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THE ECONOMIC AND REGULATORY POLICY IMPLICATIONS OF OVERLAPPING PREFERENTIAL TRADE AGREEMENTS IN THE ARAB COUNTRIES:

THE CASE OF EGYPT

Research Report Series: No. 0425

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Table of Contents:

1. Description of Egypt's Trade Commitments ---------- p.1

1.1. World Trade Organization ---------- p.1

1.2. Great Arab Free Trade Area (GAFTA) ---------- p.1

1.3. The Common Market for Eastern and Southern Africa (COMESA) ---------- p.4

1.4. Euro-Mediterranean Partnership Agreement ---------- p.7

1.5. Aghadir Agreement ---------- p.9

2. State of Implementation and "Behind the Border" Effects ---------- p.11

2.1. Status of Implementation of each RTA and of WTO ---------- p.11

2.2. Overview of Trade Flows between Egypt and Various Regional Agreement Partners ---------- p.16

2.3. Expected Economic Gains and Losses ---------- p.21

3. Legislative, Regulatory and Administrative Commitmentsp ---------- p.32

4. Potential Impacts of Various RTAs ---------- p.39

5. Conclusion and Policy Recommendations ---------- p.41

Annex ---------- p.44

References ---------- p.45

List of Tables:

Table 1: Tariff Reductions on Commodity Groups under the PTA ---------- p.5

Table 2: The most important dates in the Euro-Med Partnership Agreementp ---------- p.9

Table 3: Expected Trade Diversion Value ---------- p.21

Table 4: Intra-Industry Trade between Egypt and Selected Regions ---------- p.23

Table 5: Percentage Deviation of the Structure of the Egyptian Exports from the Structure of GAFTA, EU, COMESA, and Aghadir Agreement Member Countries Exports ---------- p.23

Table 6: Egypt Export Similarity Index Matrix with different Regional Groupings, (2003) ---------- p.24

List of Figures:

Figure 1. Egypt's Trade with GAFTA ---------- p.17

Figure 2. Egypt's Trade with COMESA ---------- p.18

Figure 3. Egypt's Trade with the EU (15) ---------- p.19

Figure 4. Egypt's Trade with Aghadir Countries ---------- p.20

Figure 5. Egyptian Exports Structure Development over Time ---------- p.24

1. Description of Egypt's Trade Commitments

1.1 World Trade Organization

Egypt, a contracting signatory of the GATT since 1970, has remained an active member where it has always led the developing countries, together with India and Brazil, in their demands. Egypt joined the World Trade Organization (WTO) in 1995 and has adhered to all its agreements, with the exception of one of the plurilateral agreements (government procurement). Egypt has stressed that it faces problems in implementing a number of the WTO agreements, particularly Trade Related Intellectual Property Rights Agreement (TRIPS), Technical Barriers to Trade Agreement (TBT), and Sanitary and Phytosanitary Agreement (SPS). Moreover, the abolishment of the Agreement on Textiles and Clothing (ATC) is expected to put Egypt in a disadvantaged position vis-à-vis stronger competitors such as India, Pakistan, and China, as the existence of quotas has shielded Egypt from competition with such countries.

In the field of services within the context of the General Agreement of Trade in Services (GATS), Egypt has made commitments in 5 out of 12 main GATS sectors. The exact number of sectors and sub-sectors where Egypt has undertaken commitments reached 45 out of 160 sectors (WTO Country Profile, 2005a). It has undertaken commitments in the fields of construction and engineering related services, financial services, tourism and travel related services, maritime transport; and in 2002 it has undertaken several liberal commitments in the telecommunications sector to be implemented by the end of 2005. Egypt has maintained horizontal commitments putting constraints on the acquisition of land and hiring of foreign workers; and following the GATS schedule, it has kept up to its commitments. Finally, in 2004, Egypt has joined the Information Technology Agreement.

Egypt has also enforced its commitments under the Trade Related Intellectual Property Rights (TRIPS) agreement, although there are on-going debates regarding violations in the area of pharmaceuticals as claimed by the United States of America (US). In 2002 Egypt has enacted a new comprehensive intellectual property rights (IPR) law that is in line with TRIPS rules and regulations.

1.2 Great Arab Free Trade Area (GAFTA)

The Greater Arab Free Trade Area (GAFTA) refers to the declaration made by the Heads of Arab States, in the Cairo 1996 Arab Summit, adopting the executive program of the 1981 Agreement on the Facilitation and Development of Trade to reach a free trade area with zero-percent tariff rates in the year 2007. The Economic and Social Council (ESC) of the Arab League approved the executive program in 1997. Initially, it was planned to reduce the tariffs by 10% on a yearly basis to reach a free trade area in 10 years (ending in 31/12/2007); however, a decision by the ESC in 2001 (based on the recommendation

of the Arab Summit in Amman 2001) has accelerated the implementation period to reach zero-percent tariffs on 01/01/2005.

Egypt was among the fourteen[3] countries out of the 22 Arab States that have joined the GAFTA. GAFTA covers all industrial goods. However, members were allowed to draw up a list of exceptions (negative list for a specified period of a maximum of 3 years) following Article 15 of the GAFTA[4] In 1998 the total number of listed goods for exemption reached 832 commodities out of a total of 6000 commodities (representing 14% out of the total)This number can may be overestimated as there might be common goods in the lists of different countries[5]. Six Arab states (Egypt, Syria, Tunisia, Lebanon, Morocco, and Jordan) submitted lists of exempted goods. In the year 2000, a decision was taken by the ESC to eliminate those exceptions by September 2002 after an extension from February 2001. In 2003, five member countries submitted notifications of the elimination of those negative lists. Egypt submitted its notification in October 2003; however it tied the elimination of the negative list to finalizing the Protocol on Detailed Rules of Origin of the GAFTA. In fact, such condition implies that Egypt did not yet remove its negative list, since the agreement on detailed rules of origin is still lagging behind. The argument provided by the Egyptian Government was the need to ensure protection of strategic industries (e.g. textiles and automobiles) against non-Arab production, which cannot be properly implemented without putting in place a detailed system of rules of origin. Hence, Egypt can still keep its applied tariff rates on the imports of those goods without granting the agreed reductions. It is worth mentioning that several members (e.g. Jordan and some Gulf States) have threatened to reciprocate against the treatment of selected Egyptian exports due to this unilateral action, especially that the ESC decision on the elimination of exemptions did not relate its implementation to reaching a conclusion on detailed rules of origin.

As for agricultural goods, Egypt, as well as other members, was allowed to draw a list of exceptions (Roznama) that should be eliminated after a certain date which was set at the beginning in 2007 and then accelerated to 2005 to be in line with the full entry into force of the agreement. Hence, GAFTA covers all agricultural goods. Egypt was among the countries that had a number of agricultural goods exempted and such list was liberalized in due time.

GAFTA does not cover trade in services; however a separate framework agreement for regional liberalization of trade in services was concluded in 2003. The services agreement

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[3] United Arab Emirates, Egypt, Kuwait , Saudi Arabia, Syria, Tunisia , Morocco, Sudan, Oman, Qatar, Lebanon , Iraq, Bahrain, and Libya.

[4] The exceptions follow certain conditions including: 1) The commodity should be produced by the country asking for exception and should have a similar product produced in one of the other member states; 2) The exception is granted for a specific period not exceeding 4 years; 3) The total percentage of exempted products should not exceed 15% of the total exports of the concerned country to other members; and 4) Asking for a counter exemption by the country negatively affected from the exemption asked by one of the members.

[5] This number may be overestimated as there might be common goods in the lists of different countries.

was designed on the basis of being GATS+. Egypt has adhered to this agreement and submitted offers in the same sectors, which were deeper than its commitments under the GATS.

The executive program of GAFTA calls for the application of international rules regarding subsidies, countervailing measures, safeguards, and anti-dumping measures. However the program does not explicitly refer to the WTO agreements.

To benefit from the preferential treatment that the GAFTA provides, a good should meet the rules of origin determined in the Agreement on the Facilitation and Development of Trade. The general rules of origin indicate that the value added within the boundaries of one or more member states should be no less than 40% of the final ex-factory price of the goods; and this percentage is lowered to 20% in case of joint Arab production. The 40% value added rule is a general and temporary rule till detailed rules of origin are agreed upon. The executive program explicitly instructs member states to reach a detailed protocol on the rules of origin for manufactured products.

Drawback is prohibited as non-originating materials used in the manufacture of products originating in the Arab member states shall not be subject to drawback or exemption from customs duties in any of the Arab member states.

GAFTA and Arab Bilateral Agreements

Egypt has concluded a number of bilateral preferential trade agreements with a number of Arab countries. Each agreement has its own product coverage and list of exemptions. This is a major issue that the ESC has been trying to handle as the relationship between the GAFTA and such bilateral agreements is not clear and causes a number of disputes. For example, the agricultural products group (Roznama) that was agreed upon under the auspices of the GAFTA was not completely in line with the negative list adopted in some bilateral agreements.

Egypt in many cases applies the rules of the GAFTA or the bilateral agreement according to its own discretion, which reflects protectionist attitudes and non-transparency. In many cases, Egyptian authorities undertake such actions to retaliate against problems faced by Egyptian exporters. Interviews with Egyptian government officials in the Egyptian Customs Authority emphasized that they face no problems in applying GAFTA in parallel with bilateral trade agreements with Arab countries, where exporters from Arab countries have the right to choose whether to be treated according to GAFTA rules or to bilateral agreements' rules. In fact some officials pinpointed that it is better to apply bilateral rules rather than GAFTA rules as there is some sort of dispute settlement mechanism under such agreements, unlike under the GAFTA.

The bilateral agreements concluded between Egypt and a number of Arab countries include: Libya (1990), Syria (1990), Tunisia (1998), Morocco (1998), Lebanon (1998), Jordan (1998), and Iraq (2001). Annex 1 provides further details on the transitional period and dates of implementation of such agreements.

It is worth noting that such agreements were preferential and never reached the status of being full free trade areas. They did not include services and included several negative lists.

1.3 The Common Market for Eastern and Southern Africa (COMESA)

By definition, the COMESA is not merely a free trade area (FTA). It was established in 1994 as a strengthened successor to the Preferential Trade Area for Eastern and Southern Africa (PTA) founded in 1981, and had envisaged the establishment of a Common Market and a Monetary Union in the future. Presently, the Common Market includes the following 19 Members: Egypt, Angola, Burundi, Ethiopia, Kenya, Democratic R. Congo, Eritrea, Madagascar, Malawi, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe, Mauritius, Comoros, and Djibouti (Tanzania and Namibia withdrew in 2000 and 2003 respectively). COMESA has not been notified to the WTO under the Enabling Clause (WTO, 2005b).

A Preferential Trade Area (PTA) was initially established with lower tariffs applied to intra-regional trade originating in member countries than to extra-regional trade. The granting of preferential treatment in the form of reduced tariffs to intra-regional trade commenced on July 1, 1984 under the PTA framework, and operated up to December 30, 2000. Initially, the reduced tariffs to regional originating goods applied to a group of selected commodities contained in a common list. The common list was expanded every two years by the inclusion of additional commodities. Different levels of tariff reductions were applied to the various commodities in the common list according to the commodity groups into which they were classified. The PTA categorized the common list products into six groups: Food (excluding luxury items), Raw Materials, Intermediate Goods, Manufactured Consumer Goods (excluding luxury items), Capital Goods (including transport equipment), and Luxury Goods. Table 1 shows the exact agreed reduction on each commodity group.

Table 1: Tariff Reductions on Commodity Groups under the PTA

Commodity Group	Product Description	Initial Tariff Reduction
Group I	Food (excluding luxury items)	30 %
Group II	Raw Materials:	
	Agricultural	50 %
	Non-Agricultural	60 %
Group III	Intermediate Goods	65 %
Group IV	Manufactured Consumer Goods (excluding luxury items):	
	Durable Consumer Goods	40 %
	Non-durable Consumer Goods	35 %
	Highly Competing Consumer Goods	30 %
	Consumer Goods of Particular Economic Importance to Economic Development	70 %
Group V	Capital Goods (including transport equipment)	70 %
Group VI	Luxury Goods	10 %

Source: COMESA website, www.comesa.int

Once the initial tariff reductions had been effected, a progressive reduction schedule of tariffs was applied with a view to eliminating the tariffs by September 30, 1992, the original target date for the attainment of a FTA, which was not achieved by this date. Due to the concern about loss of government revenue, the target date for the FTA was postponed in 1992 to October 31, 2000 by the Heads of States and Governments at their Summit held in 1992 where they adopted a new program for the progressive reduction of tariffs applied to all commodities. This new tariff reduction program provided for the attainment of a FTA on October 31, 2000[6]. Since an average reduction of 60% had been achieved by the end of 1992, the new adopted tariff reduction was scheduled to be at a rate of 10% annually to reach zero-tariff rates by the beginning of 2000. Egypt signed the COMESA Treaty in 1998. The agreement entered into force in 1999 (with an initial tariff rate reduction of 80%). The 100% tariff reduction was achieved on the 31st of October 2000 after two 10% tariff cuts per annum. The year 2004 was set as a target date to reach a customs union, which was not met and another date was determined in 2005 in the meeting of African trade ministers for reaching the customs union of 2008. The year 2020 was set as a target date for achieving a monetary union; however it is doubtful that such date will be met.

