THE MENA COUNTRIES AND THE URUGUAY ROUND AND BEYOND

Raed Safadi and Subidey Togan

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Abstract

The paper aims to identify the interests and concerns of MENA countries in the new round of multilateral trade negotiations (the WTO 2000 negotiations) with a view of helping these countries develop negotiation objectives and strategies. The introduction sets the stage by making the case for economic reforms in the MENA region and the role of the WTO in supporting these reforms. After dealing with market access issues for MENA countries' exports, the paper looks into the commitments in services MENA countries have undertaken in the context of Uruguay Round Agreements and considers issues related to FDI.

Introduction

There is a growing awareness among countries in the MENA region regarding the importance of trade and foreign direct investment (FDI) for stimulating growth and the integration into the world economy, and their decisive role in the development of the private sector and necessary structural adjustments. Consequently, many countries in the region have made efforts to increase their attractiveness to foreign investors. These efforts have included domestic economic policy reforms and the liberalization of FDI and trade regulatory frameworks, including the simplification of administrative procedures, the conclusion of bilateral investment protection and promotion treaties and free trade areas, the establishment of export processing zones, and the design of privatization programs.

Despite some progress made by some MENA countries in developing trade and FDI-related legislation and liberalizing their FDI and trade regimes, the conditions for foreign investors in most of the economies are not yet sufficiently favorable to either attract a significant amount of FDI from regional partners as well as from other countries, or to enhance intra and extra-regional trade.

Data show that the MENA economies have attracted only small amounts of inward FDI, in spite of being a large economic area of about 194 million inhabitants with a combined GNP of some USD 440 billion in 1997. With the exception of Egypt and Morocco, the ratio of FDI inflow to GNP has been volatile and has advanced relatively little over time. In the case of Morocco, FDI inflows went from 165 million USD in 1980 to 500 million in 1997; in Egypt similar figures are 734 million in 1980 and 834 million in 1997. This experience contrasts with that of many other emerging market economies, where FDI inflows have grown substantially over time. In fact, MENA's share of worldwide FDI has sharply diminished from around 22 percent in 1980 to less than one percent today. Between 1993 and 1997, FDI inward stocks in the MENA economies increased by some 23 percent to reach the estimated amount of USD 75.3 billion. FDI inflows have been very unevenly distributed. In 1997, Egypt accounted for 30 percent of total inflows into the area, followed by Morocco with 18 percent and the remaining 52 percent distributed very unevenly among the other MENA countries.

The participation of the MENA economies in global international trade is also low, even though the share of some countries has increased since 1960. For example, the share of Jordan in world trade has increased dramatically since 1960. During the period 1960-94, Jordan's share in world exports tripled to reach 0.03 percent in 1994. In contrast, the share of Egypt's exports in total world exports has dwindled from 0.4 percent in 1960 to 0.08 percent in 1994.

Intra-regional trade and investment flows, likewise, have been very limited. Although the geographical distribution of FDI flows within the area is not well documented it appears that most of regional investment outflows go outside the area. For instance, in Egypt, by mid-1996, investors from the MENA region accounted for only some 20 percent of total foreign investment registered under Law 230 (that is projects not operating in petroleum, in tourism and under the umbrella of company Law 159), with Jordanian investors being the largest source of these flows (65 percent), followed by the Palestinian Authority (35 percent).

At six percent or less, intra-regional trade among the MENA countries also remains low. Similar figures for the European Union are 60-65 percent, and in Asia, about 60 percent. Trade intensity indices provide insight into the nature of these bilateral trade flows. These indices indicate that Egypt's trade with its neighboring economies is much larger than would be expected, while its trade with the EU is what would be anticipated if Egypt's exports to the EU mirrored those of other countries. Jordan trades more heavily with other Arab countries, while its trade with all other partners, including Egypt, is less than would be expected. In short, it appears that opportunities exist to increase both regional and extra-regional trade in the MENA region.

The participation of the public sector in the national economies, either in the form of public monopolies, state-owned enterprises or via strategic shareholdings in privatized companies, remains considerable in many countries in the region (Safadi, 1997). Traders and investors, in addition, face a bureaucratic process that is often labyrinthine, cumbersome, and non-transparent. In Egypt and Jordan the extremely sophisticated investment incentives programs discourage potential investors because of the inevitabley long processing of applications. Other barriers include: the ineffective enforcement of intellectual property rights, although many of the MENA countries are making efforts to improve the protection of such

rights; uncertainties as regards expropriation without compensation in many economies in the region; the absence of transparent legal and regulatory frameworks, particularly in Algeria, Egypt, Jordan and the Palestinian Authority; and political uncertainties as well as remaining political differences between and among the countries in the region that still constitute major disincentives for foreign investors.

The above elements resulted in a large gap between MENA's economic performance and that of the rest of the world. In fact, a study by the World Bank concluded that "economic performance (in the MENA region) has been lagging, and the incentive regime is steadily falling behind that of comparator countries," (World Bank, 1995). Thus, it is clear that, as Hoekman (1998) writes, "the major policy issue facing many of the countries in the MENA region is to follow the rest of the world in liberalizing, privatizing and deregulating markets." The need for reform is not only clear, it is also imperative.

While attempts at reforms should be "home-grown," initiatives at the multilateral level can provide significant support, and in some cases may define the political feasibility of reforms. The "rules-based" global system that has evolved since World War II, epitomized by the GATT (now the WTO) helps developing countries in implementing economic reforms in a gradual manner through at least two channels. First, the GATT/WTO sponsors concerted multilateral negotiations that aim to liberalize the flow of goods and services internationally. Two important benefits emerge from this: (a) there is the enhanced prospect for political credibility when reform of domestic protection is part of a global effort; and (b) there is the additional benefit that can accrue from liberalization by others, or in other words, the gains from trade liberalization tend to be greater the larger the number of countries involved. Second, the GATT/WTO provides rules and disciplines for the conduct of international trade. It specifies the restrictions that are prohibited, those that are allowed and under what conditions. These rules and disciplines are legally bound and are subject to clear dispute settlement procedures, which provides added security and certainty to those engaged in international trade, investment and technology transfer.

In fact, for developing countries, be they small, medium-sized or even large economies, trading in the international markets on the basis of strong rules and disciplines agreed through multilateral, rather than bilateral negotiations is of critical importance, and relatively more important to them than it is for

industrial countries. There are at least two reasons why this is the case. First, unlike developing countries, industrial ones have enough bargaining powers to unilaterally influence the behavior of others. And, second, the relatively smaller size of developing countries markets coupled with the fact that they enjoy comparative advantage in a narrower range of goods and services means that they have a larger stake in a healthy growing world economy than do industrial countries (Krueger, 1999). It is thus unsurprising to see that the most important accomplishments of the Uruguay Round (UR) in as far as developing countries are concerned were the substantial strengthening of the rules governing the conduct of international trade and their extension to new areas of activities.

Thus, reform-minded governments in the MENA region, as is the case with other developing countries around the globe, have a common interest in supporting the smooth functioning of the multilateral trading system and, equally importantly, its continued strengthening. These governments have a window of opportunity as momentum is building up for a new multilateral trade negotiation round to be launched at the Third WTO Ministerial Meeting in Seattle at the end of the year. Not only do MENA governments need to welcome this event, but also they should ready themselves to: (i) become fully engaged in both the process and the results of the evolving international system, and (ii) to contribute as full partners to the universal set of rules and practices that will emerge. In addition, MENA countries need to abide by the scheduled implementation of the various obligations they have agreed to in the Uruguay Round, as well as identify their priorities in improving market access and WTO rules and disciplines in the new WTO 2000 negotiations.

This paper aims to identify the interests and concerns of MENA countries in the new round with a view of helping these countries develop negotiating objectives and strategies. Discussions regarding the various elements to be included in the agenda have been underway for some time. Of course, it is impossible to predict at this time the result of these discussions (which are in fact negotiations in and by themselves). Our concern here is to examine the issues pertaining to industrial and agricultural goods, services and FDI, irrespective of whether or not these will make it to the negotiating agenda. The paper is organized as follows. Section I describes the trading interests of MENA countries, while Section II deals with market access issues for MENA countries' exports. Section III examines the commitments in services MENA countries have undertaken in the context of the relevant

Uruguay Round Agreements, and their scheduled implementation. Section IV considers issues related to FDI. Finally, Section V presents some concluding remarks.

I. The Trading Interests of MENA Countries

The majority of MENA countries' trading interests have been and remain in the major OECD countries markets (Tables 1 and 2).[1] At one extreme, 87 percent of Libya's 1997 exports were destined to the EU market. More than half of Turkey, Syria, Egypt, Qatar and Saudi Arabia's exports also found their way to OECD markets; as is the case of Libya's exports, the EU is the single most important market for Turkish, Syrian and Egyptian products, while OECD Asia (mainly Japan) plays the same role in respect of Qatar and the UAE's exports. For Saudi Arabia, its exports are equally divided among the major OECD markets. At the other extreme, there are countries like Bahrain, Jordan, Lebanon, Oman and Yemen whose exports are directed in their majority to other developing countries, mainly in the MENA region or developing Asia.

In summary, MENA export interests are mainly concentrated in three major markets: the EU, Japan and the US; as such, their bilateral negotiations for improvement in market access, rather than being diluted throughout the globe should in fact be focused on concluding a liberalization deal with these markets. For those MENA countries whose main exports are rather regional, improvement in market access can be pursued within the context of the Arab Free Trade Agreement; simultaneously, these countries should support their regional partners in their multilateral negotiations whose results will benefit the whole MENA region on an almost-favored-nation (MFN) basis.

