdel-Fattah (2000) concluded that impact of the quota system on Mediterranean countries should not be exaggerated because only two these (Egypt and Syria) are subjected to quotas by EU.

Yarn exporters (Egypt and Syria) stand to gain because they produce cotton locally and export yarn. The demand for cotton fabrics has been restrained in the past because of quotas, and therefore the lifting of quotas will potentially lift the price of cotton because of the expected expansion of textile and clothing trade and substitution of cotton for other fibers (Martin 1996). Any rise in cotton prices will be short-lived (reversed in 2 to 3 years) because of area response. However,

[27] So far only six countries have become eligible under the program's apparel provisions which call for effective visa system to prevent illegal transshipments. These are: Kenya, Lesotho, Madagascar, Mauritius, Malawi, and South Africa.

cotton is expensive to ship because of volume per unit weight, and, therefore localized shortages may raise prices sharply in some areas.

Key floor covering (carpets/rugs) exporters in the region (Iran, Morocco, Egypt) enjoy fairly differentiated market niches in what they export, which can be expected to continue into the future.

Among fabric exporters (Tunisia, Bahrain), Tunisia is well positioned to preserve its market, mainly in Europe, because of the EU-Med agreement under which, European yarn is shipped to Tunisia for turning into fabrics and garments. Compelling reason for fabric producers to remain in Bahrain will be questionable in the post-quota era because it enjoys neither raw materials, nor low wage costs.

MENA apparel producers around the Mediterranean would be able to enjoy market shares in fast moving, high value items helped to a large measure by the logistics advantage of being close to the European market. The ongoing Euro-Med partnership agreements would further consolidate this advantage because of outward processing opportunities offered under the agreements. Beneficiaries now are Tunisia and Morocco, with the list expanding to Egypt, Jordan, Lebanon and Syria in future. Countries such as Jordan, Israel and Palestine would enjoy privileged access to the US market because of QIZ status. Already, Jordan's exports to US, mostly garments from ten QIZs, have been doubling every year to reach US$ 300 million in the last three years.

The prospects for GCC exporters of textiles and clothing is not encouraging. With no preferential agreements either with EU or US, they are vulnerable to loss of market share, particularly in the clothing sector, which require low-cost labor. In the man-made fiber based fabrics, however, they may continue to enjoy advantage because of domestic petroleum based industries that supply critical inputs.

Since MENA countries have negative trade balance in textile and clothing, and wedded to a low import tariff trading arrangement with EU in due course, gains would accrue as lower textile and clothing product prices benefit the consumers.

<u>Issues at Stake</u>

- A rising concern: MENA market gain in Clothing has stalled; in textiles the loss has not been recouped.

- The critical role of Textile and Clothing in sustaining MENA manufacturing jobs and exports

- MENA countries have largely managed to stay competitive in the wake of liberalization of world textile and clothing market by virtue of preferences they have enjoyed, and the specific market niches they have acquired.

- The privilege to market proximity enjoyed by Mediterranean MENA countries could be eroded quickly by decreasing communication costs, shipping transit times, and improving the efficiency of domestic trade related services in competitor countries relative to MENA.

- Inappropriate macro policies like inappropriate exchange rate management can hurt MENA competitiveness.

- Preferential access to European and US markets for MENA countries will not be completely removed after MFA abolition.

- Yarn exporters (Egypt and Syria) stand to gain because they produce cotton locally and export yarn.

- The prospects for GCC exporters of textiles and clothing is not encouraging. With no preferential agreements either with EU or US, they are vulnerable to loss of market share, particularly in the clothing sector.