Nine countries have achieved a 100% reduction of tariffs on imports from other members. These countries are: Mauritius, Madagascar, Zimbabwe, Egypt, Malawi, Sudan, Kenya,

[6] The same decision was undertaken by eight other member states (Djibouti, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe). See Egypt' sEgypt's Trade Policy Review by the WTO in 2005

Djibouti, and Zambia. Other Members apply different levels of reductions on a reciprocal basis. For example, Burundi has currently achieved a 60% reduction on tariffs which further reached 80% reduction on January 1, 2003 and 100% reduction on January 1, 2004.

The COMESA is supposed to cover all products; agricultural and animal products; mineral and non-mineral ores; and manufactured goods (see Chapter Six of the Treaty). The Treaty does not refer to any possible prior exemptions or the rights of members to include negative lists. However, some members apply exemptions to some tariff lines with prior notifications. Textiles and yarns are a typical example in the Egyptian case. Gradual removal of the exempted tariff lines is constantly taking place where members are annually submitting notifications of the removal of exemptions; and several documents and proceedings of ministerial meetings include indications of the suspension/extension of exemptions applied (e.g. by Sudan, Egypt, and Kenya) to several tariff lines. In general, all Egyptian exports enjoy duty free access in the countries of the FTA. There are few exceptions with Sudan, Mauritius, and Kenya. Sudan has a negative list applied since 23/5/2001, which includes 58 items that are not allowed to be imported from Egypt unless the full amount of tariff duties is paid. On 20/7/2003, and based on Egyptian request, Sudan reconsidered the negative list where it reduced 30% of tariff for 12 of the 58 items. Kenya has lately undertaken safeguard measures on its imports of sugar for 4 years (the duty free quota allowed is 111 thousand ton for treated sugar and 89 thousand tons for raw sugar). These measures should end by 31/12/2007. Moreover Kenya has prolonged the usage of safeguard measures on wheat-male for another year ending on 22/5/2005.

COMESA does not cover liberalization of trade in services. However, based on Article 164, the members agreed to individually adopt, at bilateral or regional levels, the necessary measures in order to progressively achieve the free movement of persons, labor and services, and to ensure the enjoyment of the right of establishment and residence by their citizens within the Common Market. The members agreed to conclude a Protocol on the Free Movement of Persons, Labor, Services, Right of Establishment and Right of Residence. Moreover, they agreed that the Protocol on the Gradual Relaxation and Eventual Elimination of Visa Requirements within the PTA shall remain in force until such time that a Protocol on the Free Movement of Persons, Labor, Service, Right of Establishment, and Residence enters into force. However, in reality no negotiations on any modalities or legal frameworks for the liberalization of trade in services took place to date.

The general ROO applied in the COMESA is value added resulting from the process of production accounting for at least 45%[7] of the good to be considered of specific origin. Cumulation according to the detailed protocol on Rules of Origin under negotiation may

[7] The ratio was initially 40% until the members agreed to an Egyptian request to raise it to 45% in 2002. Beforehand, Egypt initially applied a unilateral and reciprocal rule of 45%, while the rest applied the 40% ratio.

only be applied to materials and products which have acquired originating status by an application of rules of the agreement. The value added criterion has been reduced from 45% to 35% in 2000; however Egypt and Uganda still maintain the 45% value added criterion. There might be a possibility of changing the rules of origin under the COMESA; however this is still not clear (WTO, 2005b)[8].

Members of COMESA agreed that duty drawback is not allowed under the agreement.

1.4 Euro-Mediterranean Partnership Agreement

In January 1977, the General Cooperation Agreement (GCA) was signed between Egypt and the European Community (EC). Its main objective was to develop the economic, technical, and financial cooperation between Egypt and the EC. This was to be achieved through the provision of an improved access for the Egyptian exports in the EC market accompanied by financial assistance within the context of financial protocols and technical assistance. The Egyptian industrial exports (excluding sensitive commodities such as textiles and fabrics as well as some processed agricultural products) entered duty-free to the EC markets; and preferential access for some agricultural commodities was provided. The agreement was not reciprocal, and Egypt continued to apply the most favored nations (MFN) tariffs to goods of EC origin. A number of additional protocols were signed afterwards in order to organize the trade relationship in certain sectors as Coal and Steel (which are also considered sensitive commodities) or to lessen the negative effects of the accession of Spain and Portugal to the EC on the access of the Egyptian products to these markets, especially agricultural products,.

After 20 years of increasingly intensive bilateral trade and development cooperation between the European Union (EU15) and its 12 Mediterranean Partners, a Conference of EU and Mediterranean Foreign Ministers was held in Barcelona (November 27-28, 1995). In this conference a new framework for the relationship between the EU (15) andthe South Mediterranean countries was set up. This new setup was announced under the so-called Barcelona Process which marked the start of a new "partnership" phase of the relationship, including bilateral and regional cooperation, to reach the largest FTA in the world by 2010 (hence, called Barcelona Process or, in general, Euro-Mediterranean Partnership).

Concerning the Egyptian case, Article 6 of the additional Protocol that supplemented GCA in 1987 has identified that, by the year 1994, the EU and Egypt should evaluate the past cooperation undertaken between them within the context of the Agreement and its additional protocols. After two rounds of exploratory talks in July and September 1994, formal negotiations started in January 1995. Since then, a series of negotiation rounds

[8] According to the WTO (2005b), there exists other ways of determining rules of origin under the COMESA; however, based on the interviews with government officials, the value added criterion is the one used.

have been held in Brussels and Cairo to draft an Egyptian-European Partnership Agreement that is meant to change the philosophy of the relationship from a donor-recipient basis to a more reciprocal basis, to deepen the existing level of economic relations and to widen the scope of the relations beyond the conventional economic field in order to encompass as many areas as the parties find necessary, useful, and possible. The negotiations with Egypt were concluded in June 1999; and the Egyptian-European Partnership Agreement was signed in June 2001, where a FTA, after 12 years from entry into force, was foreseen.

The Euro-Mediterranean Partnership Agreement is supposed to cover manufactured goods, and energy.

The Egyptian-European Partnership Agreement includes a number of agricultural, fisheries, and processed agricultural products that are either subject to tariff quota (in case of agricultural goods and fisheries) or other terms of restricted or delayed liberalization (processed agricultural goods). Such terms differ from one product to the other, and the Association Council (the council responsible for overseeing and monitoring the implementation of the agreement) has the right to change the terms when required.

The Agreement does not cover liberalization of trade in services besides what has been concluded under the GATS. However, the parties will consider extending the scope of the agreement to include the right to establishment of companies of one party in the territory of another party, and the liberalization of the supply of services by companies of one party to service consumers in another party. In 2005, initial talks between Egypt and the European Commission have started to extend the liberalization of services more than the GATS commitments; however no implementation has yet taken place.

Starting 1/1/2004, a complete dismantling of customs duties and other charges having equivalent effect on Egyptian industrial products was supposed to occur without any quantitative restrictions in the EU which has been taking place according to the 1977 GCA Agreement, with the exception of textiles and ready-made garments where two products had to follow a certain quota that was never binding. On the Egyptian side, a 25% customs duties reduction each year (on European raw materials and industrial equipment) was planned for the period from 1/1/2004 to 1/1/2007. From 1/1/2007 to 1/1/2013, a 10% customs duties reduction in the first year and 15% customs duties reduction in each successive year (on European industrial supplies, semi-manufactured goods and construction materials) are to take place. From 1/1/2009 to 1/1/2016, a 5% customs duties reduction in the first and second year and 15% customs duties reduction each successive year (on European clothes, electrical domestic appliances, cosmetics, furniture and motor vehicles for the transport of goods) are expected according to the time plan. Finally, from 1/1/2010 to 1/1/2019, European motor vehicles designed for the transport of persons are supposed to be subject to a 10% customs duties reduction each year (see Table 2).

Table 2: The most important dates in the Euro-Med Partnership Agreement

Date	Event
January 1995 27th to 28th of November 1995	Formal negotiations with Egypt Barcelona Process, marking the start of a new 'partnership' phase in the relationship between the EU and the Mediterranean countries, including bilateral and regional cooperation.
June 1999	Negotiations with Egypt concluded.
2010	Planned year for FTA
Starting from 1/1/2004	-A complete dismantling of EU customs duties and other charges having equivalent effect on Egyptian industrial products. -No quantitative restrictions.
From 1/1/2004 to 1/1/2007	25% customs duties reduction each year (European raw materials and industrial equipment).
From 1/1/2007 to 1/1/2013	10% customs duties reduction first year and 15% customs duties reduction each successive year (European industrial supplies, semi-manufactured goods, and construction materials).
From 1/1/2009 to 1/1/2016	5% customs duties reduction first and second year and 15% customs duties reduction each successive year (European clothes, electrical domestic appliances, cosmetics, furniture and motor vehicles for the transport of goods).
From 1/1/2010 to 1/1/2019	10% customs duties reduction each year (European motor vehicles designed for the transport of persons).

Source: Ministry of Economy and Foreign Trade (2002), Provisions of the Egyptian-European Partnership Agreement. Cairo: MOEFT

ROOs under the agreement are relatively complicated and follow a mixture of value added, change of tariff heading, and specific production processes. Bilateral cumulation is allowed as well as diagonal cumulation with South Mediterranean countries (Algeria, Cyprus, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey or the West Bank and Gaza Strip) as long as they follow the same system of rules of origin and conclude a FTA between them.

Drawback and exemption from customs duties are prohibited for non-originating materials under the agreement; however an exception of 6 years since entry into force of the agreement allows Egypt to apply the duty drawback system when exporting to the EU.

1.5 Aghadir Agreement

The Barcelona process, which started in 1995, had the objective of strengthening relations between the 15 EU members and the 12 South Mediterranean countries. To make the Barcelona Process attainable, there was a need to intensify "South-South" co-operation

between Mediterranean partners themselves starting, where appropriate, on a sub regional basis. The main aim behind Aghadir was to allow for cumulation of rules of origin which should enable the South Mediterranean countries to have a better market access in the EU and to stimulate exchange between them. Each partner's willingness to build good relationships with its neighbors is an important determinant of its readiness to move closer to the goal of close cooperation and integration with the EU. Consequently, in May 2001, an initiative was launched between four Arab Mediterranean countries that are part of the Euro-Med Partnership Agreement. The initiative ended with signing the Aghadir Agreement. In the 4th Euro-Med Conference of Foreign Ministers (Marseilles, November 15-16, 2000), the Ministers welcomed the desire already expressed by four countries, Morocco, Tunisia, Egypt, and Jordan, to establish a FTA amongst themselves. Finally the initiative was taken at Aghadir/Morocco in the Foreign Ministers meeting on May 8, 2001. Negotiations of the Aghadir agreement, also called Med-Arab Free Trade Area (MAFTA), were concluded in January 2003, and the agreement was signed on February 25, 2004 in accordance with the provisions of the General Agreement on Tariff and Trade (GATT) for the year 1994 and the other agreements attached to the WTO. Besides the 4 signatory countries, the initiative is open to other Arab countries wishing to join. Syria, Lebanon, and Algeria are expected to join the Aghadir declaration agreement after meeting all the necessary conditions and requirements.

Aghadir covers industrial products where, by the date of entry into force of the agreement, there will be a complete exemption of the list of items subject to prompt and quick dismantling with the European Union while the immediate exemptions provided by bilateral agreement will remain in force. As for other industrial items subject to non-immediate dismantled customs duties, January 1, 2006 shall mark the end of the transitional period. Following are the deadlines for the phased-reductions:

In 2003 the agreement should have entered into force, and customs duties should have decreased by 65%, then 80% by 1/1/2004, 90% by 1/1/2005, and 100% tariff reduction by 1/1/2006.

Aghadir follows GAFTA in terms of agricultural liberalization. Agricultural and processed agricultural products shall be liberalized in accordance with the executive program of the Agreement on "Facilitation and Promotion of Trade Exchange among the Arab Countries", in preparation for the creation of a GAFTA.

Aghadir does not liberalize trade in services beyond GATS commitments. Members shall implement their obligations, as stated in the WTO's specific schedules of the GATS in regard to liberalizing trade in services, and shall endeavor to expand the scope of this trade in accordance with the rules and regulations in force. The Ministerial Committee shall periodically examine any developments in the services trade among members after the entry into force of this agreement.

The rules of origin in the Aghadir agreement follow the so-called Pan European rules of origin where the main intention behind it is to allow for bilateral and diagonal cumulation among Aghadir members to enter the EU market duty free as a means to strengthen "South-South" integration. The Pan European rules of origin are highly similar to those adopted by the Euro-Med Partnership Agreement.

Duty drawback is not allowed under Aghadir agreement.