The other element to identify in respect of MENA countries' trading interests relates to the product composition of their exports. A major characteristic of these was evident by comparing the two panels in Table 2 where the first one reports exports of all goods, and the second, exports of non-energy products. Note that the total exports to OECD markets of MENA countries in 1997 was US$107 billion; excluding energy products from this figure reduces MENA exports to OECD countries by a total of US$78 billion dollars to US$28 billion. In other words, a full 73 percent of

[1] OECD markets in this study exclude Turkey.

MENA countries' exports to OECD countries is made up by energy products. Countries such as Saudi Arabia, Iran, Kuwait, Qatar, Oman, Yemen and the UAE are almost exclusively dependent on exports of energy products. Petroleum and its products must then be on these countries' priority list as they prepare to engage in multilateral negotiations. We leave the examination of trade barriers against these exports to the section that follows.

Table 3 presents a more complete picture on the composition of MENA countries' exports to OECD markets. The table shows that for some MENA countries, manufactured products make up a healthy share in total exports. This is most obvious in the case of Turkey (77 percent), Lebanon (70 percent, though from a low base), Jordan (53 percent), Egypt (37 percent) and Bahrain (30 percent). What is interesting to deduce from these figures is these countries' ability to penetrate highly contestable OECD markets in manufactured products, and hence their competitiveness in these products.

Yeats and Ng (1999) attribute this competitiveness to three main factors: (1) the relatively high labour-intensity of some of the products exported such as textiles and clothing and of assembly-type operations that can be inferred from increased imports of parts and components and dynamic exports of telecommunication equipment, non-electric machinery and office machinery; (2) the relatively high energy-intensity of some of the products like organic chemicals, plastic material, glass and glassware and aluminum; and, (3) the lack of seasonal overlap between these countries and their main outlet for agricultural products (especially in respect of the EU). It is worth noting that the combination of the first two factors reveal high complementarity among MENA countries in their production structures. Opportunities for enhanced intra-regional trade along these lines should be further exploited.

II. Market Access Issues for Goods

The past quarter century has seen much progress in strengthening the processes of international consultation and negotiations about global issues. The establishment of the WTO in 1995 has greatly strengthened the permanent institutional mechanisms for the discussion of trade issues and the resolution of disputes. A larger number of MENA countries are now persuaded of the importance of trade as a motor of development and some

played an important part in bringing the UR negotiations to a successful conclusion.

Completion of the Uruguay Round of trade negotiations has resulted in broad based tariff reductions and the easing of some of the important non-tariff barriers, strongly enhancing the prospects for reaping global welfare gains from further trade expansion. Efforts to calculate the benefits of the UR suggest prospective gains of anywhere from one percent up to about a five percent increase in world GDP. Unsurprisingly, the countries that stand to gain the most from the Uruguay Round are the ones that liberalized the most. MENA countries with open domestic markets are being favored, especially since their openness implies a relatively better capacity to adjust and adapt to new and emerging market opportunities.

Nevertheless, market access still represents perhaps the single most important trading issue between MENA countries and industrial ones. MENA countries' strongest demands are not only for continued access to industrial countries' markets, but also for increased access. On the other hand, industrial countries look for MENA and other developing countries to participate more effectively in the negotiations, and for some of them to contribute more and to assume more WTO obligations. In other words, some MENA countries should "graduate." For both groups of countries, market access has been hindered by tariffs and non-tariffs barriers and other measures including anti-dumping and countervailing duties, and safeguards.

2.1. Tariffs

The massive reductions in import duties and the establishment of non-discriminatory tariffs as the principal means of trade protection are commonly viewed as one of the most significant success stories of post-war trade policy and multilateral trade negotiations under the GATT. The Uruguay Round marked the eighth time that GATT members have negotiated reductions of trade barriers in a multilateral framework. The success of these multilateral trade negotiations (MTNs) has been remarkable. Prior to the Uruguay Round, seven Rounds of MTNs had succeeded in lowering the average (trade-weighted) MFN tariff rates on industrial goods from a high of 40 percent at the end of World War II to around six percent at the end of the Tokyo Round (1974-79). Moreover, the Uruguay Round (1986-93) further reduced the average trade-weighted tariff rates to four percent (Safadi and Laird, 1996).

The continuing reductions of tariffs under GATT auspices suggests that progress toward trade liberalization has been steady and marked. It would also seem that the process has occurred reciprocally, among major trading nations. Two reservations can be registered from the analysis of this picture. First, the tariff reductions have not been even for all products and sectors. Second, the practice of tariff escalation continues to plague some sectors. These two observations cast doubt on the popular assertion that tariffs no longer matter as an instrument of trade policy. An uneven tariff structure, with some high nominal rates stratified along the different stages of production, can yield high levels of effective protection.

2.1.1 Scope of bindings

Prior to the successful conclusion of the Uruguay Round, MFN tariffs in many sectors were not legally bound, and as such could potentially be raised. This created a lack of security in market access, and may have produced detrimental trade effects. A major goal of the Round has been to increase the proportion of industrial tariffs that are bound, thus providing added protection to trade liberalization commitments. As is evident from Table 4, this goal has not been successfully met in the cases of Tunisia and Turkey. In Turkey's schedule, only 35 percent of industrial tariff lines have been bound in contrast to the agricultural lines that have been bound in their entirety. The corresponding figures for Tunisia are 46 and 97 percent, respectively. These results do not compare favorably with all the other countries listed in the table, where bindings are at least 90 percent.[2]

2.1.2 Products that remain unbound

As was evident from Table 4, the totality of the EU's tariff schedule has been bound. In the US, Canada, Korea and Japan, unbound lines affect the importation of mineral products (that include petroleum and its by-products as well as plastic and rubber products in the case of the US and Korea. In the case of Tunisia, only Section 02 (vegetable products) contains lines that have been bound in their entirety. In Turkey, this includes in addition to Section 02 products included in Section 04 (prepared foods). It is evident here that both Tunisia and Turkey remain less committed to tariff bindings than other countries. It is also worth noting that lack of bindings in the

[2] Analysis here is limited to those countries for which comprehensive tariff information was available.

major OECD markets characterizes petroleum and its products, the product group of major export interest to MENA.

2.1.3 Mean bound rates

Table 5 reports simple bound tariff rates for Tunisia, Turkey, and selected major OECD economies. It is evident from the data that the tariff regimes of the selected countries exhibit wide-ranging variations, both across different sectors of any one country, and also across countries. The simple bound mean for all products ranges from four percent in the case of the US to 59 percent in the case of Tunisia. In Tunisia, bound rates range from 26 to 128 percent. The mean bound rate for all industrial lines stands at 41 percent. The range in Turkey is between 20 and 100 percent, and the mean bound rate for all industrial lines is 41 percent.

Examination of the difference between applied rates and those that are bound for the countries in the sample (panel B in Table 5) reveals that the Canada, the EU, Japan and the United States are the only parties that have achieved increased levels of bindings together with reductions in the rates actually in force. In the cases of Tunisia and Turkey tariff rates have been bound at much higher levels than their corresponding applied 1996 MFN rates.

Between now and the end of the UR implementation period, mean tariffs will fall by a minimum of 39 percent in the US and 25 percent in the EU; the corresponding figures in Canada and Japan are 46 and 29 percent, respectively. In the cases of Tunisia and Turkey bound rates are on average higher than their corresponding MFN rates. Turkey has bound its tariffs at levels that were on average 34 percentage points higher than the applied ones. The same is true in the case of Tunisia's schedule where the difference between the two means is 30 percentage points. In the schedules of these countries, not a single product group at the section level is affected by a bound rate that is equal to or less than the MFN one. In contrast, in almost each of the product groups at the section level imported into the EU and the US, post-UR bound tariffs will be lower than those that are applied on an MFN basis. The difference between 1996 MFN and post-UR bound rates is very significant in the case of some HS 6-digit products, especially in agriculture.

2.1.4 Products experiencing continued high bound tariff rate

Although on average some important reductions in tariffs have occurred in some countries, yet a large number of product groups at the 6-digit level will still experience high bound rates in the post-UR trading environment.

Tariff peaks or spikes refer to the ratio of lines for which the tariff rates exceed a reference level to the total number of lines. Two sets of shares of lines are computed using two reference levels: the first is 15 percent which we call "international peaks," and the second reference level equals three times the national mean tariff which we refer to as "national peaks.[3]" A large number of peaks implies a highly differentiated tariff structure whereas a small number of peaks points to a more uniform or "flat" tariff structure.[4] The difference between the two methods of calculation therefore depends on the national mean bound tariff.

Using the national definition of tariff peaks, the tariff schedule of the EU exhibits a more uniform structure than that of US. In the EU, three percent of the 5113 products are considered national spikes. The US tariff schedule reflects equal incidence of national tariff peaks. Six percent or 298 lines in the US will be affected by a tariff that exceeds three times the national mean. The schedule of Tunisia shows a relatively flat distribution of tariffs when the national definition is used: thus, at most two percent of the lines in the case of Tunisia. For Turkey, this indicator is smaller than one percent.

A preponderance of lines affected by international tariff peaks (i.e., tariffs exceeding 15 percent) is obvious in the cases of Tunisia and Turkey. In the case of Turkey a large number of tariff lines are international peaks (78 percent of all the 6-digit HS). In the EU five percent or 269 lines will show tariffs over 15 percent in the post-UR trading environment and in the United States percent or 112 lines.

Not surprisingly, the largest number of peaks is to be found in agriculture. Peaks in the agriculture sector are picked up using the outside-of-quota

[3] The 15 percent threshold is used by some countries in multilateral trade negotiations. It is not an internationally accepted definition per se.

[4] It should be stated that the case for a more uniform tariff structure rests on political economy arguments. According to these arguments, uniform tariffs make the trade regime more transparent and relatively easy to administer. This is most applicable in cases where tariff levels are taken to be endogenously determined and responsive to political pressure, and where efficiency arguments include the social costs of rent dissipation associated with the use of resources in lobbying.

tariff rates (OQTRs) (see Section 2.4) where applicable and where *ad valorem* equivalent (AVE) were available. National peaks as a percentage of the total number of lines in agriculture are nine percent in the United States and 28 percent in the EU. A full 36 percent of agricultural goods are subject to tariffs over 15 percent in the EU. The corresponding figure for the United States is seven percent.