Conclusions

This paper has surveyed a large number of issues concerning the ongoing round of negotiations emerging from the Doha Agenda. The new round of negotiations promises to deliver significant gains for developing countries and it is vital that this objective succeeds. The MENA region has an equally vital stake in these negotiations, because the new round will focus on areas such as agriculture, services and completion of the phase out of MFA (clothing and textile) ---sectors which are already critical for the MENA countries and which have the potential for generating large gains as well as significant transition costs which will need to be managed well. Capacity-building efforts will be a central issue both in terms of negotiations as well as in terms of being able to implement the trade agreements necessary to revitalize trade in the region and generate the growth and jobs that are important for countries in the region. There is also a compelling case for speeding up the process of WTO membership and active participation of MENA countries in the Doha agenda. Less than one-half of the population and only 13 of 21 MENA countries are currently members of the WTO, with 5 in different stages of accession. The road to membership has proved excessively long for MENA countries. As late starters in the negotiations, MENA countries also have a huge catch-up in the load of negotiations to complete.

Turning to the critical sectors of importance, negotiations for the prospective liberalization of agriculture is of central importance to MENA countries. The stakes are high. Industrial country liberalization will prospectively open up market access to huge markets of importance to all developing countries. The stakes are equally high for MENA countries. Most MENA countries have large rural populations, but also limited arable land and water resources, and are net importers of food. Simultaneously, protection of agriculture is very high in the region, with non-tariff barriers and import monopolies widely prevalent. Domestic price support policies are also very high. The current set of distortions severely limit efficiency and growth in agriculture. The effects of industrial country reduction in subsidies and distortions will in the first round make MENA worse-off, with terms of trade losses as import prices rise. In the presence of significant domestic distortions, this will further worsen MENA prospects, attracting more resources into the protected sectors. These losses also have significant implications for household poverty and water use. At the multilateral negotiations, MENA countries will therefore need to put forward in the short-term measures to reduce its adjustment costs and welfare losses, while at the same time, starting to undertake large-scale domestic policy reforms to re-orient agriculture to be able to gain from dynamic market opportunities in industrial markets and improving consumer and producer welfare in the process.

Services are already the largest sectors in the MENA economies. The prospective liberalization in the new round will offer opportunities for the domestic private sector, help attract FDI, and improve the entire backbone and efficiency of critical sectors such as transport, telecommunications, finance, tourism, business, construction, culture, health, education and other services. In the process, MENA countries have an opportunity to dramatically gain in terms of faster economic growth and job creation. However, the hurdles are equally formidable. The current set of regional commitments for services liberalization are relatively limited. Lukewarm commitments in transport and distribution sectors are evident, and the absence of commitments in education are especially worrisome. It is also clear that barring the GCC countries which are at the forefront of services liberalization commitments, in the rest of the region the agenda is still very open. The main thrust of this paper argues that MENA countries need to re-examine services liberalization as a key area for negotiations, with far bolder proposals and actions possible, given the massive inefficiencies in areas such as transport, port services, shipping, telecommunications and other areas and therefore the potentials gains to be had.

Finally, the abolition of the MFA by 2005 implies equally large challenges. The clothing and garments sector has been a relatively dynamic sector of the MENA region---accounting for a rising share of world exports, and generating millions of jobs. However, preferential quota markets and market access has helped this region and since the implementation of the phase-out, MENA countries have seen market shares stagnate and growth slow. With the phased abolition, the pressures will grow from lower-cost competitors and middle-income countries at the higher end. The critical challenge will be to therefore improve the competitiveness and efficiency of these sectors in the run-up to the elimination of the MFA. Appropriate macroeconomic policies and supportive exchange rates will be critical. So will improvements in firm-level competitiveness and measures to accelerate and support that process. If these policies are successful, MENA countries should expect to continue to see growth of this dynamic sector with large potential job gains.

References

Anderson K. and P. Morris. 2000. The Elusive Goal of Agricultural Trade Reform, *Cato Journal*, Vol. 19, No.3 (Winter 2000).

Anderson K., B. Dimaranan, J. François, T. Hertel, B. Hoekman and W. Martín. 2002. The Cost of Rich (and Poor) Country Protection to Developing Countries, *Journal of African Economies*, Volume 10, Number 3, pp. 227-257.