2. State of Implementation and "Behind the Border" Effects

2.1. State of Implementation of each RTA and of WTO

WTO

In terms of commitments under the WTO, Egypt has fulfilled the majority of its commitments. The total tariff binding coverage percentage reached 98.8% (WTO country profile, 2005).The average bound rates for all goods is currently 37.2% down from 45% in 1998; whereas the average applied MFN rate in 2004 was 20% down from 26% in 1998 (for agricultural goods the bound rate is 95.3%, whereas the applied rate is 22.8%; and for non-agricultural goods the bound rate is 28.3% and the applied rate is 19.4%). The Trade Policy Review for Egypt in 1999 identified that Egypt has not respected its bound tariff rates in the non- agricultural goods. This was confirmed by the Trade Policy Review in 2005 which showed that at least in 19 tariff lines, applied rates were exceeding bound rates. Among the most important products belonging to such tariff lines were textiles and ready-made garments, which resulted in the US taking Egypt to consultations under the WTO, joined by the EU. Under pressure from the US and the EU, the Minister of Finance has issued a decree in 2003 stating that if applied rates exceeded bound rates, then bound rates will be the rates applied for WTO members. Moreover, in 2004 the Government of Egypt has undertaken a major tariff reform which has brought down the applied tariff levels below their bound rates. Egypt has three tariff peaks in the fields of passenger cars (not buses), tobacco, and alcoholic beverages. In the area of agriculture, Egypt has kept up to all its commitments, where 98% (considered among the high percentages in the world) of its tariff lines are bound. Egypt has further announced in the Uruguay Round that it provides no subsidies in this sector. The situation is slightly different in the area of export subsidies. During the Uruguay Round, Egypt had a GDP per capita less than 1000 US $; and hence, it was allowed to use export subsidies according to Annex 7 of the Agreement on Subsidies and Countervailing Duties. After the Uruguay Round was concluded, Egypt GDP per capita exceeded the 1000 US $, and it was not clear whether it was allowed to provide export subsidies or not. In 2001 the head of the Working Group of Non Agricultural Market Access (NAMA) cleared the matter and Egypt was allowed to provide export subsidies.

As stated above, the US claimed that Egypt's enforcement of IPR is not in line with the TRIPS agreement, especially concerning pharmaceuticals. However the issue is still debatable and has not been taken to the WTO dispute settlement mechanism.

In general, Egypt has been characterized by having high effective rates of protection (ERP) (see Refaat, 2003; WTO, 2005b). It is unlikely that the latest tariff reduction, implemented in 2004, has reduced the ERP substantially, though nominal rates were significantly changed (see ECES, 2005). Moreover, Egypt has been characterized by having large differences between its bound and applied rates, the so-called "water in the tariff," which has increased by the latest tariff reductions of 2004 (Egypt Country Profile, 2004). The tariff reform of 2004 has brought down the tariff bands from 27 to 6 (MOF, 2005), an issue that is likely to increase the transparency of the tariff system in Egypt which has been enhanced by abolishing all the surcharges that used to accompany the applied tariff rates. However, the WTO Trade Policy Review in 2005 argues that the number of tariff bands have been reduced only from 27 to 12 and not to 6 as declared by the Ministry of Finance (WTO, 2005).

GAFTA

The implementation of the tariff reductions has been the most successful element in the GAFTA's overall implementation process, especially after most members have already eliminated the lists of exceptions. Some Egyptian exporters have complained that some Arab countries did not eliminate tariffs by 2005 as scheduled. For example, food products still face tariffs in Morocco (ranging from 5% to 10%); whereas in the case of Libya, a new surcharge, which does not apply to domestically produced products (consumption tax), has been imposed on imported products. Finally, Yemen, although allowed to enjoy preferential treatment, discriminates against Egyptian products, compared to imports from other GAFTA members, where it imposes on average 25% tariff rate on Egyptian products and allows other Arab products to enter its market duty free[9] Furthermore, there have been many complaints about incidents in which customs authorities did not recognize the certificate of origin or its authenticity.

Regarding services liberalization, a Framework Agreement on the Liberalization of Trade in Services has been concluded in 2003. The agreement was designed to be a GATS like agreement adopting the same positive list approach and the same progressive liberalization concept. The first round of negotiations on the specific commitments was held in September 2004 in Beirut, where 5 Arab states presented their initial offers (Egypt, Jordan, Kuwait, Oman, and United Arab Emirates). It was agreed that the initial offers should not go below the level of commitments provided in the WTO (for the Arab States that are already members of the WTO or negotiating their accession). To meet the WTO rules on Regional

[9] See Al Ahram Newspaper (6/3/2005).

Trade Agreements (RTAs) (GATS Article V), the Arab agreement is expected to provide for larger sectoral coverage and/or deeper liberalization in the specific commitments already submitted under the GATS framework. It may be early to provide any expectations about the final outcome of these negotiations, but the active participation of most Arab sates indicates that it could be promising.

The first round of negotiations on the specific commitments was held in September 2004 in Beirut, and 9 Arab states attended the meetings (Egypt, Lebanon, Saudi Arabia, United Arab Emirates, Qatar, Tunisia, Morocco, Bahrain, and Oman). The negotiations took place on a bilateral basis between each two countries using the offer-request approach.

Egypt has submitted commitments as initial offers in the sectors where it had already undertaken commitments in the GATS. The offers submitted under this agreement were GATS+. The sectors included construction, tourism, financial, maritime and telecommunications. However, the exact type of offers submitted and negotiated are confidential and cannot be released at this stage.

It should be noted that the lack of information and data represents a major obstacle toward the assessment of the actual implementation status. For example, the de facto removal of product exceptions is impossible to trace or report upon since the notifications that the states submit to the Arab League secretariat may not necessarily be implemented by their customs authorities. Hence, relying on these notifications may be misleading. In addition, assessment is difficult due to the absence of a clear definition for non-tariff barriers (NTBs), resulting in continuous frictions among the members.

The Egyptian exporters identified several problems with GAFTA members, including the problem of customs valuation with Jordan, extra unjustified surcharges in some Saudi ports and the tendency to stop importation of onions out of the allowed season, and the reluctance of the Libyan customs authorities to import Egyptian products based on the fact that they do not meet the required standards.

The major problem as identified by Egyptian officials is the manipulation of origin of goods imported from GAFTA members into Egypt. With the absence of an effective mechanism ensuring adherence to the rules of origin (even the general rule), manipulation has been increasing, resulting in several trade frictions.

There have been country specific problems identified by Egyptian exporters or government officials. These included the following:

In the case of *Yemen,* there is a need for an agency in Yemen that facilitates the movement and entry of Egyptian exports; in the case of the *United Arab Emirates (UAE),* the problem of authenticating the rules of origin exists; in Dubai, there are problems associated with free zones and problems of identifying which imports are imported from free zones and

which are not; and in the case of *Algeria*, there are problems associated with customs procedures, non-transparency in banking regulations concerning trade activities, rules of origin certificates, and registration of Egyptian pharmaceuticals. Last but not least, the trade with Saudi Arabia faces the following obstacles: embargo on potatoes; embargo on fresh frozen meet; abuse of SPS measures regarding agricultural products and pesticides; dumping of steel; imposing extra surcharges not in line with GAFTA on some products; and not keeping in line with tariff reductions according to GAFTA

With regards to the separate bilateral agreements, the following problems are worth mentioning:

Libya:

- No application of international standards and quality control;
- Import licensing;
- Authentication of rules of origin certificate;
- Refusing some products based on the argument that they are not Egyptian;
- Inspection procedures; and
- Customs procedures.

Syria:

- Restricting some imports for the public sector;
- Need for different approvals for the Syrian importers;
- Multiplicity of exchange rates; and
- Imposing extra surcharges and tariffs on the goods that should have been liberalized.

Tunisia:

- Asking for import licenses;
- Imposing extra surcharges;
- Rules of origin authentication; and
- Registration of pharmaceuticals.

Morocco:

- Administrative obstacles (asking for import licensing).

Lebanon:

- Abuse of imposing standards; and
- Refusing to import certain agricultural products (because of Daraq fly).

Jordan:

- Abuse of SPS measures affecting some agricultural products (Daraq fly) - partially solved;
- Refusal of dried onions without providing reasons; and
- Imposing additional surcharges on all Jordanian imports from macaroni and some home (toilet stuff) appliances.

Sudan:

- Banking procedures;
- Customs valuation and customs procedures; and
- Transport problems.

COMESA

In the context of the multilateral trading system, COMESA was notified to the WTO under the Enabling Clause in May 1995. As such, it did not have to undergo an examination under Article XXIV, GATT 1994. This implies that issues of lack of full coverage of trade and transitional period not exceeding 10 years do not apply in the case of COMESA.

Generally speaking, the COMESA has managed to reach some remarkable and visible achievements. The areas where COMESA has made good progress include the following:

- Removal of tariff barriers;
- Elimination of NTBs particularly the classic ones (quantitative restrictions, licensing, import permits, and restrictive foreign exchange controls have been largely eliminated);
- Rules of origin have been simplified, with more scope for import content, by the adoption of a 45 percent local value added criterion, with the rules undergoing further changes to take into account developments at the WTO and World Customs Organization (WCO).

On the other hand, COMESA suffers from a high degree of non-transparency where the Treaty identifies several provisions which are not implemented in reality. Among the most important of which, is the absence of any negative lists in the Treaty and their presence in reality. For Egyptian authorities, two main problems have been identified according to the interviews undertaken with government officials. The first is related to the absence of a clear mechanism required to tackle the problems related to trade remedy measures, and the second is the manipulation of origin of goods imported from COMESA members.

Moreover dual membership of COMESA and other overlapping blocks may bring about complications in managing regional trade policy. Overlapping of some activities could bring about duplication or even inconsistencies (e.g. the case of Sudan and Egypt, both being members of GAFTA and COMESA). An exporter from Sudan might prefer to use the

GAFTA rules rather than COMESA and the same applies for Egyptian exporters to Sudan. Agreeing between governments on a negative list under the COMESA implies that COMESA supercedes GAFTA, which is not the case as it has never been mentioned in any of the agreements that countries have the right to draw their own bilateral arrangements. Moreover, such duplication of rules and regulations create an atmosphere of non-transparency and vagueness among the different members, such as in the case of the trade relationship between Sudan and Egypt.

Other problems related to implementation include the high degree of non-transparency and the lack of information on progress and monitoring of implementation of the common market. Finally, COMESA does not include provisions on intellectual property rights or provisions on liberalization of trade in services.

Egyptian-European Partnership Agreement

Implementation of the agreement started in 2004, which does not allow sufficient time to identify any problems in implementation. According to interviews with government officials, there are no recorded incidents of problems that faced the implementation of the agreement.

Aghadir

Despite that year 2005 started, Aghadir has not yet entered into force as some of the members did not ratify the agreement. Two countries ratified the agreement in 2004, namely Egypt and Tunisia. Morocco ratified the agreement in early 2005, whereas Jordan did not. This implies that the schedule of tariffs reduction mentioned above is meaningless, especially that GAFTA has surpassed Aghadir; and hence, the zero tariff target among Aghadir members was achieved under the GAFTA before Aghadir.

2.2 Overview of Trade Flows between Egypt and Various Regional Agreements Partners

Overview of the Trade Flows between Egypt and GAFTA

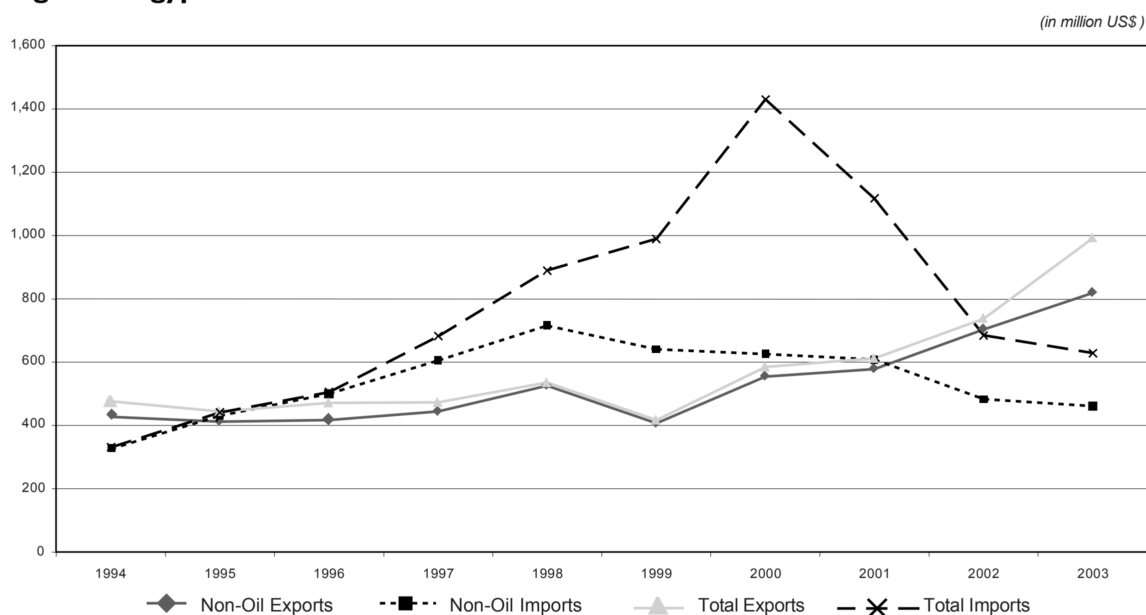
The trade between Egypt and GAFTA members increased from US$ 808 million in 1994 to US$ 1.6 billion in 2003. As a percentage of Egypt's total trade (exports + imports), the share of trade with GAFTA members was 6.2 % in 1994, reached a peak of 10.8% in 2000 then fell to 9.5% in 2003. The trade balance between Egypt and GAFTA witnessed a surplus in 1994 of US$ 145 million, which was reversed and the deficit sore to US$ 0.8 billion in 2000 but was again reversed and Egypt's trade ended in 2003 with a surplus of US$ 363 million.