2.1.5 Tariff escalation

Tariff escalation occurs when zero or low tariffs are applied to imports of primary commodities with the duties increasing or "escalating" as the product experiences increased fabrication.[5] Tariff escalation produces a trade bias against processed goods due to the higher import duties imposed on these items. The result is increased protection of value-added that twists its worldwide distribution along processing chains against countries with relative abundant supply of raw materials.[6]

The post-UR bound tariff rates were grouped for each country by stages of processing using the definition adopted by the Technical Group of Experts on the GATT Tariff Study. That study divided traded products into three stages of processing (raw materials, semi-finished and finished products). The results are presented in Figure 1 for selected countries for which comprehensive tariff information was available. It is readily apparent that the majority of the tariff schedules included in the figure reflect escalating tariffs, although the extent of escalation differs greatly across the countries under investigation.

For example, Argentina's schedule reflects de-escalation when products are processed from raw materials to semi-finished products, but then tariffs escalate when the product is further processed into a finished good. The same practice, though to varying degrees, is also reflected in the schedules of Brazil, Colombia, Hungary, Iceland, India, Indonesia, Korea, Norway, the Philippines, Poland, Romania, Tunisia, and Venezuela. Tunisia's schedule reflects the highest degree of escalation between semi-processed and finished products.

The schedules of Australia, Canada, the Czech Republic, Mexico, New Zealand and Turkey all reflect escalating tariffs throughout the stages of processing, although the extent varies significantly from one schedule to another. Bangladesh and Switzerland are the only countries in the sample where de-escalation occurs at each stage of processing.[7]

In the EU, tariff escalation is less of an issue, at least in the first stage of processing, since raw materials and semi-finished products receive a similar tariff treatment. In Japan and the US, tariffs escalate when imports undergo the first stage of processing, but then de-escalate as goods experience further processing into finished products.

The foregoing shows that issues related to tariff escalation should also be high on the multilateral trade negotiation agenda of MENA countries. In addition to tabling "requests" for eliminating altogether this practice in major markets, MENA countries should also look into ways to reduce and eliminate their own practice in this area.

2.2. Non-Oil Products of Major Export Interests for MENA Countries

Table 6 reports both the bound and 1996 MFN (or applied) rates the EU and the US place against imports of the largest non-oil exports of MENA countries. The first thing to note from the data reported in the table is that the Uruguay Round will in fact result in a decrease in the applied rates to the maximum bound rates for each and every product listed in the table. Nonetheless, above average bound rates still characterize some lines; in the EU market, this is most obvious in the case of fresh vegetables,

[5] The issue of tariff escalation is not a new one. It has been raised in numerous international fora since the late 1970s and is an issue of particular importance for developing countries, including the least developed among them. These countries, for the most part net raw material exporters, face higher and sometimes prohibitive tariff levels when they try to move into higher value-added, and therefore more processed, product markets. For a more elaborate discussion of tariff escalation issues see Safadi and Yeats (1994).

[6] As an example, consider the tariff treatment imports of textiles and clothing products receive in the Quad markets. The average MFN tariff in all Quad countries for textiles is nine percent. When these textiles are assembled and sewn to make clothes, however, the average tariff escalates to 14 percent. Potential clothing exporters to the Quad markets must therefore achieve an incremental productivity gain of five percent (plus transport costs) in order to compete on equal footing with Quad producers.

[7] Recall that the escalation issues are related to the concept of effective rate of protection which is defined as the increment in value added made possible by the tariff structure as a proportion of the free trade value added. It is possible for the effective protection rate to be negative, if the imported inputs are subject to higher rates of duty than the final good, or in other words, de-escalation. More generally, effective rates of tariff protection will be higher than, equal to, or lower than nominal duties, depending on whether nominal duties on the final product exceed, equal, or fall short of those on material inputs. The difference in effective and nominal rates of protection further depends on the share of value added in output.

unmanufactured tobacco, organic chemicals, woven cotton fabrics, and textiles products; in the case of the US, practically all the lines are characterized by above average (4 percent) rates. In both the EU and the US, imports of unmanufactured tobacco will still face excessively high bound rates, 27 and 39 percent, respectively.

The examination of the trading interests of MENA countries is not limited to those exports that currently constitute a major part of their totals. Other products that are exhibiting above average growth rates may also hold the promise for future expansion in export earnings. Yeats and Ng (1999) identifies a total of 30 of these products that he calls "dynamic" products. These are reported in Table 7 along with their corresponding 1996 MFN applied rates and post-Uruguay Round bound rates. Once again, it is evident that the Uruguay Round will bring about reductions in the rates applied to each and every product listed in the table. In addition, above average rates will still affect imports of live animals and fixed vegetable oils into the EU, and the latter product into the US.

The data reported in Tables 6 and 7 thus show the value of multilateral trade negotiations: each and every product group of current and potential export interest to MENA exporters will experience a reduction in its tariff treatment once the obligations agreed during the Uruguay Round have been implemented in full.[8] In addition, the product groups listed in both tables, along with petroleum and its products should in principle define the minimum negotiating agenda for MENA countries in as far as future multilateral trade negotiations are concerned. In other words, MENA countries' requests from their major trading partners should include reductions in these rates, as well as universal bindings of all of these products under the WTO, including petroleum and its products.

[8] Most cuts in bound tariffs are scheduled to take place in five equal annual reductions (with some exceptions in respect of some products) beginning in January 1995, the date of entry into force of the WTO. In principle, the final offer rates will be in effect no later than 1 January 1999; however, some countries have negotiated later deadlines in respect of some industrial goods. Textiles and clothing products are to be gradually integrated into the WTO in a four-stage phase-out over ten years, starting 1 January 1995 and ending 1 January 2005 under the supervision of a Textiles Monitoring Body. In agriculture, a gradual liberalisation process is under way, initially over six years for industrialized countries (i.e., final offer rates are to be in effect by January 2000) and ten years for developing countries (final offer rates will be in effect by January 2004).

2.3. The Tariff Agenda: The Uruguay Round and Beyond

For those familiar with the history of negotiations during the Uruguay Round, the idea of launching another round of multilateral negotiations may not see too many trade officials racing to the negotiating room and the negotiators' lack of enthusiasm well may be understandable. Apart from the complexities and political difficulties encountered on agriculture, services and TRIPS, progress on the tariff front also eluded negotiators for the major part of the Uruguay Round as numerous and endless discussions revolved around modalities and product coverage. It was not actually until the very end of the Round that the tariff deal was concluded. Occasionally, lack of progress on tariffs also impeded progress in other areas, although it is more likely that the pace and scope of negotiations on other issues distracted from the urgency of the tariff negotiations. Perhaps the time has come to rethink the approach to tariff negotiations, and for the MENA countries to assume a leading role on this front. The experience gained during the Uruguay Round and subsequent to it provides some lessons (see Box 1).

Negotiations during the Uruguay Round have established for the first time a pattern for duty-free trade on a sectoral basis. During the tariff reduction exercise of the Round, interest grew for eliminating tariffs on a sectoral basis, and the "zero-for-zero" approach emerged - involving complete sectoral tariff elimination conditional on other trading partners doing the same. This new approach was adopted by the Quad countries (US, EU, Canada and Japan) following the G-7 meeting in Tokyo in July 1993, and eventually resulted in a considerable acceleration of the elimination of tariff barriers in selected sectors.

The zero-for-zero tariff commitments resulted in the total elimination of tariffs on pharmaceutical products, construction equipment, medical equipment, steel, furniture, agricultural equipment, beer, distilled spirits, toys and paper. While this approach did not address other barriers to trade, its results in the reduction of tariff barriers are significant: nearly half of the imports of OECD countries of the above-listed products have been enjoying since the beginning of 1999 duty free access regardless of the origin of imports - this share is even higher if account is taken of imports that are subject to preferential access.

More recently, the pattern for establishing duty-free trade on a sectoral basis was used to underpin the negotiations of the Information Technology Agreement (ITA). The ITA owes its origin to a transatlantic private sector

initiative which later culminated in a joint set of recommendations by IT industry representatives from the Quad countries and presented to the G7 Ministerial Conference on the Global Information Society (Brussels, February 1995). A key recommendation suggested that the leading industrial countries negotiate the complete elimination of customs duties by the year 2000, or sooner on products that formed an essential basis for the realization of the Global Information Infrastructure.[9] With such support from the private sector in the Quad, negotiations proceeded expediently, and consensus amongst the Quad was reached in respect of negotiating modalities and product coverage. This allowed the Quad to expand the negotiating process to include other countries, and the package was announced during the first WTO Ministerial Meeting in Singapore in December 1996 and concluded three months later in Geneva.

The ITA establishes tariff-free trade in six product groups: computers, telecom equipment, semiconductors, semiconductor manufacturing and testing equipment, software and scientific instruments. Participating countries agreed to bind and eliminate all customs and other duties and charges on information technology products by the year 2000.[10] The elimination will be carried out on a MFN basis and has in fact begun on 1 July 1997. It is to be realized in three stages with equal tariff reductions. The second stage has started on 1 January 1998 and the third stage on 1 January 1999. The fourth stage (complete elimination) is to start on 1 January 2000.[11]

The strategy that the Quad countries have followed, at the beginning in building consensus amongst themselves, and later in expanding the negotiating process to include other important IT players, and to bind and eliminate all customs and other charges in a relatively short period of time, points to a new formula for expedient and successful trade negotiations.