Birnbaum, D., 2001, *The Coming Garment Massacre*, Canadian Apparel, http://www.apparel.ca/magazine/

Burfisher, M.E. 2001. The Road Ahead: Agricultural Policy Reform in the WTO – Summary Report, Agricultural Economic Report No. 797, Market and Trade Economics Division, U.S. Department of Agriculture.

Cassing, Jim, S. Fawzy, D. Gallagher and H. Kheir El Din. 2000. "Enhancing Egypt's Exports," in Hoekman and Zarrouk (eds.), *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries*. Ann Arbor: University of Michigan Press.

Cassing, Jim, S. Fawzy, D. Gallagher and H. Kheir El Din. 2000. "Enhancing Egypt's Exports," in Hoekman and Zarrouk (eds.), *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries*. Ann Arbor: University of Michigan Press.

Chaherli N. 2002. Agricultural Trade Liberalization: Main Issues for the MENA Region, paper prepared for the World Bank, mimeo.

Council on Foreign Relations, 2001, *Harnessing Trade for Development and Growth in the Middle-East,* Study Group chaired by Peter Sutherland.

Cowhey, P. and M.M. Klimenko, 2000. "Telecommunications reform in developing countries after the WTO agreement on basic telecommunications services", *Journal of International Development*, (12), 265-281.

Cowhey, P. and M.M. Klimenko, 2000. "Telecommunications reform in developing countries after the WTO agreement on basic telecommunications services", *Journal of International Development*, (12), 265-281.

Diao X., and A. Somwaru 2001. *Impact of MFA Phase-Out on the World Economy – An Intertemporal, Global General Equilibrium Analysis*, Discussion Paper number 79, International Food Policy Research Institute, Washington DC.

Diaz-Bonilla, E., M. Thomas, and S. Robinson. 2000. Food Security and Trade Negotiations in World Trade Organization: A Cluster Analysis of Country Groups, TMD Discussion Paper No. 59, International Food Policy Research Institute, Washington D.C.

Elbehri A. and S. Leetma. 2002. How significant are export subsidies to agriculture trade ? Trade and welfare implications of global reforms, paper presented at the 5th Annual Conference n Global Economic Analysis, June 5-7, Taipei, Taiwan.

Francois J. and D. Spinanger 2000. *ATC Export Tax Equivalents*, GTAP website: http://www.gtap.agecon.purdue.edu/

Hoekman, B. and J. Roy. 2000. Benefiting from WTO Accession and Membership, in Hoekman, B. and J. Zarrouk (eds), Catching Up with the Competition, The University of Michigan Press.

Hummels, D., J. Ishii and K.-M. Yi 2001. "The nature and growth of vertical specialization in world trade", *Journal of International Economics*, (54), 75-96.

Ingco, M. 1995. Agricultural Trade Liberalization in the Uruguay Round: one step forward, two steps back ? World Bank Policy Research Working Paper number 1500.

Iqbal F. and W.E. James 2002. Deregulation and Development in Indonesia, Praeger, London.

Kathuria S. and A. Bharadwaj 1998. *Export Quotas and Policy Constraints in the Indian Textile and Garment Industries*, Policy Research Working Paper number 2012, The World Bank.

Kheri-El-Din and M.M. Abdel-Fattah 2000. *Textiles and Clothing in the Mediterranean Region: Opportunities and Challenges of returning to GATT Disciplines*, Working Paper 2008, Economic Research Foundation, Cairo.

Konan, Denise. 2001. "Simulating the Impact of Alternative Trade Reform Scenarios for Egypt and Tunisia," report prepared for the Council on Foreign Relations, mimeo.

Konan, Denise. 2001. "Simulating the Impact of Alternative Trade Reform Scenarios for Egypt and Tunisia," report prepared for the Council on Foreign Relations, mimeo.

Lofgren H. 1999. Trade Reform and the Poor in Morocco: A Rural-Urban General Equilibrium Analysis of Reduced Protection, TMD Discussion Paper number 38, International Food Policy Research Institute, Washington DC.

Martin W and F. Ng 2002. *Quota premium calculations for China*, unpublished.