Hence, Egypt's trade balance with the GAFTA members did not experience a clear trend. Following up on the evolution of this balance starting in 1998 (the date of starting tariffs reduction within the context of GAFTA), Egypt has experienced a trade deficit that widened

significantly till 2000 (when 30% of tariffs were cut down) and then the deficit started to narrow down till it reached a surplus in 2002 (when 50% of tariffs were cut down) and continued to increase in 2003. The main reasons behind such fluctuations were a high growth rate for imports till 2000 (reaching an average of more than 25% on annual basis) accompanied by a modest increase of exports (average of 6% on annual basis). Starting in 2001, the average annual growth of exports soared to reach more than 20%, whereas imports recorded a negative growth rate exceeding an annual average of 20%.

On the exports side (including oil), Egypt increased its exports from US$ 476 million in 1994 to US$ 1 billion in 2003 with an average rate of growth of 10%; whereas on the imports side, Egypt increased its imports (including oil) from US$ 331 million to US$ 628 million with an average yearly growth rate of 11%. The picture does not change significantly if oil is excluded, where exports increased from US$ 428 million to US$ 819 million and imports from US$ 326 million to US$ 461 million over the period from 1994 to 2003. Figure 1 shows the development of trade between Egypt and GAFTA members over the period 1994 to 2003.

Figure 1: Egypt's Trade with GAFTA



Source: World Integrated Trade Solution (WITS) Database, World Bank, 2004.

Overview of Trade Flows between Egypt and COMESA

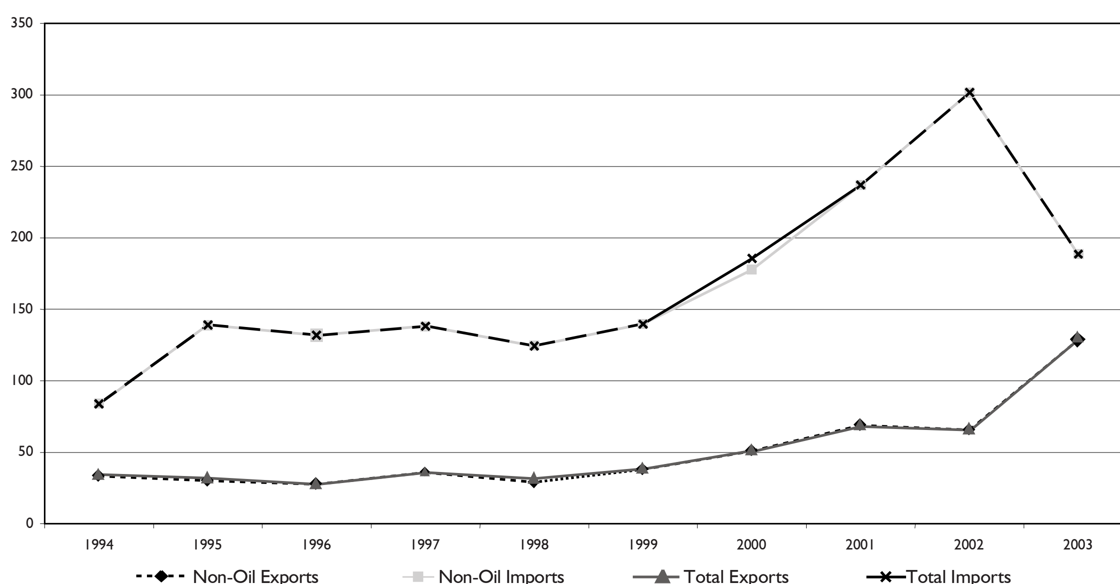
Trade between Egypt and COMESA members increased from US$ 118 million in 1994 to US$ 319 million in 2003. As a percentage of Egypt's total trade, the share of trade with COMESA members was 1 % in 1994 and barely increased to 2% in 2003. The trade

deficit between Egypt and COMESA has widened from US$ 50 million in 1994 to reach US$ 235 million in 2000 then fell to US$ 59 million in 2003. On the exports side (including oil), Egypt increased its exports from US$ 34 million in 1994 to US$ 130 million in 2003 with an average yearly growth rate of 20%. On the imports side, Egypt increased its imports (including oil) from US$ 84 million to US$ 189 million with an average yearly growth rate of 13%. The picture does not change significantly if oil is excluded where exports increased from US$ 33 million to US$ 129 million while there was no change for imports. Figure 2 shows the development of trade between Egypt and COMESA members over the period 1994 to 2003.

The reasons behind this chronic but varying deficit is mainly the huge increase in imports in 1994 that created a high level of imports (mainly arising from tea imports from Kenya), while exports growth rate was modest. Since 1994 till 2000, the rates of growth of exports and imports fluctuated between positive and negative values, but were relatively low and almost equal. This is the main reason why an almost equal deficit was sustained over the years since 1995 till 2000. Starting in 2000, there was a huge increase in the growth rates of both exports and imports; however, since imports were starting from a higher level, the deficit kept widening. In addition, the rate of growth of exports in 2002 declined significantly to negative values which explain the peak of the deficit in that year. In 2003, the annual growth rate of exports reached an unprecedented rate of 96%, whereas the annual rate of growth of imports remained stable, leading to a significant decline in the trade deficit.

Figure 2: Egypt's Trade with COMESA

(in million US$)



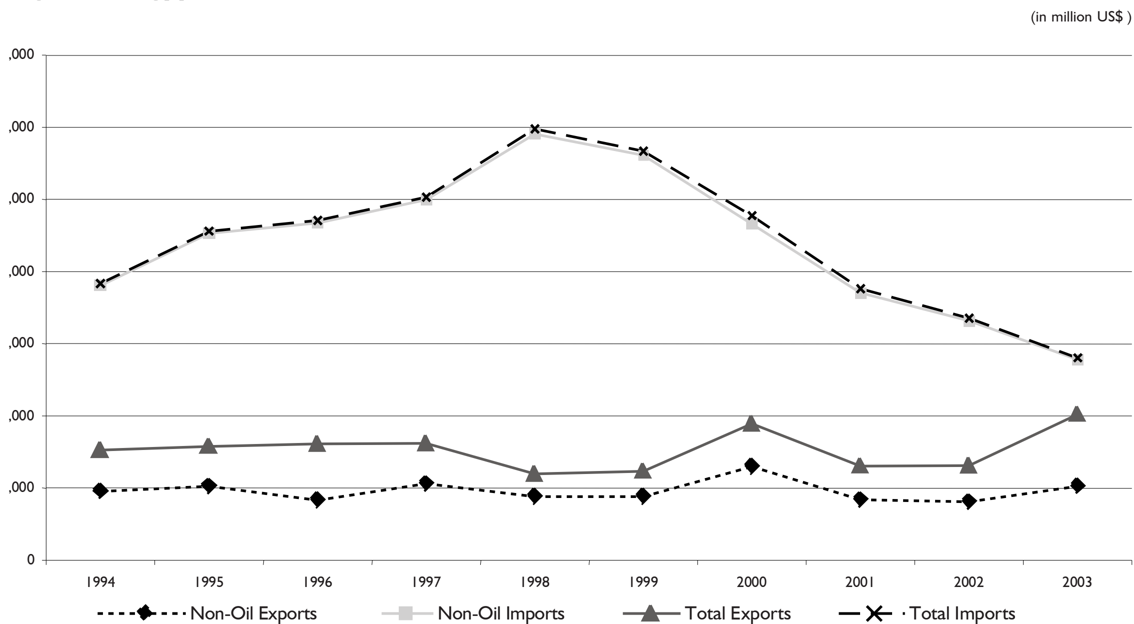
Source: World Integrated Trade Solution (WITS) Database, World Bank, 2004.

Overview of Trade Flows between Egypt and the EU

Trade between Egypt and EU15 increased from US$ 5.4 billion in 1994 to reach a maximum of US$ 7.2 billion in 1998 then dropped to US 4.8 billion by 2003. As a percentage of Egypt's total trade, the share of trade with EU15 was 42 % in 1994, and decreased to 28% in 2003. The trade deficit between Egypt and EU15 has widened from US$ 2.3 billion in 1994 to reach US$ 4.8 billion in 1998, and then fell to US$ 782 million in 2003. On the exports side (including oil), Egypt increased its exports from US$ 1.5 billion in 1994 to US$ 2 billion in 2003, with an average growth rate of 7%. On the imports side, Egypt decreased its imports (including oil) from US$ 3.8 billion in 1994 to US$ 2.8 billion in 2003, with an average annual growth rate of -2%. The picture changes significantly if oil is excluded, where exports increased from US$ 954 million in 1994 to US$ 1 billion in 2003; while for imports, there was no significant change. Figure 3 shows the development of trade between Egypt and EU15 over the period 1994 to 2003.

The deficit in the trade of Egypt with EU (15) has been chronic; however it has experienced lower rates in the last years. The introduction of oil exports does not result in altering the final situation of trade deficit, but it affects heavily the level of deficit. In fact, oil used to represent more than 50% of the value of Egyptian non-oil exports in 1994, which increased to about 100% in 2003. Non-oil exports experienced a very modest increase of around 46 million US $ where it started from a base of 954 million US $ in 1994 and ended up with 1 billion US $ in 2003. The deficit increased from 1994 onwards and reached its peak in 1998 when it started to decline afterwards. The overall picture reveals a reduced deficit mainly due to the high average annual growth rate of exports (7%) and

Figure 3: Egypt's Trade with the EU



Source: World Integrated Trade Solution (WITS) Database, World Bank, 2004.

the modest decline of imports, which averaged -4% on an annual basis over the period 1994-2003.

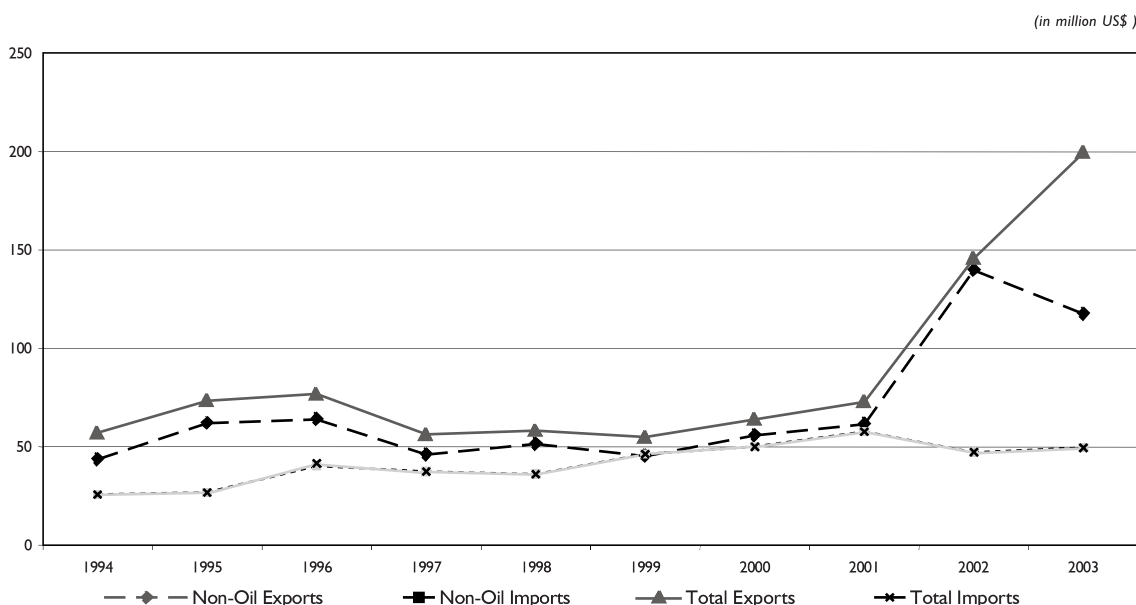
Overview of Trade between Egypt and Aghadir Countries

Trade between Egypt and Aghadir countries increased from US$ 83 million in 1994 to US$ 249 million in 2003. As a percentage of Egypt's total trade, the share of trade with Aghadir countries was 0.6 % in 1994, and barely increased to 1.5% in 2003. The trade between Egypt and Aghadir countries witnessed a surplus throughout the period 1994 to 2003, with the exception of 1999. The surplus widened from US$ 18 million in 1994 to reach US$ 98 million in 2003. On the exports side (including oil), Egypt increased its exports from US$ 57 million in 1994 to US$ 200 million in 2003, with an average annual growth rate of 19%. On the imports side, Egypt increased its imports (including oil) from US$ 26 million to US$ 50 million with an average annual growth rate of 9%. Non-oil exports increased from US$ 44 million to US$ 117 million; while for imports, there was no change. Figure 4 shows the development of trade between Egypt and Aghadir countries over the period 1994 to 2003.