[9] USITC (1997), "Advise concerning an Information Technology Agreement and Modifications of Duties on Distilled Spirits," Publication 3031, April, p. 3.

[10] During a meeting in Toronto in May 1997, the parties to the ITA agreed to include non-tariff barriers for discussion during the review meeting in October 1999.

[11] For individual developing countries, tariff elimination schedules were agreed to be specified differently: Costa Rica, Indonesia, India, Korea, Malaysia, Chinese Taipei, and Thailand have been granted flexibility in cutting their tariffs on a few products to zero after the year 2000 but not beyond 2005. Besides the infant industry argument, the longer period of the elimination of tariffs was justified on the basis of the fact that these countries had higher tariffs for these product groups.

Thus, the ITA may in fact provide a model for new negotiating modalities. The novelty of the ITA can be found in the following:

- It aims at the complete elimination of tariffs in one given sector in a relatively short period of time with minimal or no exception in product coverage.
- It has some flexibility in respect of the scope of products included. This emerged following the definition of a landscape of specific products in commercial terms, rather than in reference to the traditional tariff nomenclature (HS); thus its "sector" definition is more arbitrary, which helped to harmonize different product classifications.
- The country coverage of the agreement secured that it would touch upon a substantial share (i.e., over 90 percent) of world trade in the given sector. This significantly reduced "free-rider" concerns and helped to ensure an MFN agreement.
- Besides tariffs, all the participants voiced their commitments to address non-tariff barriers and to widen product coverage in the follow-up negotiations.
- The negotiation process itself proved to be very quick (two years from start to finish) - especially compared to the burdensome and long UR processes.

While in theory any particular trade agreement which addresses only one segment of distorting trade policies can be perceived as a second best solution to a "total" approach, the ITA-type approach can result in further steps in the right direction, i.e., toward global trade liberalization. Bearing in mind the recent trends in globalization and outsourcing strategies of multi-national enterprises, production inputs and semi-processed products could also be targeted for the total elimination of tariffs, and so could other products or sectors where MENA countries enjoy a comparative advantage. The most obvious of these are those products which were left out from previous zero-for-zero agreements (for example in the product groups that are listed under textiles, clothing, footwear, toys, and of course petroleum and its products). Production inputs such as fuels, agricultural raw materials, non-ferrous ores and metals, wood, and paper can also be listed as candidates for the total elimination of tariffs. These products are already affected by negligible tariffs. Therefore, even small movements in exchange rates can wipe out the protection afforded leaving only the burden and the costs associated with collecting these duties. In addition, the share of these

products in total world trade is relatively small; thus, one would not anticipate a surge in imports if these products were to be affected within a relatively short period of time by zero tariffs.

Another group of production inputs that may also be ripe for an ITA or zero-for-zero type of negotiations is semi-manufactures. Some (e.g., steel) were already touched upon by the UR negotiations. Additional production inputs, such as iron and chemical products, and also automotive parts, may be included. The abolition of tariffs in these "input" sectors can provide benefits in terms of lower costs of production and enhanced price competitiveness.

A different kind of welfare loss may also occur when tariff escalation affects sectors that are environmentally sensitive. For example, higher tariffs on paper compared to pulp result in double dying of the pulp, with consequent increases in energy consumption. In the forestry sector, environmental distortions are associated with tariff escalation on semi-processed and processed wood products. The same problem can be found in the metals and coffee sectors. Encouragement of local processing by leveling-off the tariffs would likely result in energy saving and in less burden on the environment in these sectors.

Fish and fish products were among the "losers" in the UR in terms of getting the lowest tariff reductions (on average, these products were affected by a 27 percent global reduction compared e.g. to 37 percent for industrial products). In addition to the observed reliance of many MENA countries (including the least developed amongst them) on exports of these products, high tariffs on fish and fish products hinder the upgrading and diversification of production and thus visit additional damage on the environment. Thus, a zero-for-zero approach in this sector would prove to be a win-win solution to both development and environmental preservation.

Another sector where MENA countries could provide initiative and leadership may be found in those product groups, which are related to environmental protection, like environmental equipment and energy-related equipment in a wide sense, and also technologies and services associated with cleaner environment and more environment-friendly production processes. The commercial interest in promoting a more liberal trading environment in these product groups is obvious. In addition, such an initiative would generate a "public interest" dividend, particularly with

those environmental groups that see the multilateral trading system and its promotion of more liberal trade as problematic to the environment.

2.4. Agricultural Trade Policy

The Uruguay Round Agreement on Agriculture provided guidelines on how WTO-member countries were to convert their non-tariff barriers (and the variable levies) into tariff equivalents (this is the process known as tariffication). For industrial countries, the conversion was to be based on the observed difference between domestic prices and world prices, and the level of protection was not to exceed that which prevailed in 1986-88. Countries could express the level of protection as an *ad valorem* rate, a specific rate or a mixed rate. Tariffication by developing countries was not required to follow these guidelines.

The Agreement on Agriculture also provided for minimum import access by tariff quotas to be guaranteed in respect of all tariffied products. If current imports were less than three percent of domestic consumption in 1986-88 base period, access must be increased to at least three percent and five percent at the beginning and end of the implementation period, respectively. If the access level was greater than five percent in the base period, this level of access must be maintained.

In cases where the tariffication process has produced high levels of tariff protection to the point that such levels may in fact impede the achievement of the guaranteed minimum access, a lower rate, called tariff-quota rate has been introduced. This lower rate is referred to as the "inside of quota tariff rate" (IQTR), as opposed to the higher, more restrictive rate which is referred to as the "outside of quota tariff rate" (OQTR). Finally, the tariffication process allowed countries to claim special safeguards (SSG).[12] In some cases the SSGs are claimed even where no tariff quota is in place.

In MENA countries agriculture has economy wide importance. It accounts for 15.6 percent of GDP in Egypt, 13.6 percent of GDP in Tunisia, and 16.0 percent of GDP in Turkey. These shares are high, both relative to other developing countries and the world average. Large proportions of Egyptian,

[12] The SSG can be applied in response to either a fall in import prices (price-based) or an import surge (volume-based). It is worth noting that SSGs are neither an anti-dumping measure nor a countervailing duty type measure as there is no injury or subsidization requirement. In cases where SSGs have been introduced, the resulting tariffs are applied on top of their corresponding OQTRs.

Tunisian and Turkish populations still live in rural areas where the highest fertility rates are to be found, with out-migration rates from the rural areas also tending to be high. The MENA countries aim in general to ensure adequate levels of nutrition and food supplies at reasonable prices to domestic consumers, raise production levels and yields while reducing the vulnerability of production to adverse weather conditions, increasing farm incomes, improving their stability and developing rural areas in general. In pursuit of these objectives, many MENA governments have introduced a set of measures based essentially on the support of producer prices, complemented by trade related measures, the subsidization of farm inputs, and transfers related to investments in infrastructural projects.

Studies reveal that agricultural sector is highly protected in MENA countries. Consideration of the Turkish case reveals that the average applied tariff rate in agriculture during 1998, calculated for HS chapters 01-24, amounts to 47.9 percent. In the case of meat and preparations of meat, tariff duties amount to about 130 percent. According to the preferential regime applied by Turkey to the imports of agricultural products originating in EU tariff quotas apply for a relatively large number of agricultural products. On the other hand according to the preferential regime applied by the Community to the imports of agricultural products originating in Turkey almost all of the agricultural commodities originating in Turkey are imported into the Community free of *ad valorem* duties and EU applies almost no tariff quotas to these imports but only variable duties. Besides tariffs and tariff quotas protection is provided to agriculture in Turkey through a system of generous subsidies. The cost of this scheme is estimated annually by OECD for the OECD countries. According to the latest OECD report on agriculture (1997) the total transfers associated with agricultural policies in Turkey during 1996 has amounted to about 8 percent of Turkish GNP. According to OECD total transfers to agriculture consist largely of (i) transfers from taxpayers, who must pay higher taxes than otherwise to cover government expenditure on agriculture, and (ii) transfers from consumers, who must pay higher food prices than otherwise, because a high percentage of farm protection takes the form of market price support. These cost figures are gross, in the sense that the benefits accruing to farmers and landowners have not been deducted from the costs born by consumers and taxpayers.

Similar considerations apply to the cases of other MENA countries. Here access to European agricultural and food markets has been more restricted

relative to the Turkish case. Consideration of the agricultural policies of the main trading partner of the MENA countries, the EU, on the other hand reveals that the EU through the Common Agricultural Policy (CAP) has extensively used trade instruments such as variable levies and export subsidies and has restricted foreign access to the European market. The CAP has developed into a major financial and administrative burden absorbing about 50 percent of the EU budget. According to OECD (1997) the total transfers associated with agricultural policies in EU has amounted to US$ 120 billion during 1996, constituting about 1.1 percent of GDP.

Recently the agricultural policies followed by MENA countries and EU have been criticized extensively by various economists and even politicians. Lately countries tend to embark on reform programs either of their own making or at the suggestion of the lending and financing agencies considering the reform of international trade policies as a key part of domestic economic reform process.

The policies summarized above are in general consistent with the rules of the Uruguay Round Agreement on Agriculture of 1994. The agreement has resulted in a legally effective binding of tariff rates for agricultural goods and has imposed constraints on the most trade-distorting types of agricultural policies such as export subsidies and total support. The reforms were more successful in changing rules than in reducing protection and liberalizing trade. Protection in many markets is still very high and the allowable export subsidies still distort the markets substantially. The Uruguay Round Agreement also confirmed the objective of substantial, progressive reductions in support and protection resulting in fundamental reform. The next round of multilateral trade negotiations will have to decide on the steps to be taken. It will have to address issues related with additional market access provisions, further reductions in export subsidies, setting limits to quantitative restrictions, and more discipline in the area of trade distorting domestic subsidies. Access to markets for imports of agricultural commodities could eventually be improved until entry is no more restricted for agricultural and food goods than for non-agricultural goods. Finally multilateral trade negotiations have to deal with national regulations governing food safety, animal and plant health. They should be established in a way that minimizes the chance that countries could use them to restrict market access.