Martin, W. 1996. The Abolition of the Multi-Fiber Arrangement and its Implications for Fiber Market, paper prepared for the conference on the WTO and the "Uruguay Round Agreement: Implications for South Asian Agriculture, Kathmandu", April 1996.

Matrin W. and S. Suphachalasai 1990. *Effects of Multi-Fibre Arrangement on Developing Country Exporters: A Simple Theoretical Framework*, in Textile Trade and the Developing Countries, Hamilton, editor, The World Bank.

Ng, Francis and Alexander Yeats, 2000, Production sharing in East Asia: Who Does What for Whom, and Why?, mimeo, The World Bank.

OECD, 2000. *A New Economy: The Changing Role of Innovation and Information Technology in Growth*, Paris.

Rama, M. 2001. Globalization and Workers in Developing Countries, background paper for Managing Globalization.

Ravenga, A. 1995. Employment Effects of Trade Liberalization: The case of Mexican manufacturing, background paper for World Development Report 1995.

Spinanger D. 1999. *Faking Liberalization and Finagling Protectionism: The ATC at Its Best*, Background paper for the WTO negotiations, Keil Institute of World Economics, June.

UNCTAD, 2001, *World Investment Report*.

Varoudakis, A. and C. Rossotto,2001. "Regulatory Reform and Performance in Telecommunications: Unrealized potential in the MENA Countries", The World Bank, mimeo, October.

World Bank, 1995, *Claiming the Future: Choosing Prosperity in the Middle East and North Africa*. Washington DC: World Bank.

World Bank 1999. Panama Poverty Assessment, mimeo.

World Bank, 2000. *Global economic Prospects and the Developing Countries 2001*, Washington D.C.

World Bank, 2001b. *Republic of Tunisia: Information and Communications Technology Strategy Report*, Washington D.C.

World Bank. 2002. Global Economic Prospects and the Developing Countries.
WTO, 2001, *The Doha Declaration Explained*, Geneva.

Yeats A. and F. Ng. 2000. Beyond the Year 2000: Implications of the Middle East's Recent Trade Performance, in Hoekman and Zarrouk (eds) Catching up with the Competition, Michigan University Press.

Zarrouk, Jamel. 2000. "Regulatory Regimes and Trade Costs," in Hoekman and Zarrouk (eds.), *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries*. Ann Arbor: University of Michigan Press.

Annex

Table A. WTO Negotiations Calendar

	Item	Preliminary	Intermediate I	Intermediate II	Final
1	Implementation of Uruguay Round by developing countries	End 2002			
2	Agriculture	Formulas 3/31/2003	Draft Commitments 2003	Stock Taking 2003	Conclude 1/1/2005
3	Services	guidelines 3/01	Offers of access 3/31/03	Stock Taking 2003	Conclude 1/1/2005
4	Access for non-agricultural products			Stock Taking 2003	Conclude 1/1/2005
5	TRIPS	Compulsory licensing issue resolved end 2002		Geographic indications .registration for wines and spirits, end 2003	End of Doha declaration by 2005
6	TRIMS				
7	Trade and Competition Policy				
8	Transparency in government procurement				
9	Trade Facilitation			Stock Taking 2003	
10	WTO Rules: anti-dumping			Stock Taking 2003	conclude 2005
11	WTO Rules: subsidies			Stock Taking 2003	conclude 2005
12	WTO Rules: Regional Trade Agreements		Start 2002	Stock Taking 2003	conclude 2005
13	Dispute Settlement Understanding			conclude by 2003	
14	Trade and Environment			Stock Taking 2003	conclude 2005
15	Electronic Commerce			Stock Taking 2003	
16	Small economies			Stock Taking 2003	
17	Trade, debt and finance			Stock Taking 2003	
18	Trade and technology transfer			Stock Taking 2003	
19	Technical cooperation and capacity building		DG reports to GC 2002	Stock Taking 2003	
20	Least Developed Countries		Report to GC 2002		
21	Special and differential treatment		Report to GC July 2002		