The case of Aghadir is the only case where Egypt has enjoyed a constant trade surplus; however, this surplus has varied widely over the period investigated. Oil represents a major component in Egyptian exports to Aghadir countries; it represented around 20% of Egypt's total exports to Aghadir countries in 1994, and increased slightly as a percentage of total exports in 2003. The rates of growth of both exports (oil and non-oil) and imports have been stable, keeping the surplus largely unchanged; but it tended to widen at the beginning of the millennium.

Figure 4: Egypt's Trade with Aghadir Countries

(in million US$)



Source: World Integrated Trade Solution (WITS) Database, World Bank, 2004.

2.3 Expected Economic Gains and Losses

Trade creation and trade diversion effects

Egypt's simple mean tariff in 2002 was 18.4%, whereas its weighted mean tariff was 13.4%. The simple mean tariff on primary products was 18.2% and the weighted mean tariff was 6.6%. As for manufactured products, the simple mean tariff was 19% and the weighted mean tariff was 16.4%. This implies that the ERP is relatively high as confirmed by other studies (Refaat, 2003). In 2004, the GOE undertook a tariff reform reducing the weighted mean tariff to 9.10% (MOFI, 2004); however, other sources indicated higher levels of applied tariffs even after the reductions undertaken reached 26.8% (WTO 2005b). In general, such tariff reduction is likely to reduce the negative effect of trade diversion. However, the ERP is not likely to decrease substantially as the tariff reduction was set in a manner that keeps the differences between primary and final products large so as to ensure protection for domestic producers. Nevertheless, ECES (2005) shows that there was a significant reduction in effective rates of protection (ERP).

To investigate the effects on trade diversion and trade creation, we estimated the effect of the different four agreements. The highest expected effect in absolute terms was likely to result from dismantling tariffs with the EU, followed by GAFTA, Aghadir, and then the COMESA (see Table 3). In relative terms, where trade diversion is calculated as a percentage of the respective regional imports, EU had the lowest share, whereas Aghadir had the highest share. The estimates were based on the latest trade data available from the WITS database and were calculated at the HS 3 digits level. If we consider the percentage of the expected trade diversion value in relation to total imports from different regional blocks, the results obtained are expected. Following the literature, trade diversion is likely to be lower whenever certain conditions are fulfilled, namely: high volume of trade before tariff dismantling and low initial tariff barriers, which should be the same following MFN rule. The high volume of trade prevail more in the Egypt-EU case. The highest trade diversion as a percentage of imports is in the case of Aghadir, the regional block with the lowest volume of trade.

Table 3: Expected Trade Diversion Value (value in U.S$ thousand dollars)

Index*	2003	Percentage of respective regional imports
Estimates of trade diversion potential from Egypt to EU	3,109,332	1.1%
Estimates of trade diversion potential from Egypt to COMESA	1,098,946	5.8%
Estimates of trade diversion potential from Egypt to GAFTA	1,397,588	1.5%
Estimates of trade diversion potential from Egypt to Aghadir	1,105,603	22.3%

*The trade diversion index was calculated according to the following formula:

Maximum trade diversion = minimum $(NX_{aj},-NX_{bj})$ Where

$NX_{aj}=X_{aj}-M_{aj} >0$

$NX_{bj}=X_{bj}-M_{bj} <0$

X_{ij} = country i's exports of commodity j

M_{ij} = country i's imports of commodity j

And i takes the value a or b

Note: this index assumes that one of the two countries is a net exporter and the other a net importer of the product (see Fawzy, 1994)

As for trade creation, there is no methodology to detect the likelihood of trade creation between Egypt and the members of the four RTAs, unless we use a computable general equilibrium model. Hence, we follow the statement of the economic theory, namely that trade creation is likely to increase whenever tariffs are high and the volume of trade is low. Following these guiding indicators, it is likely that trade creation will be larger with COMESA, GAFTA, and Aghadir countries than with the EU. However, such evaluation is subject to a number of limitations, among which is that intra-regional trade between Egypt and GAFTA countries, including Aghadir members, is low due to similarity in export profiles and production structures. As pointed out by several studies (e.g. Yeats and Ng, 2000) there is a lack of complementarity between the Arab countries in their trade relations. Given that this is the case, and that trade between Egypt on the one hand and GAFTA and Aghadir members on the other is likely to be concentrated in inter-industry trade, the likelihood of trade creation is limited. This is in contrast with the case of COMESA and the EU, where export profiles and production structures are largely different; hence, the potential for trade creation is likely to be higher. However, some studies pointed out that the potential for intra-industry trade is higher among Arab countries than it is with the EU and that the growth of such type of trade among Arab countries is higher than between Arab countries and the EU (see for example, Havrylyshyn and Kunzel, 1997).

In conclusion, it is extremely difficult to anticipate the effect of Egypt's engagement in the different RTAs on trade creation and trade diversion. Following basic economic theory, trade creation and trade diversion are likely to be low with the EU when compared to the other three RTAs; however, such conclusion is subject to a large number of limitations. Among such limitations are the nature of export profiles and production structures and the nature of the measure used to calculate the anticipated impact of trade diversion, which is highly affected by the number of products traded (i.e. the level of HS or SITC classification used).

Intra-Industry and Export Similarity

We calculated the Intra-Industry Trade (IIT) index at a 3 digit HS level for Egypt with the four RTAs as shown in Table 4. The IIT is highest with GAFTA, followed by Aghadir, EU,

and COMESA. The relatively high IIT with GAFTA indicates positive potential for regional integration. In general and not only in the case of Egypt, when comparing GAFTA with the EU, other studies have reached the same results. Havrylyshyn and Kunzel (1997) found that Arab countries have a low IIT, implying a modest industrial base; and the levels of IIT calculated for the Arab countries are less than IIT found in NAFTA, APEC and Mercosur. Their results and findings showed, however, that the Arab countries are experiencing higher growth rates of IIT and have lower IIT levels in their trade relations with the EU when compared with IIT levels among themselves. They concluded that Arab countries can increase their IIT levels by specializing in the existing industries.

Table 4: Intra-Industry Trade between Egypt and Selected Regions

	Aghadir	COMESA	GAFTA	EU
2003	14.0	2.9	28.8	12.4

Calculated at 3-digit HS
Source: Authors' Calculations based on WITS database.

We complement our analysis by investigating the deviation between the Egyptian exports and that of members of the four RTAs (for the methodology see Hoekman, 1995). The results are revealed in Table 5. As seen from the table, the highest deviation appears to be with the EU, which is an expected result due to the different nature of Egyptian exports when compared with those of the EU. The deviation is less in the case of GAFTA and Aghadir; though, over time, it has increased for GAFTA and decreased for Aghadir. In the case of COMESA the indicator showed a decrease over time and the lowest value in absolute terms when compared to the others. The decrease in deviation with COMESA exports is an unexpected result.

Table 5: Percentage Deviation of the Structure of the Egyptian Exports from the Structure of GAFTA, EU, COMESA, and Aghadir Agreement Member Countries Exports

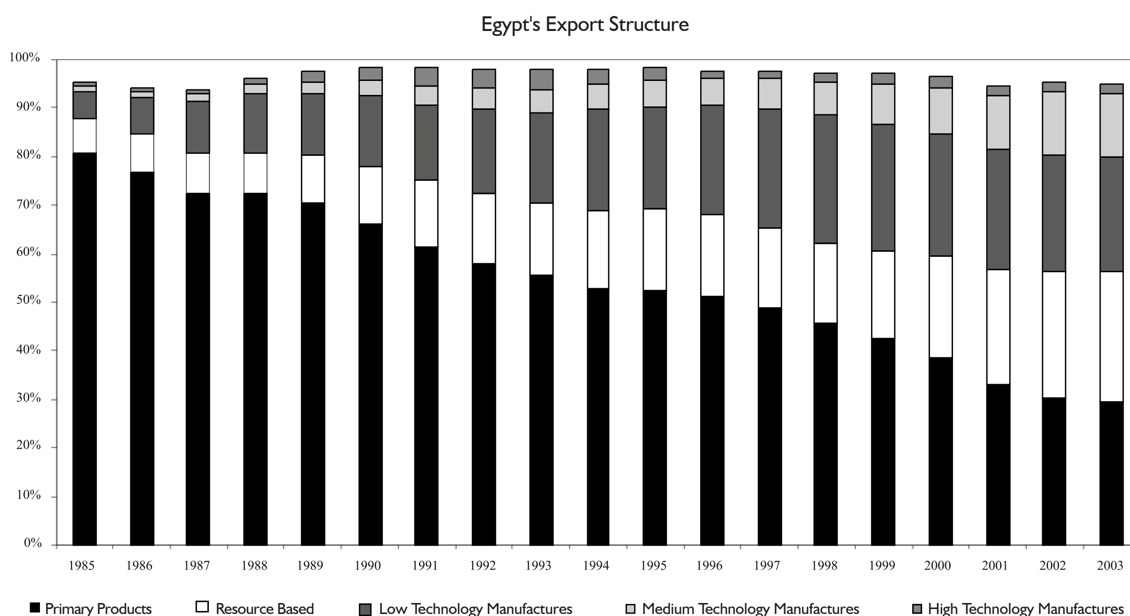
	GAFTA		EU		COMESA		Aghadir Agreement Members	
	1995	2001	1995	2001	1995	2001	1995	2001
Deviation* (Percentage)	41.1	39.6	53.0	56.0	37.9	21.2	28.9	35.1

Source: Authors' Calculations based on UNCTAD, Handbook of Statistics, 2003

The results of the deviation index calculated in Table 5 do not contradict with the IIT results revealed in Table 4. Table 5 shows that the overall export structure of Egypt is highly different from the EU, and is comparable with those of the other three RTAs, particularly COMESA, which is highly unexpected. Figure 5 provides an overview of the structure of Egyptian exports and its development over time. The indicator would have shown positive signals if the deviation had decreased over time with the EU, and increased

with COMESA, implying that Egypt is moving towards exporting more sophisticated products. In fact, it has increased with the EU, and decreased with COMESA, indicating that Egypt has moved towards closer exports profile to COMESA and has not caught up with the exports profile of the EU. The IIT index refers to trade in the same product category that is likely to be low in the case of the EU, which is mainly engaged with Egypt in inter-industry trade. The results are confirmed by calculating the export similarity index for Egypt with the four RTAs as shown in Table 6. This supports our interpretation of the relatively high similarity with GAFTA, Aghadir, and COMESA members and lower similarity with EU. Yet, there are differences between the two indices as a result of the different years used for calculation as well as the nature of the index methodology.

Figure 5: Egyptian Exports Structure Development over Time



Source: Author's Calculations baed on World Integrated Trade Solution (WITS), World Bank, 2005

Table 6: Egypt Export Similarity Index Matrix with different Regional Groupings, (2003)

Country	Egypt	Aghadir	COMESA	ESCWA	GAFTA	EU
Egypt	100					
Aghadir	38.8	100				
COMESA	35.5	26.4	100			
GAFTA	38.4	19.1	58.7	92.7	100	
EU	29.8	27.4	17.7	17.4	19.8	100

Calculated at 3-digit HS
Source: Authors' Calculations based on WITS database

Sensitive Products

There are several sensitive products for Egypt. Leading examples are passenger cars, tobacco, and alcoholic beverages where tariff rates on such products have been historically high. Only in 2004, when the Government of Egypt decided to reduce its overall tariff rate, it lowered the tariff on a certain category of passenger cars. Passenger cars weighted tariff rates were lowered from 84% to 63%; whereas tobacco and alcoholic beverages did not enjoy any reductions. In the case of passenger cars, only those with less than 1600 cc were subject to tariff reduction; whereas cars with more than 1600 cc did not have any reductions. Meanwhile, the car components experienced tariff reductions, resulting in further increases of their already high ERP.

In the case of GAFTA, steel remains to be a sensitive product with Saudi Arabia due to the subsidization undertaken by the Saudi government. In some years when there is oversupply of cotton, cotton represents a sensitive product especially with Syria.

In the case of COMESA, the Kenyan tea represents the most problematic product and is responsible for a large portion of the Egyptian trade deficit with COMESA. On the other hand, Egyptian sugar has been a sensitive product for Kenya.

In the case of EU, agricultural products and processed food in general are sensitive products as they are highly subject to Sanitary and Phytosanitary (SPS) restrictions. Potatoes and ground nuts are among the most important Egyptian exports affected by SPS measures in the EU market. On the other hand, poultry and meat have always been sensitive products on the Egyptian side, and many frictions are happening regarding issues related to such products. The US and EU have several times claimed that they face problems in exporting those two products to the Egyptian market due to non-transparency regarding SPS measures. For example, Egyptian authorities insist that imported beef should have a maximum of 7% fat content, but it allows domestic producers to have 10% fat content.