It seems that the international environment for multilateral trade negotiations in agriculture is very favorable. The main trading partner of MENA countries, the EU will have to reform the CAP as a pre-condition for the enlargement of the EU. Programs will probably be developed in EU that are de-coupled from commodity production and that are targeted at particular categories of farmers and regions that merit support. If compensation payments can also be paid mainly from national treasuries many of the problems of enlargement will be solved in EU. Then it would seem that the EU will best be served by freer trade in global markets. This potential change in attitude by the EU would make it easier for the MENA countries to increase their access to European agricultural and food markets. The Euro-Med agreements would also increase the pace of liberalization of agricultural trade between the MENA countries and the EU.

The interest of MENA countries in promoting a more liberal trading environment in agricultural and food products is obvious. Such a change would not only decrease the burden on public budget and the welfare cost of agricultural programs in the MENA countries but also lead to better allocation of resources in those countries leading to increases in income per capita.

III. Services

It took more than four decades after the birth of GATT (the General Agreement on Tariffs and Trade) for the subject of trade in services to find its way onto the multilateral negotiating agenda. By about the latter half of the 1970s, the absence of rules and multilateral commitments on trade in services was beginning to be seen as a significant systemic gap. Awareness was growing of the importance of services-related activities in the world economy. The production of services was increasingly seen as an independent activity, worthy of explicit multilateral attention. Prior to this, international trade had been seen largely through the prism of trade in goods. Services were altogether subsidiary, either in the sense of being embodied in goods, or as secondary activities undertaken in the cause of facilitating the supply and commerce of goods.

Technological advances have also played a key role in bringing trade in services to the forefront of policy makers' concerns. Advances in transport and information technologies have contributed to a rapid expansion of services trade. Many international transactions, which previously would

have been considered prohibitively expensive, have now become commonplace because of the ease with which people can move and communicate electronically across national boundaries. These trends are reflected in the fact that trade in services has grown faster than trade in goods for well over a decade. While services exports accounted for some 16 percent of world exports in 1980, the share had risen to over 20 percent in the early 1990s. Annual average growth in services exports was approximately eight percent from 1980 to 1992, compared to some five percent for merchandise exports.

3.1. The General Agreement on Trade in Services (GATS)[13]

3.1.1 Scope and structure

Governments exercised caution when they negotiated the GATS, providing themselves with ample scope to condition their multilateral commitments. Two aspects of the GATS that need to be distinguished are the part that establishes a framework of rules governing trade in services, and the part that sets out the specific sectoral commitments undertaken by Members. The latter are inscribed in schedules appended to the Agreement. Only some of the provisions of the GATS framework agreement relate to the universe of trade in services, as defined under the agreement, while others are restricted to those service activities subject to scheduled sectoral commitments.

The scope of the agreement, the definition of trade in services, and sectoral coverage are laid out in Part I of GATS. The Agreement applies to all measures taken by Members that affect trade in services. Trade in services is defined in terms of four modes of supply. The first mode involves the cross-border (arms-length or long-distance) supply of a service from one jurisdiction to another. This mode of delivery is analogous to international trade in goods, in that a product crosses a frontier. Many different kinds of electronic information flow occur across national borders. The second mode of supply requires the movement of consumers to the jurisdiction of suppliers.[14] Tourism is a good example of this mode, involving the movement of (mobile) tourists to (immobile) tourist facilities in another

[13] This section draws from Safadi (1998).

[14] Both a service supplier and a service consumer could, of course, move to a third jurisdiction. Under GATS, this would be treated as two separate transactions from the point of view of the host country.

country. The third mode of supply is through the commercial presence of a supplier in the jurisdiction where the consumers are located (abstracting from export sales). This is the investment mode. An important point to note about the investment mode is that it involves two distinct components. The first relates to the authorization to invest, or in other words to the setting up of business in another Member's territory. The second deals with post-establishment operations, or in other words with actually doing business. Both these aspects are covered by GATS. The idea of including commercial presence in GATS was initially opposed by many developing countries. They argued that commitments on service transactions under this mode of supply were tantamount to a surrogate obligation on foreign direct investment, and they expressed unwillingness to tie in their investment regimes in this manner. Finally, the fourth mode entails the movement of natural persons from one jurisdiction to another. This is the mode under which the sensitive issue of the movement of labor is addressed. The Agreement makes it clear that provisions on movement of natural persons do not address issues relating to access to the employment market, nor measures regarding citizenship, residence, or employment on a permanent basis. The fourth mode relates both to independent service suppliers and to employees of juridical persons supplying services. Just as with the commercial presence mode, the GATS covered both the right to establish a presence and the right to do business under the fourth mode.

The conceptual approach underlying these modes was first developed in the academic literature as a heuristic device to explain the nature of international transactions in services. Differentiation by modes of supply later formed the basis on which governments defined market access commitments under GATS, permitting a choice to be made from among alternative modes. The use of modal distinctions is a reflection of the manner in which liberalization is defined under the Agreement, and the possibility of applying different policy regimes to different modes of supply is a potential source of economic distortion. It may also be argued that the absence of symmetry in the policy conditions affecting the different modes imposes limitations on the reach of liberalization. Despite early reservations about commercial presence, a tendency is discernible for scheduled commitments to be concentrated in the commercial presence mode. In some cases, this may be because countries have attempted to use the GATS as an instrument for encouraging foreign direct investment. In others, it reflects the desire to avoid "regulatory competition" between different jurisdictions.

Furthermore, where regulatory control is considered important, as in prudential controls in banking, for example, governments find it easier to impose and enforce regulations in their own territories.

A second feature of the definition of services covered by GATS is the exclusion of services supplied in the exercise of governmental authority. The definition of a service supplied in the exercise of governmental authority is "any service, which is supplied neither on a commercial basis, nor in competition with one or more service suppliers" (Article 1:3(c)). The intention of this provision is to permit governments to exclude basic infrastructural and social services which they supply their populations on an exclusive basis from the purview of the Agreement.

The most important general obligations in GATS are the MFN principle articulated in Article II and the publication and supply of information aspects of the transparency provisions in Article III. The MFN clause states that: "With respect to any measure covered by this Agreement, each Member shall accord immediately and unconditionally to services and service suppliers of any other Member treatment no less favorable than that it accords to like services and service suppliers of any other country." Note that the MFN principle refers to both services and service suppliers, reflecting the fact that the GATS is both an investment and a trade agreement. Article II of GATS also provides the possibility that Members may maintain MFN-inconsistent measures as long as they are scheduled in the Annex on Article II Exemptions. Exemptions from MFN could only be registered prior to the entry into force of the Agreement, and cannot be supplemented. Moreover, they are subject to periodic review and are in principle meant to be maintained for no longer than ten years.

The MFN exemption provisions reflected the concern of some larger countries that by granting MFN access to their markets, they would be losing the opportunity to exchange their relatively open access for further liberalization in other markets. In other words, these countries were arguing that "free riding" would occur in the absence of an effective instrument to ensure reciprocity. The issue was raised most explicitly in the telecommunications and financial service negotiations. Some 60 countries took MFN exemptions, affecting most significantly the audio-visual, financial, basic telecommunications, and transport services sectors. The MFN exemption in the financial services sector was suspended pending the outcome of post-Uruguay Round negotiations. MFN provisions did not

apply either to basic telecommunications and maritime services (except where specific scheduled commitments have been undertaken) pending completion of negotiations in these areas. Audio-visual MFN exemptions reflect European concerns about the cultural reach of US entertainment products, and are justified in terms of arguments about defending the national heritage. The European Union not only exercised its right to insist on an MFN exclusion, but also failed to make any specific commitments in this sector.

A fundamental feature of GATS is the principle of progressive liberalization (Part IV). It reflects the reality that governments were neither willing nor able simply to open up their services markets to international competition from one day to the next. Progressive liberalization implies a gradual approach, and the structure of the GATS accommodates such gradualism. Members have already committed themselves to enter into successive rounds of negotiations aimed at achieving higher levels of liberalization. The first such negotiation is to take place in the year 2000, and in all likelihood in the context of a more comprehensive round of negotiations.

A question to consider, however, is whether the GATS does indeed offer a vehicle for achieving trade liberalization, or whether its structure is such as to allow governments to support a putatively market-opening instrument while in practice holding off liberalization into the indefinite future. In other words, has a proper balance been struck between gradualism and the gradual attainment of ever-higher levels of liberalization?

In considering this question, it is useful to examine certain structural features of GATS which, it could be argued, are important in determining the pace of liberalization. Two of them relate to the discussion so far, and others are dealt with later in relation to scheduled commitments. First, there is the question of the scope of application of the provisions of GATS. Under the existing structure, few obligations in GATS apply unless a sector and the associated modes of delivery have been made subject to specific commitments in the schedule of a Member. As noted above, the MFN principle in Article II and the transparency commitments in Article III are the main general obligations of the agreement. In addition, certain provisions dealing with recognition of qualifications (Article VII), monopolies and exclusive suppliers (Article VIII), and business practices (Article IX) are of general application. The most important gaps in general

application, which have the effect of reducing the reach of GATS, are those relating to domestic regulation, market access and national treatment.

The intensity of regulation in services, as well as the fact that the GATS deals with both investment and trade, makes the GATS provisions on domestic regulation a crucial element of the Agreement. To the extent that the disciplines on regulations laid out in Article VI do not apply to unscheduled activities and sectors, the disciplinary impact of GATS is correspondingly limited. Moreover, only the bare bones of rules on regulations have so far been established. These are based primarily on the notion of necessity, such that any regulatory interventions relating to qualification requirements and procedures, technical standards and licensing requirements should not constitute unnecessary barriers to trade in services. Regulatory interventions must also be non-discriminatory and based on objective and transparent criteria. Licensing procedures must not in themselves create a restriction on the supply of a service.