Source: WTO website, as of March 2002

Table B. RCA Benchmarking for MENA countries in textiles and clothing

(Normalized to the best performer for each category, average of most recent three years)

Product		Egypt	Syria	Morocco	Jordan	Israel	Bahrain	Iran	Malta
Textile yarn	651	0.78824	0.40235		0.13529		0.12		
Cotton fabrics, woven	652	0.40755					1		
Woven fabrics of manmade textile materials	653	0.30612							
Other woven fabrics	654								
Knitted or crocheted fabrics	655				0.56119	0.1791			0.46866
Tulles, lace, embroidery, ribbons, trimmings and other small wares	656								
Special yarns, special textile fabrics and related products	657					0.56129			
Made-up articles, wholly or chiefly of textile materials, n.e.s	658	0.50132				0.10066			
Floor coverings, etc.	659	0.86178		0.11813				1	
Outer garments, men's, of textile fabrics	842	0.16057		0.5172	0.22079		0.12581		0.36308
Outer garments, women's, of textile fabrics	843	0.15541		0.69414	0.14459		0.24324		
Under garments of textile fabrics	844	0.07996	0.02163	0.1367			0.02287		
Outer garments and other articles, knitted or crocheted	845	0.19834	0.06022	0.32707	0.18453		0.06022		
Under garments, knitted or crocheted	846	0.3	0.08441	0.38669	0.04639	0.08441			
Clothing accessories, of textile fabrics, whether or not knitted or crocheted (other than those for babies)	847			0.11867		0.09639			
Articles of apparel and clothing accessories of other than textile fabrics; headgear of all materials	848			0.09091					

Tale B. (cont'd)

Product	China	Taiwan	Hong Kong	Indonesia	India	Bangladesh	Sri Lanka	Poland	Thailand	Turkey
Textile yarn	0.16471	0.25882	0.15294	0.45882	1	0.30588	0.17647	0.14118	0.15294	0.62353
Cotton fabrics, woven	0.33854	0.19531	0.74219	0.27344	0.65104		0.35156			0.59896
Woven fabrics of manmade textile materials	0.26531	0.97959	0.38776	0.5102	0.26531		0.4898		0.26531	1
Other woven fabrics	0.32308	0.2	0.27692		1	0.75385				0.38462
Knitted or crocheted fabrics	0.37313	1	0.76119							0.37313
Tulles, lace, embroidery, ribbons, trimmings and other small wares	0.28889	1	0.95556		0.66667		0.31111			0.73333
Special yarns, special textile fabrics and related products		1								0.41935
Made-up articles, wholly or chiefly of textile materials, n.e.s	0.26316				0.77632	0.73684	0.46711	0.25	0.07237	1
Floor coverings, etc.	0.0886				0.90372			0.06497		0.30124
Outer garments, men's, of textile fabrics	0.12903		0.17563	0.08961	0.05376	1	0.60573	0.12545	0.03943	0.21147
Outer garments, women's, of textile fabrics	0.18468		0.31081	0.13063	0.26126	0.9955	1	0.18468	0.05856	0.3964
Under garments of textile fabrics	0.06915		0.14184	0.05674	0.13475	1	0.42199	0.03191	0.02305	0.0922
Outer garments and other articles, knitted or crocheted	0.23204		0.44199	0.1105	0.12707	1	0.70718	0.07735	0.12707	0.56906
Under garments, knitted or crocheted	0.11407		0.1711	0.06084	0.15589	1	0.52471		0.06844	0.53232
Clothing accessories, of textile fabrics, whether or not knitted or crocheted (other than those for babies)	0.23494		0.12048	0.09036	0.36145	0.09639	1		0.07831	0.54819
Articles of apparel and clothing accessories of other than textile fabrics; headgear of all materials	0.47727	0.08333	0.18182	0.15152	0.52273	1	0.72727		0.25	0.40909

Source: Staff estimates based on UN's COMTRADE data, SITC Revision 2, 3 digit categories. RCA is expressed as the ratio of the export of a product to country's total exports to the product's world export market share.