Here we choose four main sensitive products and examine briefly how they are treated under different RTAs: fresh fruits and vegetables, processed food, iron and steel, and textiles and ready-made garments.

Fresh Fruits and Vegetables

Fresh fruits and vegetables follow the same rules of origin in the four RTAs where they have to be wholly obtained to acquire origin. However, the problem that impedes market access in the Egyptian-EU Partnership Agreement is the quotas, levy prices, and specific seasons which limit market access for Egyptian originated products to the EU market. This is not the case with the other three RTAs. Moreover, the EU standards are known to be more restrictive than the standards in any of the other RTAs. Hence, the problem of market access of fresh fruits and vegetables is not related to rules of origin but rather

to standards (mainly SPS rules and regulations) and other quantitative restrictions in the EU when compared to the other three RTAs.

Processed Food

It is impossible to arrive at a certain conclusion regarding the restrictiveness of rules of origin (ROOs) in this regard due to the nature of the ROOs specified under the Egyptian-EU Partnership Agreement and Aghadir. Both agreements use a hybrid of specific manufacturing process, change of tariff heading, or value added criteria to determine the rules of origin. On the other hand, COMESA and GAFTA use across the board value added criteria (although under the GAFTA detailed rules of origin are still under negotiation). In some cases, it might be easier for an exporter of a specific product to acquire origin for his product by undertaking a simple manufacturing process which leads to the change of tariff heading needed under the EU Partnership Agreement or Aghadir; whereas it is difficult to acquire the rules of origin under the COMESA or GAFTA by reaching the required threshold for value added. In other cases, it might be the opposite, where reaching the threshold of the value added criteria under COMESA and GAFTA is easier than a specific process or change of tariff heading under the EU Partnership Agreement or Aghadir. Hence, it is extremely difficult to determine which rules of origin are more restrictive.

The problem with processed food under the Egyptian-EU Partnership Agreement is that in many cases there is a tariff quota and extra levies that restrict access of such products to the EU market. Moreover, new rules related to traceability are very likely to impede access of such products to the EU market when compared to other markets. Standards are the main crucial factor likely to affect the access of such products to different markets, which, as aforementioned, are treated vaguely under all agreements.

Iron and Steel

Under Egyptian-EU Partnership and Aghadir agreements, iron and steel need to be manufactured from certain products (specific manufacturing process) to acquire origin; whereas under the GAFTA and COMESA they need the 40%, and 45% value added criteria. The restrictiveness of rules of origin in this regard depends mainly on the degree of vertical integration in the exporting mills and whether they complete the process of manufacturing of the required originating inputs or not. Comparing the EU ROOs with those of GAFTA and COMESA requires comparing the specific manufacturing process with the 40%, and the 45% value added criteria which might differ from one mill to another. It is extremely difficult to determine which type of rules of origin is more restrictive than the other in this regard. It might be easier for an integrated mill when it exports to the EU, but easier for unintegrated mills to export to COMESA or GAFTA.

Textiles and Ready-Made Garments

Textiles and ready-made garments are the most sensitive set of products. Normally they have the highest restrictive rules of origin in RTAs worldwide. For the sake of our analysis, it is clear that COMESA and GAFTA general rules are less restrictive than the Egyptian-EU Partnership and the Aghadir agreements. In the latter two agreements, the rule adopted always requires using Egyptian yarn so that Egyptian fabrics acquire origin, and using Egyptian manufactured fabrics so that Egyptian ready-made garments acquire origin. This system is in the majority of cases more restrictive than the general value added criterion of GAFTA and COMESA. However, it is worth noting that the interviews revealed that EU is not very strict with monitoring the origin of textiles and ready-made garments imported into the EU from Egypt. However, the situation started to change recently where it has become more restrictive and the EU has proposed a new system for better monitoring the origin of imported products.

Impact on Public Finance

Tariff revenue never represented a very large share of current government revenue. Tariff

revenue collected in 2001/2002 represented 14% of total tax revenues and only 9% of total governmental revenues. In 2004/2005 such percentages were reduced to 11% of the total tax revenues and 7% of the total governmental revenues (MOF, 2005). The collected revenue has been always very close (and actually higher due to the other surcharges) to the potential aggregate tariff revenue calculated from tariffs and import data. This suggests that imports rarely benefited from tariff preferences when entering the Egyptian market till 2004. This situation is likely to change in the near future with the entry into force of several RTAs, especially with the EU.

Previous tariff reductions, at least as a result of the RTAs and not because of unilateral liberalization, were not accompanied by a decrease in tariff revenue. In spite of the trade liberalization efforts initiated in the 1990s, the share of customs duties in total tax revenue has steadily increased from 13% to 15% over the period 1991-1998 and remained around 14% of total tax revenue in 2001/2002.

This may be partially explained by the fact that lower tariffs were applied over a larger import base. This situation is likely to continue till the last phase of entry into force of the Egyptian-EU Partnership Agreement as most of the goods with high tariff peaks are postponed to the end of the transitional period as evident from the high ERP enjoyed by most of the Egyptian industries. Other RTAs are not likely to affect the tariff revenue due to the low share of trade with such countries where imports from GAFTA, COMESA, and Aghadir did not exceed 8% of total Egyptian imports in 2003. Moreover this 8% is overestimated due to the double counting of the Aghadir countries in GAFTA and Sudan in COMESA. This is in contrast with the case of the EU where imports from EU represent

a large share of Egyptian total imports. This share reached its minimum in 2005 by contributing 25%, down from 40% in 1994. The enlargement of the EU is not likely to affect the tariff revenue as imports from newly acceding countries to the EU represent only 2% of total Egyptian imports.

The percentage of taxes on international trade to the government current revenue in 1990 was 14% and in line with the world average for the low middle income countries, where the equivalent percentage was 15%. In 1997, the percentage in Egypt was 12.5% which is higher than the average of low middle income countries that stood at 9% in 2001 (World Bank CD Rom 2003). However, such percentages do not take in consideration the recent tariff reductions in 2004.

In order to estimate the impact of tariff reductions on public finance, we adopt a simple methodology whereby we multiply tariff revenue by the share of imports from the four regional groups. In the case of EU, whose share of total Egyptian imports was 25.8% in 2003, the expected tariff revenue loss is 110 million US $. In the case of Aghadir, the expected tariff revenue loss is 2 million US $. In the case of COMESA, expected tariff revenue loss is 7 million US $. Finally, in the case of GAFTA it is 22 million US $ after excluding Aghadir members.

Winners and Losers

In general it is extremely difficult to predict which industries are likely to gain and which are likely to lose with respect to trade liberalization. Regarding market access, Egypt has always suffered from supply constraints rather than demand constraints. Hence, market access was never a major constraint except for agricultural and processed food exports in the EU. We cannot predict the expected impact of a better market access for agricultural goods in the EU, as the matter is subject to other important variables including cost of transportation, technical measures, health and environmental considerations, etc.

Identifying losers and gainers with respect to Egypt being engaged in such RTAs is almost an impossible task as it depends on a large number of variables that cannot be captured in this study. Among such variables is the level of competitiveness of competing products with Egyptian exports in such markets and the use of restrictive measures that are still not properly monitored by WTO rules and regulations, such as SPS and TBT measures, as well as tariffs which can restrict market access of Egyptian exports to other markets.

To be able to anticipate losers and gainers, we report the results of Madani and Olarreaga (2000) that followed the empirical literature on endogenous tariff formation through industry lobbying to identify sectors in which tariffs are above their political optimum, which in turn indicates that tariff reductions should not be costly. According to their methodology, industries that enjoy high rates of protection (above 25%) and do not export are likely to lose due to trade liberalization. This is the case of 28 out of 81 sectors of

ISIC 4 digits level. Among such sectors that are considered to be over protected are motor vehicles, soft drinks, tobacco, musical instruments, tyres and tubes, electrical appliances, and house wares (excluding alcoholic beverages). With the exception of tyres and tubes, these over-protected sectors are not involved in export activities; hence, such sectors are likely to lose, though the economy as a whole will enjoy efficiency gains due to reallocation of resources. Other sectors that are highly protected and hence are likely to lose from tariff reductions include bakery products, cocoa, chocolate and sugar confectionery, knitting mills, leather products, footwear, wooden and cane containers, soap, cleaning preparations, perfumes, pottery, and china kitchenware. However, two of these sectors export a significant amount of their domestic production, namely leather and pottery, and hence they are not likely to be losers.

The more under-protected sectors are grain mill products, agricultural machinery and equipment, railroad equipment, engines and turbines, and aircrafts. These are all sectors in which the applied average tariff is below 10% and therefore should not be affected by a tariff reduction that applies to the highest tariffs. In fact, the exporting industries among them are likely to gain as they will have better market access in the other regional groupings.

Other Effects

The tariff dismantling system adopted in the case of the EU is likely to lead to a temporary increase in ERP. This can lead to inefficient re-deployment of economic resources towards more protected final industries in the interim years. It may also make liberalization in later years more politically difficult for the Egyptian government as some industries become accustomed to higher interim rates of effective protection.

The duty free access into the Egyptian market granted to European exporters will reduce the level of "protection" granted to Egyptian producers through high external tariff, as competition from European exporters will intensify. In other words, the Egyptian-EU Partnership agreement in specific is likely to increase the level of competition in the Egyptian local market which can lead to the shut-down of many domestic firms that are incapable of withstanding European competition.

Few studies have anticipated the impact of the Egyptian-EU Partnership Agreement on Egypt using computable general equilibrium models (CGEs). Konan and Maskus (1997), and Kheir-El-Din et. al., (2001) have reached the same conclusion namely, that the gains from this agreement in terms of welfare to the Egyptian economy are likely to be very small and not exceeding 0.2% of GDP. Such small percentage can increase by undertaking a broader liberalization scope comprising more than the EU and extending it to the rest of the world, and by implementing deeper liberalization with the EU that is not as shallow as the current agreement is.

Identification of Technical and Financial Assistance under Various RTAs

The COMESA and the GAFTA do not have any complementary mechanisms for provision of technical or financial assistance, unlike the Egyptian- EU Partnership and Aghadir Agreements. In the case of the Egyptian-EU Partnership Agreement, the agreement itself does not have any specific provisions implying technical or financial assistance. However, the EU has replaced the conventional Financial Protocols Scheme with the MEDA schemes to make loans and grants available to Egypt. Each Protocol lasted for five years where such loans and grants were provided under "flexible" conditions from the EU point of view, such as subsidized interest rate, non tying to the purchase of European equipments, etc. Over the period 1977-1996, Egypt benefited from projects worth 661 million euros in grants from the European Commission and 802 million euros in loans from the European Investment Bank. The MEDA schemes replaced the old system of Financial Protocols starting the mid 1990s. These schemes were designed in a way to facilitate meeting the goals set out in the Barcelona Declaration.

Under the MEDA scheme the amount of money allocated to the South Mediterranean countries was determined for the whole set of countries, without individual allocations for each county, as was the system in the Financial Protocols. The criteria set for disbursing aid were flexible and vague since the EU considered this as helping the countries in their transition process to the market economy, without identifying clearly how this can be measured or achieved. For this purpose, the Commission draws up Country Strategy Papers in which the situation of each partner country and its development policies are assessed. These strategy papers are discussed with the respective government and priority areas for the EU action are identified then translated in a three year National Indicative Program, agreed upon by the host government. Part of MEDA was intended to finance concrete actions in support of the objectives of the Barcelona process; whereas another part provides sectoral financial support by the release of funds when certain mutually agreed upon targets between the Egyptian and European parties are achieved. Under MEDA I, lasting from 1995 to 1999, Egypt benefited from a total of 686 million euros in commitments (representing around 17% of the total aid earmarked by the EU to South Mediterranean countries). MEDA II was designed to last between 2000 and 2006. Egypt has benefited from 194.5 million euros under MEDA II in commitments over the period 2000-2003. From 1995 to 2003 the disbursement rate was 42% which, as stated by the European Commission, is in line with the average in the region (European Union, 2003, Annual Cooperation Report: Egypt published by the delegation of the European Commission in Egypt).

The most notable example of EU aid has been the establishment of the Industry Modernization Program (IMP), considered at the time of its approval as the largest aid

program the EU has ever initiated outside its territories. The amount allocated for this program reached 250 million euros. Other important aid programs included 155 million euros allocated for the Social Fund for Development, 100 million euros for the Education Enhancement Program, and 100 million euros for the Health Sector Reform Program. The Egyptian government as well as the private sector had to pay specific contributions to the IMP program based on a cost sharing arrangement. The ultimate aim of the program was to upgrade the Egyptian industry to make it ready for the challenges of the Egyptian-EU Partnership Agreement when the economy is fully liberalized after full implementation of the free trade area. The program was devoted mainly to work on the “software” type of assistance and hence, no aid was allocated to buy machinery or equipment. Several efforts have been undertaken by the program to harmonize the Egyptian standards with the European and international standards and to establish "business resource centers" that aim at providing business facilitation services in different industrial clusters. It is too early to assess the impact of such program, but it is worth emphasizing that the program has faced several difficulties in the implementation phase due to bureaucratic measures on both the Egyptian and EU sides, resulting in delayed disbursement of allocated budget. Since the project has been scheduled to end in 2006, the EU agreed with the Egyptian government in 2004 to scale down the aid allocated to this program and transfer the money for budget support. In April 2005, the managing director of the IMP announced that 1176 firms have benefited from the IMP services, and benefits ranged from helping firms to achieve high level quality products to enhancing their export capabilities and upgrading their human capital (Al Ahram Newspaper 24 April, 2005).