In light of the acknowledged inadequacy of these provisions in terms of their generality, paragraph 4 of Article VI calls for a work program to develop further the GATS provisions on domestic regulation. In addition, the Decision on Professional Services calls for recommendations for the elaboration of multilateral disciplines in the accountancy sector. Governments might consider whether regulatory disciplines should cover all sectors, and the work program could provide an opportunity for extending regulatory disciplines beyond specific commitments in schedules, to all services covered by GATS.

A second structural issue relates to the difference between a “positive” and a “negative” list approach to scheduling specific commitments under GATS. A positive list approach to sectoral coverage requires that Members list the sectors in which they are willing to undertake commitments, and any sector or activity not so listed in a Member’s schedule is not subject to specific commitments. The GATS has adopted a positive list approach to scheduling sectors. A negative list approach, by contrast, requires that Members list those sectors or activities in respect of which they are unwilling to assume commitments, leaving all other sectors covered by implication.

Three arguments are advanced as to why a negative list approach may foster greater liberalization than a positive list approach. First, it is argued that with a negative list greater transparency is assured, since the true coverage

of the Agreement would be readily revealed. On the other hand, given that all governments know what services are included in the established sectoral nomenclature under GATS, the validity of the transparency argument would seem to depend on whether adequate transparency provisions, per se, are in place, rather than upon the choice of means to indicate sectoral coverage. The second argument is that by forcing governments to list sectors in which they are unwilling to accept commitments, a greater pro-liberalization dynamic will be created, as long lists might cause embarrassment. It is not altogether clear, however, why governments should be more embarrassed by long negative lists than by short positive ones. The third argument is probably the most powerful in favor of a negative list approach. It is that with a negative list, new sectors would automatically be covered by GATS disciplines, unless explicit action were taken to exclude them. As technology moves fast in many service sectors, this is a significant consideration, and may help explain the reluctance of governments to adopt a negative list approach.

3.1.2 Schedules of specific commitments

Articles XVI, XVII and XVIII are the core of the Agreement as far as specific commitments are concerned. Article XVI deals with market access, which is defined in a very specific manner. Having established that signatories will accord services and service suppliers treatment at least as favorable as that provided for in the schedules, the Article goes on to define six types of market access restrictions that will not be adopted in respect of sectors where market access commitments are undertaken unless there is a specification to the contrary in the schedule of specific commitments. In other words, disciplines on market access impediments will apply to scheduled commitments unless a reservation is registered to the contrary. This is a negative list approach nested in the overall positive list approach of the GATS schedules. The six impediments or limitations on access are defined as: a) limitations on the number of suppliers; b) limitations on the total value of service transactions or assets; c) limitations on the total number of service operations or on the total quantity of service output; d) limitations on the total number of natural persons that may be employed; e) measures which restrict or require specific types of legal entity or joint venture; and f) limitations on the participation of foreign capital. Article XVI limitations are exhaustive, in the sense that these are the only limitations on market access that Members are permitted to inscribe in their schedules.

It should be noted that items (a) to (d) of Article XVI are expressed in terms of quantitative market access limitations - the number of suppliers, the value of transactions or assets, the number of operations or quantity of output, or the number of natural persons that may be employed. In considering the overall GATS objective of progressive liberalization, a question is whether it would be more appropriate to express these limitations in terms of price measures rather than quantitative limitations. Access limitations could be imposed on foreign suppliers through fiscal measures, and perhaps even subjected to periodic negotiations aimed at reducing such limitations. If this approach were adopted, governments may then want to consider whether the framework agreement contained enough provisions for applying quantitative restraints on services trade under particular circumstances. A structural change of this nature would almost certainly imply a greater degree of liberalization than the existing arrangements. It is questionable, however, whether governments would be willing, in the foreseeable future, to move in this direction.

Article XVII contains the national treatment provision of the agreement. The approach here is very similar to that of market access, with national treatment applicable only to scheduled commitments, and only then if reservations are not made to the contrary. National treatment is defined in the traditional GATT manner, as treatment no less favorable than that accorded to domestic homologues, in this case services and service suppliers. Article XVII recognizes, however, that the attainment of national treatment may involve treatment that is not formally equivalent, and that formally equivalent treatment may not yield a non-discriminatory outcome either. A significant difference between national treatment in GATT and in GATS is that in the former case, national treatment is established as a principle to be applied across the board, whereas in the latter case, national treatment has been given negotiating currency - it is something to be granted, denied or qualified, depending on the sector and signatory concerned.[15]

One reason why governments may have been unwilling to see national treatment play the same role in GATS as in GATT, or the role that MFN plays in GATS as a general principle, is that under the commercial presence and movement of natural persons modes in GATS (Modes 3 and 4), full

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[15] Exceptions to national treatment under GATT exist in respect of subsidies and government procurement.

national treatment is equivalent to free trade - it would guarantee unlimited investment rights for foreign service suppliers. While governments were willing to guarantee this treatment in some sectors where they made scheduled commitments unencumbered by national treatment limitations, this was clearly not true across the board. In these circumstances, if national treatment had been an inviolate principle not subject to conditioning, it is probable that even less would have been incorporated in the schedules than what is there at present.

An intermediate approach to using the national treatment rule as a more effective instrument of liberalization would be to impose limitations on the nature of permissible departures from national treatment. At present, any kind of departure is permitted, provided the limitation is entered in the schedule against the relevant sectoral commitment. The nature of departures from national treatment could be defined, with an emphasis on price-based measures, and these measures could also be subject to progressive reductions in the context of negotiations aimed at greater liberalization. Once again, it is an open question whether governments would be willing to embark on a structural change of this nature.

Article XVIII offers the possibility for signatories to negotiate additional commitments not dealt with under the market access and national treatment provisions of Article XVI and Article XVII. These commitments could apply to such matters as qualifications, standards and licensing, and would be inscribed in Members' schedules. Limited use was made of this option in the Uruguay Round negotiations. The most important aspect of Article XVIII measures is that they must express commitments favoring more open access, and not additional market barriers.

In the national schedules commitments are split into two sections. "Horizontal" commitments stipulate limitations that apply to all of the sectors included in the schedule. Any evaluation of sector specific commitments must take the horizontal entries into account. Commitments, which apply to trade in services in a particular sector or sub sector, are listed in the second section of the national schedules. Here the entry reads "none" in cases where there are no limitations on market access or national treatment specific to the sector under consideration. All commitments in a schedule are bound unless otherwise specified. In cases where a Member wishes to remain free in a given sector to introduce or maintain measures

inconsistent with market access or national treatment the Member enters the term "unbound".

Table 8 shows the status of commitments made by MENA countries that are WTO Members. A close examination of the data reported in the table reveals the following aspects:

Only 9 MENA countries are Members of the WTO (Bahrain, Egypt, Kuwait, Mauritania, Morocco, Qatar, Tunisia, Turkey and UAE, all of which made commitments under the GATS).

Services are divided into twelve aggregate sectors: business, communication, construction and engineering, distribution, education, environment, financial, health, tourism and travel, recreation and cultural, transport and other. In absolute terms, the largest number of commitments in these sectors were made by Turkey, followed by Kuwait, Morocco and Qatar. Turkey has made commitments in nine, Kuwait in eight, Morocco in seven, Qatar and UAE in six, Egypt in four and Tunisia in three sectors out of the twelve service sectors. Bahrain and Mauritania have commitments in one sector only. Most of the commitments by MENA countries were made in the "tourism and travel services" and "financial services" sectors.

The sector "Business Services" has six sub-sectors. No commitments were made by MENA countries in the cases of "real estate services" and "rental/leasing services without operators". In the case of "professional services," commitments were made by the UAE in six lines in the sub-sector. Qatar made commitments in five, Kuwait and Turkey in four, and Morocco in one out of the twelve lines in the sub-sector. In the case of "computer and related services," commitments were undertaken by Kuwait and UAE in four, by Turkey in three and by Morocco in one out of the five lines in the sub-sector. In the case of "research & development services," Kuwait and UAE have commitments in all three lines in the sub-sector. Finally in the case of "other business services" Kuwait has commitments in fifteen, Turkey in six, UAE in five and Morocco in two lines out of the twenty lines in the sub-sector.

"Communication services" has five sub-sectors. No commitments were made by MENA countries in the cases of "audio-visual services" and "other services". Turkey undertook commitments in the cases of

postal and courier services. Qatar and UAE made commitments in the case of courier services. In the case of "telecommunications services," Turkey made commitments in fifteen, Morocco in nine and Tunisia in three out of the fifteen lines in the sub-sector.

"Construction and Related Engineering Services" sector has five sub-sectors. Turkey and UAE have commitments in all of them, Kuwait, Morocco and Qatar in four and Egypt in three sub-sectors.

In the "distribution services" sector, Kuwait is the only MENA country that undertook commitments, in three of the five sub-sectors.

In the case of "educational services" Turkey is the only MENA country that listed commitments in four of the five possible sub-sectors.

In the case of "environmental services" Qatar, Turkey and the UAE have listed commitments in four, Kuwait and Morocco in three of the five sub-sectors.

The "financial services" sector has two sub-sectors. In the case of "insurance services" sub-sector Bahrain, Egypt, Morocco, Tunisia and Turkey have commitments in all of the four possible entries, and Qatar in three. On the other hand, in the case of "banking and other financial services" Bahrain, Kuwait, Qatar and Turkey have commitments in 17, UAE in 16, Egypt in 13, Morocco and Tunisia in nine out of the 17 lines in the sub-sector.