Another series of trade enhancement programs (TEP) have been provided by the EU to Egypt in late 2004 to enhance the capacity building of different organizations and affiliates of the Ministry of Foreign Trade and Industry in trade related aspects (TEPA, TEPB, and TEPC). These programs are still ongoing, and it is currently difficult to assess their impact; however, several points are worth noting. The mechanism of aid provision entails a lot of inefficiencies since aid is channeled through consortium of bidding subcontractors, where many experts are brought to the programs without the required experience, implying loss of money, and where the subcontractors consume the largest bulk of money in administrative matters. It has been estimated that around 60-70% of the aid allocated returns back to the EU in terms of experts’ fees and overhead costs of European subcontractors.

The Aghadir Agreement does not contain any specific provision for financial or technical assistance. However, since it is a joint initiative of both the EU and the four countries, the EU allocates some financial and technical aid for this Agreement. There are no clear figures on such aid, although not significant

The GAFTA and COMESA agreements do not have any financial and technical assistance programs. However, COMESA receives financial and technical assistance from other countries as the EU, international agencies, the World Bank, and WTO.

3. Legislative, Regulatory, and Administrative Commitments

In this section we focus on the difference between WTO commitments and the four RTAs under study. In other words, to what extent do such RTAs conform with GATT or GATS or are, in general, WTO+? We use a sectoral approach where we discuss various issues and see how they are managed in different RTAs while using the WTO as our benchmark. We complement our analysis by referring to the Egyptian laws, regulations, and organizations that have been established to handle such agreements.

Industrial Products

The WTO commitments are, by nature, less restrictive since they refer mainly to "bound rates"; whereas all the RTAs start from the "applied" rates using a specific year as the base year for reduction of tariffs. This implies that the four RTAs are GATT+, however, a general theme of all RTAs around the globe. The four RTAs, as reviewed in Section I, differ significantly in terms of their transitional periods. The longest is the Egyptian-EU Partnership agreement where the transitional period is 12 years, with the exception of cars which is 16 years. The GAFTA follows with a 10-year transitional period that was accelerated to 8 years. COMESA has a shorter period for Egypt and was fully implemented in 2 years. Aghadir, when implemented, has a short transitional period of 2 years. It should be noted that the approach for tariff reduction differs significantly between the Egyptian-EU Partnership agreement on the one hand and the other three agreements on the other hand. In the case of Egypt-EU Partnership, tariffs on industrial goods are classified into three main categories, each lasting for four years. The system of reducing tariffs, as indicated in section 1.4., shows that the nature of tariff reduction entails increasing ERP over the whole period. The other three RTAs adopt a simpler approach of across-the-board equal tariff reduction without differentiating between different types of goods. In the case of COMESA only, and not stated in the agreement, countries have their negative lists, an issue that lacks transparency and is neither available on the website of COMESA nor among main government officials. We were able to acquire this kind of information through interviews and the "published" negative list of Sudan for goods imported from Egypt within the context of COMESA, but we were not able to quire an equivalent list for Egypt in other countries or other countries with Egypt. However, we were able to find out that some items as textiles and clothing are among the negative list that Egypt adopts within the context of COMESA.

Agricultural Products

Agriculture is highly complicated as it entails details that render the analysis of the RTAs, while using the WTO as a benchmark, rather difficult. The Agreement on Agriculture uses the tariff quota system which is adopted differently in the Egypt-EU Partnership Agreement. The tariff quota system under the GATT extends the duty-free access for countries over time by widening the duty-free quota. However, in the case of the Egyptian-EU Partnership agreement, duty-free quotas are allowed for some commodities, but are not expanded over time. In the field of agriculture, Egyptian-EU Partnership agreement is not a WTO+. The GAFTA entailed in the transitional period a negative list, "Roznama"; however, it had a time limit and was completely abolished by 2005. Hence, GAFTA is a WTO+. The Aghadir Agreement is WTO+ since it does not allow any negative lists. COMESA, in theory, is WTO+; but in reality, this is difficult to assess since it contains goods that can be subject to quotas or extra surcharges or tariffs, as the case of sugar between Egypt and Kenya. As mentioned above, the whole COMESA agreement is full of blank boxes that we were unable to assess due to lack of transparency and information.

Services

Egypt has undertaken commitments in 5 sectors (out of 12), or 45 sub sectors out of the 160 under the GATS. It has undertaken commitments in the fields of telecommunications, tourism, construction, transport, and financial services. The Egyptian-EU-Partnership Agreement confined its obligations to GATS; however, it extended it in a vague, flexible form for starting negotiations after five years from entry into force of the agreement on further liberalization. In 2005 initial talks on extending the liberalization of trade in services beyond the GATS started; however, nothing concrete is implemented. The GAFTA did not include services; however, following the Framework Agreement on the Liberalization of Trade in Services concluded in 2003, the signatories are required to go beyond GATS whether in terms of extra sectors or deepening the sectors themselves; thus, it is considered GATS+. The COMESA includes a clause for progressive liberalization of trade in services. However, it is vague as in the case of Egypt-EU Partnership Agreement, yet better as it allows flexibility in terms of adopting the liberalization on either bilateral or collective basis[10]. Hence, it suffices to say that none of the Agreements are GATS+; nevertheless, they have the potential to be GATS+. The Aghadir Agreement was the least explicit agreement among the four concerning the issue of liberalization of trade in services.

[10] Based on Article 164, the member States agreed to adopt, individually and at bilateral or regional levels, the necessary measures in order to achieve progressively the free movement of persons, labor, and services, and to ensure the enjoyment of the right of establishment and residence by their citizens within the Common Market.

Intellectual Property Rights (IPR)

GAFTA and the COMESA agreements did not go further beyond the TRIPS agreement. Aghadir referred explicitly to TRIPS; whereas GAFTA mentioned that consultation over IPRs shall take place in the future, without identifying a specific date. COMESA did not include any article related to IPRs; whereas Egyptian-EU Partnership asked for adopting the highest prevailing international standards regarding IPRs (Article 37). In an annex attached to the latter agreement (Annex VI), a list of multilateral agreements dealing with IPRs were stated to which Egypt should adhere, implying some kind of TRIPS+ commitments.

It is worth mentioning that Egypt has issued a comprehensive IPR law that is in line with TRIPS requirements. The problem with IPR is the high cost of enforcement and lack of human capacity to implement the law efficiently. Egypt has received substantial amount of aid, especially from the United States of America, to upgrade its IPR system.

Standards

None of the agreements went beyond the WTO requirements. In fact, all the agreements call for cooperation in the field of harmonization of standards in the future; and the Egyptian-EU Partnership and Aghadir call even for mutual recognition. However, in reality all agreements were extremely flexible in their wording without identifying concrete steps to be undertaken or specific dates to be followed.

The Egyptian Organization of Standardization (EOS), in charge of setting Egyptian standards, is working on harmonizing these standards with European ones. The problem is the lack of enforcement and mixing safety with health measures. This has been evident in several incidents, on interpretation of many provisions, between EOS and the Egyptian Ministry of Health. Moreover, Egypt lacks an accreditation body that is able to accredit internationally recognized standards. There are a number of internationally accredited labs; however, they are few and do not handle different fields.

Rules of Origin

The issue of rules of origin is irrelevant in this regard since there is no agreement under the WTO that deals with preferential rules of origin. Hence, this issue cannot take the Egyptian commitments under the WTO as a benchmark.

The organization in charge of monitoring rules of origin is the General Organization of Exports and Imports Control (GOEIC), affiliated to the Ministry of Trade and Industry. The problem with GOEIC is that its officials are not used to check on the authentication of origin except for the value added criterion. The new provisions related to specific manufacturing processes or change of tariff heading, which the Egypt-EU Partnership agreement uses, are new to the officials who lack the capability to monitor such new methods. Moreover, there is a lack of awareness on rules of origin issues among the exporting community.

Dispute Settlement Systems

The WTO has a clear dispute settlement mechanism that was strengthened in the Uruguay Round. GAFTA does not yet have one; nevertheless, in 2004 the ESC has approved the executive decree of a dispute settlement mechanism, but it is still not functioning. The executive decree for dispute settlement includes four steps: 1) trying to resolve the dispute through consulting with the contact points identified by each member; 2) bilateral consultations between the two countries in dispute; 3) arbitration; and 4) the Investment Court. The executive decree identified the steps and time horizon for resolving the disputes.

The COMESA calls for the establishment of the COMESA Court of Justice (Chapter Five of the Treaty) to solve related problems. It was intended to establish COMESA as a rules-based institution, with rules that can be enforced through a specialized court called the Court of Law. The Court of Law arbitrates on unfair trade practices and ensures that Member States uniformly implement and comply with agreed decisions. To date, most disputes have been handled through bilateral consultations and discussions of ministerial meetings, while very few cases (around three) have been brought forward to the Court. No details are available on those disputes, implying non-transparency.

The Egypt-EU Partnership Agreement has a dispute settlement mechanism, mainly handled by the Association Council. However, in all cases it cannot be considered a real dispute settlement body as it involves monitoring of the whole agreement. There is nothing equivalent to the EU Court of Justice or any specialized body confined to handling dispute settlements.

The Aghadir has a clear dispute settlement mechanism that is handled mainly by the Ministerial committee.

Competition Policies and State Aid

The WTO has recently dropped out the competition in the July Package meeting of 2004. Hence, it is not any more on the agenda of the WTO.

The GAFTA has no specific provision on competition; however it calls for the harmonization of common competition policy, although only 4 GAFTA members have competition laws (Jordan, Tunisia, Morocco, and Egypt). Beyond the GAFTA, the ESC has recently adopted a set of guidelines, in the form of non-binding rules that states should follow while designing and introducing their competition laws. The working party on competition policy remains operative and is supposed to hold annual meetings to consult on the developments of introduction and implementation of competition laws.

COMESA is among the very active RTAs in terms of having a regional competition policy, though still not enacted, several serious steps in this regard have been undertaken by the

secretariat, and an expert group has already concluded a Draft COMESA Competition Law. The Draft Law is quite comprehensive, with a clear view of the implementation methodology and the establishment of a common competition authority. However, with the prevailing divergence in legal, political, and economic systems in member states, the actual feasibility of implementation remains highly questionable. It is worth mentioning that this draft law sets a precedent in the sense that it explicitly states that it will supersede national legislations of member states where contradictions exist.

The Egypt-EU Partnership Agreement has a specific provision on competition. All agreements between undertakings, decisions by associations of undertakings, concerted practices between undertakings, and any public aids that have as their object or effect the prevention, restriction, or distortion of competition are incompatible with the proper functioning of the Agreement. Abuse is handled by the Association Committee. At the time of signing the agreement, Egypt did not have a competition law, so the wording of the agreement was as follows: "The Parties recognize that Egypt is currently in the process of drafting its own competition law. While drafting its law, Egypt will take into account the competition rules developed within the European Union. If serious problems arise, the Parties may raise the matter for consideration in the Association Council."

There is no mention of competition issues in the Aghadir Agreement.

It is worth mentioning that in this regard all RTAs studied, with the exception of Aghadir, are WTO+.

It is also worth mentioning that Egypt has issued its competition law in 2004. In August 2005, the executive regulations were issued, and the board of directors of the Competition Authority was chosen. However, the Authority did not start to function yet, as it is in the process of building the necessary human capacity. The issuing of the competition law came after a long period of drafting different versions, reaching 18 drafts since 1995. Part of the pressure on issuing the law came from the European Union, where one of the provisions of the Partnership agreement asks Egypt for having a law and calls for harmonization of competition laws and policies.

Customs Coordination

There is no customs coordination under the WTO.

GAFTA calls for harmonization of external tariffs in the context of a customs union; however, the committee responsible for customs union never met.

COMESA did not include any article on customs coordination, although it should have reached a customs union by 2004. The procedures and mechanisms for establishing a customs union were not included in the agreement itself.

The Egyptian-EU Partnership Agreement calls for cooperation in the field of customs procedures without identifying any clear steps in this regard.

Aghadir does not contain any provisions regarding customs coordination.