"Health Related and Social Services" sector has four sub-sectors. Kuwait has commitments in three and Turkey in one out of the four lines in the sub-sector.

"Tourism and Travel Services" sector has four sub-sectors. Morocco has commitments in all of the sub-sectors, Egypt, Kuwait and Mauritania in three, Tunisia, Turkey and UAE in two and Qatar in one out of the four sub-sectors in the sector.

In the case of "recreational, cultural and sporting services" sector Kuwait is the only MENA country having commitments. Kuwait has commitments in two out of the five sub-sectors in the sector.

"Transport Services" sector has nine sub-sectors. MENA countries have no commitments in the cases of "internal waterways transport services", "space transport services", "pipeline transport services" and "other transport services" sub-sectors. In the case of "maritime transport services" Turkey has commitments in four and Egypt in three lines out of the six lines in the sub-sector. In the case of "air-

transport services" Morocco has commitments in two out of the five lines in the sub-sector. In the case of "rail transport" Turkey has commitments in one out of the five lines in the sub-sector. In the case of "road transport" Morocco and Turkey have commitments in two out of the five lines in the sub-sector. Finally in the case of "services auxiliary to all modes of transport" Turkey has commitments in all of the four lines in this sub-sector.

In what follows, attention will focus on a closer examination of liberalization of "financial services" and of "telecommunications services".

3.2. Financial Services

Financial services were one of the sectoral negotiations that were left over from the Uruguay Round (other "unfinished business" from Uruguay Round were movement of natural persons, basic telecommunications and maritime transport). An interim agreement on financial services, securing further market access and national treatment commitments in the areas of banking, securities trading and insurance, was accepted by some 30 countries in mid-1995. This excluded the United States, which declined to sign the agreement as it considered commitments by Asian and Latin American countries inadequate. The fact that the United States was not part of the agreement is the reason why negotiations were resumed in 1997 in the hope of securing further liberalization, fuller geographical participation, and a longer-lasting arrangement. In mid-December 1997, more than 100 WTO Members agreed to a global accord that will lower barriers to services trade in banking, insurance, securities and portfolio management. The agreement builds upon new and revised offers going beyond the liberalization commitments made in the 1995 round of talks. The new agreement entered into force in March 1999. According to the WTO (1998a), the accord covers \$10 trillion worth of global assets, \$40 trillion of world banking assets, and \$2 trillion of world insurance premiums.

Financial services in the GATS are covered by (i) rules and obligations specified in the Articles of the GATS, (ii) an annex on financial services, and (iii) national schedules of market access and national treatment commitments and lists of MFN exemptions. Specific commitments in financial services were made by some countries in accordance with the Understanding on Commitments in Financial Services, an optional text containing a "formula" approach to the scheduling of commitments.

Table 8 reveals that Bahrain, Egypt, Kuwait, Morocco, Qatar, Tunisia, Turkey and UAE are the MENA countries that have made commitments in financial services. Kuwait and UAE are the two MENA countries that have commitments in banking only. The other six MENA countries have commitments in both the insurance and banking services.

Among the MENA countries that made commitments in insurance services all had commitments in life insurance, non-life insurance and re-insurance. All of those countries except Morocco have commitments in services auxiliary to insurance. On the other hand among the MENA countries which made commitments in banking services all of the countries made commitments in acceptance of deposit, lending of all types, financial leasing, payment and money transmission, and guarantees and commitments. While Egypt, Morocco, Tunisia and UAE made no commitments in the cases of money market instruments, foreign exchange, derivative products, and exchange rate and interest rate instruments the remaining MENA countries have commitments in those cases.

The GATS Schedules of Commitments contain commitments on market access, national treatment and additional commitments for each of the sub-sectors of financial services with respect to each of the four modes of supply. Following the approach of Mattoo (1998) we concentrate within insurance on direct insurance and within banking and other financial services on acceptance of deposits and lending of all types, as these services constitute the core of financial services sector in developing countries, and also abstract from consideration of the fourth mode, the presence of natural persons.

Table 9 shows the market access commitments in Direct Insurance. The table indicates that there are significant differences between MENA countries regarding the extend of bindings of scheduled limitations. Full liberalization across all three modes is offered by Bahrain only. On the other hand relatively less binding commitments on market access were made by Morocco and Tunisia. In the MENA countries members seem to prefer commercial presence as the mode to restrict access to domestic markets. Egypt applies economic needs test in allowing entry, but has committed itself to relaxing the test in 2000 for life and in 2002 for non-life business. Egypt imposes equity restrictions. It limits foreign equity to 49 percent but intends to raise the limit to 51 percent in the year 2000 for life and 2003 for non-life insurance. Turkey does not have significant

restrictions on the establishment of foreign commercial presence, but Qatar imposes limitations on entry.

Table 10 shows market access commitments in Banking and other Financial Services. Full liberalization across all three modes is not granted by any of the MENA countries. On the other hand the number of liberal commitments on the first two modes is higher than those in insurance. Qatar, Turkey and UAE are committed to liberal cross border trade and consumption abroad. Egypt imposes no restrictions on joint venture banks, but it does impose an economic needs test on the branches of foreign banks. While Tunisia applies discretionary procedures in allowing new entry, Morocco applies a reciprocity condition to commercial presence as well as discretionary limits on foreign equity participation and UAE imposes limitations on entry.

The above considerations reveal that with the financial services agreement the MENA countries have succeeded in agreeing to a legal framework for market access in financial services. Yet there is a significant agenda of market opening measures still to be taken by the MENA countries. The ultimate aim of financial sector liberalization within a multilateral framework, according to Dobson and Jacquet (1998), is to meet MFN, the right of companies to establish and operate freely, identical treatment for foreign and domestic companies, free cross border trade in services and free movement of personnel, limited and transparent exemptions and a grandfather clause protecting existing investments from any new exemptions to the principles stated.

We now turn to consideration of domestic regulations by concentrating on the case of Turkey. As evidenced by Atiyas and Ersel (1994) the Turkish financial market has been liberalized substantially during 1980's. Prior to the reform initiative the system was characterized by features typical of financial repression. Deregulation began with the abolition of interest rate ceilings on loans and deposits in 1980. The second important development was the enactment of the new banking law in 1985 which introduced provision for a minimum capital base for banks and required banks to use a uniform chart of accounts. During the third phase of deregulation foreign exchange operations and international capital movements were liberalized entirely and Turkish Lira became convertible in 1989. The reform process slowed down thereafter and came to a standstill during 1990s. The 1994 economic crisis led the authorities to take drastic measures in order to save the financial system from a total collapse. The most controversial of these

was the introduction of full state guarantee to deposits. Introduction of full guarantee to deposits was effective in ending bank rush as well as drastic shifts in deposits from private banks to state owned banks. However, the fear of renewal of banking crisis prevented the authorities to abandon this supposedly temporary measure in favor of a reasonable deposit insurance scheme. In the following years the moral hazard problems associated with keeping the full state guarantee on deposits became more visible. In order to deal these problems, a new banking law was passed by the parliament in June 1999. The new law has two objectives. By establishing a Banking Regulation and Supervision Institution, a new autonomous body, supervision of banks were pulled out of the domain of daily politics. Furthermore the existing regulations were updated along the lines with the recent trends in world banking. In this context, the limits to single borrower and to related parties are tightened banks' exposure to non-financial participation limited and minimum capital requirements increased.

The major characteristics of the Turkish financial market as of 1999 are as follows. Interest rates are market determined and the foreign exchange regime is of managed floating type. In 1998 there were 80 banks in Turkey. Bank Assets/GNP ratio was about 69 percent. Four of these banks were state owned and their share in total assets of the banks was 34.4 percent. There are 19 foreign banks. Commercial banks in Turkey are universal banks. However most of the banks established their own subsidiaries to handle capital market operations. On the other hand the insurance market is underdeveloped, and its contribution to financial markets is rather negligible. Securities markets are developing. Most of the securities market activity is on government debt instruments. Non governmental bonds market is almost nonexistent. Equity market is thin. Regarding the regulatory framework we note that the financial market is regulated largely by the Law on the Protection of the Value of Turkish Currency (1930), the Decree 32 concerning the Protection of the Value of Turkish Currency (1989), the Banking Law (1999), and the Capital Market Law (1981, amended in 1992). The deregulation of foreign exchange operations and of international capital movements in 1989 was achieved through the Decree 32 concerning the Protection of the Value of Turkish Currency. Thereafter the government did not change the Law on the Protection of the Value of Turkish Currency of 1930, which gives the government the power to reverse the whole process of financial liberalization, whenever it would consider that the level of liberalization is unsustainable.

A close consideration of the Turkish financial system reveals that as of 1999 the system is rather liberal. As such there is no discrimination against foreign financial institutions. Foreign as well as the domestic financial institutions are subject to discretionary regulations by the Undersecretariat of Treasury and the Capital Market Board. Currently Turkey does not intend to discard its discretionary regulations based on "public interest" standard. Thus a major reform of domestic regulations in the Turkish financial sector will be achieved when the country decides to discard its discretionary regulations in favor of market oriented rule based regulations.

3.3. Telecommunications Services

Telecommunication services were, like the financial services, one of the sectoral negotiations that were left over from the Uruguay Round. An agreement on telecommunication services was reached on February 15, 1997, and the agreement went into force on February 5, 1998. The agreement covers a sector of substantial size by any standards. According to the WTO (1998b), the world telecommunications revenue stood in 1997 at $ 644 billion, global investment in telecommunication amounted to $ 170 billion, and the sector employs 5.4 million staff worldwide.