Trade Remedies (including safeguards, countervailing measures, and antidumping)

Antidumping provisions as well as safeguards and countervailing measures in all agreements refer to related articles of the GATT. Regarding bilateral agreements with Arab countries, we observe that: antidumping measures are absent in the case of the agreement with Libya; in the case of Syria, they are to be solved by the joint committee; for Tunisia and Morocco, the anti-dumping measures are supposed to follow the WTO rules; in the agreement with Lebanon, the dumping measures do not yet exist; in the agreement with Jordan, a special article following WTO rules and regulations is to be applied; in the agreement with Iraq, a special Article is devoted for that purpose; and finally, the agreement with Sudan follows the COMESA rules.

Until the end of 2001, COMESA did not have proper trade remedy provisions (anti-dumping, countervailing, injury to industry, etc.) and members took the liberty to devise their own measures to address what they considered to be major market disruptions, despite that there are a number of Articles that deal with such issues (Articles 51, 52, 53, and 54 of Chapter Six). Thus, for example, when faced with the surge of imports from Egypt in a number of products, Mauritius and Kenya had bilateral talks with the Egyptian authorities to re-introduce duties on these products. Sudan also applies unilateral exemptions of some Egyptian exports. Egypt had bilateral talks with Kenya to stop the surge of Kenyan tea imports. Such unilateral measures can be double-edged swords and their abuse can frustrate trade. Egypt has been a victim to some of these unilateral measures. Nevertheless, many analysts claim that such safeguards, even on an ad hoc basis, helped to have greater participation of "smaller" countries in the FTA.

With respect to Kenya imposing a safeguard measure against sugar by a quantitative restriction, some issues need to be mentioned. The restrictions were imposed without any investigation made to determine the extent of industry's injury and the causal link between imports and the affected industry. To date, the margin of dumping has not been established. The case of sugar imports into Kenya can be rightly linked to cases of under valuation, under invoicing, or lack of proper controls at our borders. Many reports highlight that the export prices compared with the contracted or the normal value have been determined or established to enable dumping of sugar imported into the Kenyan market[11].

[11] No data on the actual legal investigations are currently accessible..

Government Procurement

The WTO has its own plurilateral agreement regarding government procurement that Egypt did not join. The agreement regarding transparency in government procurement was dropped from the agenda of the WTO in July 2004.

The GAFTA has an article that calls for preferential treatment of Arab countries in the government procurement projects of the GAFTA members (Article 8 of the GAFTA). However, in reality no consultation took place. The EU Partnership Agreement did not include government procurement; however, it refers to progressive future liberalization in vague terms. COMESA did not include any preferential treatment, but makes sure that no discrimination with third countries takes place. Aghadir did not include any provisions on preferential liberalization of government procurement.

Countervailing Measures

The four agreements follow the WTO rules and regulations in this regard. There might be slight differences as in the case of COMESA where its rules are not fully in line with WTO rules on subsidies procedures. In the case of WTO countervailing investigations shall be terminated immediately in cases where the amount of a subsidy is *de minimis* (the subsidy is less than 1 per cent *ad valorem)* or where the volume of subsidized imports, actual or potential, or the injury is negligible. The COMESA is more generous in the sense of raising the de minimis level to 2% of the product value (ad valorem). However, the COMESA did not refer to the exception allowed for countries with less than US $ 1000 GDP per capita from imposing any countervailing measures as the WTO allows.

This issue is controversial. The WTO agreement in this regard allows the parties to undertake countervailing measures against aid provided. In addition, it restricts public aid. However, Egypt following WTO rules is allowed to subsidize exports as it falls under Annex 7 of the Agreement on Subsidies concluded in the Uruguay Round. During the Round, Egypt had GDP per capita less than $ 1000 which allowed it to subsidize exports similar to the less developed countries. Egypt afterwards graduated and passed the threshold of $1000 GDP per capita. In the NAMA working group, Egypt raised the issue of its ability to subsidize exports and the Chairman of NAMA allowed it. So, it is not clear how this issue is to be resolved as there is contradiction between WTO waiver for Egypt and all four RTAs.

4. Potential Impacts of Various RTAs

In this section, we focus on the areas of similarities and dissimilarities between the different RTAs.

Product Coverage of Merchandise Trade

The COMESA has the widest coverage, followed by GAFTA which had negative lists that have been abolished in the case of agricultural products, followed by Aghadir. In the case of Egyptian-EU Partnership, agricultural, processed agricultural, and fisheries products follow certain procedures that in some cases are clearly determined and in others left for future negotiations. Problems and areas of conflict can arise in the case of processed agricultural goods covered by Aghadir but follow other norms in EU Partnerships.

Rules of Origin

There are huge differences in terms of applying rules of origin and their cumulation. In the case of EU, the main criterion is value added (60%) in addition to other criteria. There is a large similarity between the rules of origin applied in the Egyptian-EU Partnership Agreement (EuroMed ROOs) and that of Aghadir (following the Pan European ROOs, though not identical). The case of GAFTA is based mainly on the 40% value added as well as that of COMESA (where Egypt is trying to raise it to 45%). There are huge differences in details related to cumulation of rules of origin where the four agreements allow for it, but with different meanings. For example, Egyptian-EU Partnership allows for bilateral and diagonal cumulation, whereas COMESA allows only for diagonal cumulation (which is a step more advanced than bilateral). GAFTA is not clear in terms of cumulation and its conditions, with the general exception of lowering the value added requirements to 20% in case of joint Arab products.

Common Provisions

Rules covering antidumping and countervailing measures differ substantially among the agreements, where the Egyptian-EU Partnership and Aghadir Agreements are the most transparent. In case of COMESA and GAFTA, the rules refer to international standards (without defining what international standards are). COMESA has some rules that govern antidumping; however, the mechanism of applying such rules remains absent. In case of GAFTA, the antidumping disputes can be resolved through the dispute settlement mechanism initiated by the ESC.

In the area of safeguards, Egyptian-EU Partnership and Aghadir Agreements follow the same norms of WTO; while GAFTA and COMESA follow the decisions of the ESC in case of GAFTA and the special council in case of COMESA. The application of different safeguard mechanisms is not likely to create serious problems when agreements are implemented.

However, in case of GAFTA and COMESA it is not clear how these measures will be applied.

Duty Drawback

Duty drawback is granted in the transitional period of GAFTA, only for 6 years in Egypt-EU Partnership Agreement, eligible for certain products within limits in case of Aghadir till 2009, and unclear in case of COMESA. This can result in application problems even in the most two harmonized agreements (Egyptian-EU Partnership and Aghadir Agreement); where, for example, the end of the 6 years for Egypt since entry into force of the agreement is 2009, though in line with what Aghadir sets as a date, the scope of application in Aghadir is quite limited. This can result in problems not only confined to the duty drawback but also entails other aspects of cumulation of rules of origin.

Dispute Settlement

The dispute settlement mechanism is more or less similar in the different RTAs, with the exception of COMESA, in theory as stated by the preamble of the agreement but not in practice, where the procedures start by trying to resolve the dispute between the two parties without recourse to the formal dispute settlement mechanism. If the first step fails, then they resort to the procedures of the dispute settlement mechanism designed for the purpose of the agreement where, in general, there is a committee responsible for resolving the dispute. The committee consists of representatives of the two parties. If for any reason the committee fails to resolve the dispute, or if one of the parties does not accept the resolution, then they have the right to go for an arbitrator. This is generally the last step and both parties have to accept the decisions made by the arbitrator.

The difference in systems of dispute settlement does not cause a problem in the functioning of the different agreements, but it adds to the burden of handling different legal issues involving either the government or the private sector.

Services Liberalization

There are several problems associated with the liberalization of trade in services. For example, in GAFTA this is now being negotiated among its members as a GATS+ type of agreement; whereas in Aghadir it is only GATS, although the members of Aghadir are the same members of GAFTA. The Egyptian-EU Partnership agreement faces no problems. COMESA's case is not clear as it does not follow any guidelines regarding what is meant by services though it mentions in one of its articles that it will undertake liberalization of trade in services in the future. Moreover, problems will rise in case of countries who are members of both COMESA and GAFTA.

The right of establishment concept is not clearly explained in all of the agreements.

Competition Law and Policies

This is one of the main areas where incompatibility among different agreements exists and can create difficulties in implementation of these agreements, as each is expected to follow different norms.

IPRs

There are large differences between the provisions governing intellectual property rights in different agreements. Aghadir abides by WTO, Egyptian-EU Partnership follows the prevailing international standards including several multilateral agreements, COMESA follows unclear standards, and GAFTA still does not consider any norms.

Government Procurement

There are no common themes regarding government procurement among the different agreements; however, this is not likely to create problems.

Standardization and Conformity Assessment

This is one of the main areas that can create several problems in coordination and implementation. All the agreements call for harmonization and mutual recognition. However, the terms of implementation and schedule for harmonization and mutual recognition schemes are not clear. The Egyptian-EU Partnership and the Aghadir agreement call for signing mutual recognition agreements, but in a general way and without identifying steps or dates.

5. Conclusion and Policy Recommendations

The study identified the differences between the four RTAs under investigation while benchmarking them against WTO rules and regulations. It revealed that in some cases there is a wide gap between what the agreements' provisions identify and what is implemented in reality. The COMESA was a clear example of non-transparency in this regard. In other agreements, the time that has elapsed since the full implementation was too short to allow for assessing the gap between what the agreements entail and what is implemented in reality.

The overlapping of the agreements does not entail a lot of costs because they are shallow, and hence, the deep aspects (as harmonization of rules and regulations) are still not in effect, creating less friction and problems arising from overlapping. The issue is just a matter of handling the dismantling of tariffs following the schedule of the different agreements, which proved not problematic for customs officials.

The agreements share many similarities as well as differences. However, the interviews with officials and exporters identified that till now there are no problems faced due to

overlapping. The customs officials asserted that the coexistence of GAFTA and other bilateral agreements with Arab countries is not problematic. The main problem related to overlapping RTAs, or RTAs in general, as identified by officials, is the proof of origin, especially from GAFTA and COMESA members. Based on the interview results, it was revealed that the foreign exporter identifies the system by which he wants his exports to be treated.

Domestic exporters do not face large problems related to the overlapping of RTAs for two main reasons: 1) Three of the agreements did not fully enter into force and the fourth is still in its first year of implementation. 2) The majority of exporters deal with one major market, and hence, are not affected by the multiplicity of agreements concluded.

Most of the problems related to standards and their harmonization did not materialize because the four agreements were vague when dealing with issues related to harmonization and called only for cooperation on this matter. It is worth noting that standards seem to be the most restricting factor when such agreements are fully operational. The threat of different standards did not materialize because the agreements did not enter completely into force. However, as soon as all agreements fully enter into force, it is expected that standards will be the main issue hindering market access for Egyptian products in the different markets.

The gains of overlapping of RTAs in terms of cumulation of rules of origin are still not used. This is a general theme that is applicable to one RTA without the overlapping effect. Exporters are not making use of any cumulation procedure under any agreement.

The expected trade diversion towards the EU implies that Egyptian tariffs will no longer exclusively protect Egyptian producers. This will induce income redistribution from government's tariff revenue to European exporters' profits. In order to avoid trade diversion, the trade liberalization with Europe should be accompanied by external tariff reductions.

Interviews revealed that the human capacity of the General Organization for Exports and Imports Control (GOEIC) in Egypt is limited in proving origin of the imported products. One of the important areas to be addressed is the urgent need for capacity building of officials in this organization, a body affiliated to the Ministry of Trade and Industry, on identification of rules of origin. In an intensive interview with the person in charge of rules of origin of the aforementioned organization, he asserted that the officials lack training on identifying the rules of origin following the Egyptian-EU Partnership Agreement. According to what he mentioned, officials are used to the value added criterion, but are not trained on change of tariff heading or specific industrial processes which are used extensively in the Egypt-EU Partnership Agreement.

Another institutional issue that is urgently needed is training the Egyptian negotiators on how to reconcile the negative effects of rules of origin (The Sphagati Bowl following Bhagwati) in negotiating ROOs in different RTAs of Egypt. The negative impact of the overlapping of rules of origin still did not materialize because most of the agreements did not yet fully enter into force. The two agreements that have entered into force, COMESA and GAFTA, have already faced several problems in identifying origin.

Annex 1: List of Bilateral Arab Preferential Trade Agreements concluded between Egypt and a number of Arab Countries

Libya: The agreement was signed in 1990, for a period of 5 years to be renewed automatically unless otherwise notified. This agreement entered into force on 18/6/1991.

Syria: The agreement was signed in 1990, for a period of one year to be renewed automatically unless otherwise notified. This agreement entered into force on 1/12/1991.

Tunisia: The agreement was signed in 1998 to last for a long period unless otherwise notified; however, it is subject for review. This agreement entered into force on 15/3/1999.

Morocco: The agreement was signed in 1998 to last for a long period unless otherwise notified; however, it is subject for review. This agreement entered into force on 28/4/1999

Lebanon: The agreement was signed in 1998 to last for a long period unless otherwise notified. This agreement entered into force on 15/3/1999

Jordan: The agreement was signed in 1998 to last for a long period unless otherwise notified; however, it is subject for review. This agreement entered into force on 21/12/1998.

Iraq: The agreement was signed in 2001 to last for a long period unless otherwise notified; however, it is subject for review. This agreement entered into force on 8/7/2001.

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