Telecommunications services in the GATS are covered by (i) rules and obligations specified in the Articles of the GATS, (ii) national schedules of market access and national treatment commitments and lists of MFN exemptions, (iii) Annex on Telecommunications and (iv) the Reference Paper of the Negotiating Group on Basic Telecommunications of April 24, 1996. The Annex on Telecommunications, which contains provisions designed to protect the users of telecommunication services, is seen as a pro-competitive instrument within the telecommunications sector. On the other hand the Reference Paper establishes a series of competition safeguards to prevent anti-competitive practices. According to the Reference Paper major suppliers are obliged to provide interconnection on non-discriminatory terms, licensing criteria must be made publicly available and regulators must be impartial and independent of suppliers.

Table 8 reveals that GATS Services Sectoral Classification List breaks down telecommunications into 15 sub-sectors. The first seven sub-sectors together with a variety of "other" telecommunication services such as mobile communications are considered "basic telecommunication services" and the remaining services are called "value-added telecommunications services". Table 8 also shows that Morocco, Tunisia and Turkey are the

three MENA countries that have made commitments in telecommunications services. Turkey has commitments in basic and value added telecommunications services, whereas Morocco and Tunisia have commitments in only basic telecommunications services.

A close consideration of the commitments in telecommunications services reveals that Morocco opens market access for packet switched data transmission and frame relay services. Supply of mobile telephone and mobile data services, personal communications services and paging services are reserved for unspecified number of operators that will have to be licensed. Morocco has set up a regulatory body independent of network operators and telecommunication services suppliers. The aim is to avoid the establishment of a dominant position of the major operator, unfair competition, and dumping. On the other hand Tunisia offers competition for telex and packed switched data transmission from 1999, frame relay, paging and teleconferencing from 2000, and in local telephone services from 2003. For all of these services foreign equity is limited to 49 percent. Foreign participation in the capital of Tunisian Telecom will be allowed up to 10 percent from 2002. For liberalization, Tunisia requires telecommunication service suppliers to supply rural telecommunications services and distress telecommunication services. Finally we note that Turkey commits to end the Turkish Telecom's monopoly rights on voice telephony and other basic telecom services by 2006. In the cases of circuit-switched data transmission, telex, facsimile and private leased circuit services foreign equity is limited to 49 percent. Turkey has opened cellular mobile services and paging to competition and commits also market access for data transmission services without phase in. In these cases foreign equity is limited to 49 percent.

Table 11 provides an indication of the situation in the basic telecommunications sector in MENA countries. The countries with different levels of GDP per capita offer striking contrasts. Column 2 characterizes base-line in each country. At one extreme we have Somalia and Sudan with two and three telephone mainlines per 1000 people and at the other UAE with 323 lines per 1000 people. Per capita income in Sudan is PPP $1,560 and in UAE is PPP $18,110. The corresponding figures for Germany and Japan are 534 and 485 lines per 1000 people respectively. The figures show that substantial amount of investments in the telecommunications sectors must be forthcoming in most of the MENA countries. Columns 3 and 4 provide a picture of the costs of services. Costs of local calls range from two US cents in Jordan to 19 US cents in Djibouti. Similarly costs of

international calls vary from US $0.61 in the West Bank and Gaza to US $33.41 in Syria. Column 5 shows, as a measure of the quality of service, the waiting time in years for telephone lines. The table reveals that the waiting time varies between none in UAE to 10 years in Sudan and Syria.

In the MENA countries the business users and households have intensified their reliance on telecommunications services. These days households and commercial enterprises demand even more sophisticated services at lower prices, and business enterprises are concerned about the competitive effects of poor quality. They want low-cost, efficient and widely available services. On the other hand empirical studies reveal that investment in telecommunications infrastructure is a strong predictor of economic growth. The MENA countries wanting to accelerate economic development thus need to create policy environments conducive to high level of investments in the telecommunications sector.

The statistics given in Table 11 indicate that most of the MENA countries have to develop their basic telecommunications infrastructure if they want to accelerate economic development. Developing the infrastructure can be achieved by shifting from public to private ownership, by increasing the scope for foreign ownership and by liberalization of entry into the industry. Economic theory shows that private ownership is most efficient in markets where there is effective competition, and that competition can be enhanced by the effective removal of barriers to entry and by breaking up the dominant enterprise. During the transition from state monopoly to private and competitive markets countries increasingly find that they have to establish effective regulatory environments.

A country can definitely increase competition through unilateral liberalization, but, as stressed by Low and Mattoo (1997), liberalization achieved in the context of GATS has advantages. WTO offers useful instrument for consolidating and promoting liberalization and also for defining and tying down future liberalization plans. Countries tend to see WTO commitments as a way of reducing the likelihood of policy reversals and thus signaling their seriousness to potential foreign investors. The above considerations reveal that the MENA countries, which are members of WTO, could derive benefits by making appropriate commitments in telecommunications for the liberalization of their telecommunications sectors. On the other hand the non-member MENA countries could also

derive similar benefits by joining the WTO and liberalising their telecommunications sectors.

IV. Foreign Direct Investment

If rules on investment had already existed in GATT, it is possible that investment in both goods and services would have been treated together, and so would trade in goods and services. This was the pattern that emerged in NAFTA (North American Free Trade Agreement), for example, an agreement that was negotiated from a clean slate. The differential treatment of goods and services within the WTO (the World Trade Organization) framework raises questions of coherence that will have to be addressed in due time, not least because of the asymmetries between rules on goods and services that this model has produced.

The issue of investment was taken up in the GATT context in the Uruguay Round, eventually leading to the Agreement on Trade-Related Investment Measures (TRIMS). However, the TRIMS Agreement is very limited in scope. Some industrial countries, most notably the United States, had pressed for a far-reaching mandate to negotiate about investment in the broad sense. Many developing countries were unwilling to engage in such an exercise at that time. They believed that it would challenge a basic tenet of their development policy, which saw the careful management of investment flows as indispensable to appropriate, balanced growth.

Investment policy, involving a mix of controls and incentives, has traditionally been used by many countries as a tool for promoting specific objectives, such as technology transfer, industrialization, regional development and export expansion. Some of these objectives, like regional development, have also been pursued through investment incentives in industrial countries. The emphasis of the Uruguay Round TRIMS exercise, however, was mostly on trade-related investment conditionality. The subsidy aspect of investment policy was addressed in the Agreement on Subsidies and Countervailing Measures, where regional subsidies are defined as non-actionable, provided they are granted in the context of an overall regional development program, are non-specific to an enterprise or industry, and do not result in serious adverse effects to the industry of another party.

Moreover, the ability to condition and control investment flows has traditionally been considered necessary to avoid monopolistic abuses by

transnational corporations. Seen from this perspective, multilateral efforts to liberalize investment threatened to weaken the ability of countries to pursue active development policies. Opposition to a broad-based negotiation on investment in the Uruguay Round was strong enough, given the disposition of interests and priorities in other areas (especially intellectual property rights and trade in services), for agreement to be reached on a narrow negotiating mandate for TRIMS. The negotiating mandate simply called for an examination of the operation of GATT articles related to the trade restrictive and distorting effects of investment measures, following which "negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade." The use of the phrase "as appropriate," along with the conditional tense, left open the possibility that governments might agree to nothing at all.

In the event, the Uruguay Round TRIMS agreement only reaffirmed existing GATT rules on national treatment (Article III) and on the prohibition of quantitative restrictions (Article XI). An illustrative list of TRIMS identified two measures as being inconsistent with GATT's national treatment provisions and three as constituting illegal quantitative restrictions. The first category included local content requirements and trade balancing requirements. The TRIMS identified as quantitative restrictions included trade balancing requirements (also Article III-inconsistent), foreign exchange balancing requirements, and domestic sales requirements.[16] The agreement requires that WTO-inconsistent TRIMS must be phased out, and that no new WTO-inconsistent TRIMS are to be introduced during the phase-out period.[17] Industrial countries must complete the phase-out within two years, developing countries within five years and least-developed

[16] Other TRIMS identified in the Uruguay Round discussions, but not mentioned in the illustrative list annexed to the TRIMS agreement, include manufacturing requirements, export performance requirements, product mandating requirements, manufacturing limitations, technology transfer requirements, licensing requirements, remittance restrictions, and local equity requirements. The TRIMS agreement would have needed to go further than reiterating the established interpretations of GATT Article III and Article XI in order to cover most of these measures. A notable omission of the TRIMS agreement, however, was its silence on export performance requirements (EPRs). EPRs are analogous to locall requirements on the import side, and strongly resemble export subsidies, which are prohibited on manufactured goods under the WTO.

[17] It is provided, however, that existing TRIMS may be imposed on new enterprises during the phase-out period it this is considered necessary in order not to place existing enterprises subject to the same measures at a disadvantage.

countries within seven years. These transition periods may be extended for developing and least-developed countries under certain circumstances. All TRIMS subject to the phase-out requirement have to be notified to the WTO.

Countries in their efforts to facilitate investment by providing stronger assurances have increasingly concluded bilateral investment treaties (BIT). A web of more than 1600 bilateral treaties has been formed to date, covering all parts of the industrial and developing world. These treaties make binding provisions on expropriation, compensation for losses due to armed conflict or internal disorder, and for the transfer of payments. The definition of investment covers in general both foreign direct investment and portfolio investment. The treaties also provide for the resolution of disputes in private institutions and in the International Centre for the Settlement of Investment Disputes (ICSID) of the World Bank. On the other hand the EC's Treaty of Rome, EU Association Agreements with eastern European countries and the NAFTA treaty are regional integration agreements attempting to co-ordinate investment policies between larger group of countries. These treaties include commitments on non-discriminatory treatment and investment restrictions. The NAFTA treaty provides for national treatment and also bans a comprehensive list of performance requirements. In NAFTA private investors and not just states have the right to bring cases for arbitration under ICSID and United Nations Commission on International Trade Law (UNCITRAL), the two international bodies for the settlement of investment disputes, creating the prospects of international investor-state claims.

Recently discussions on international investment frameworks have intensified. In 1995 OECD initiated talks to create a Multilateral Agreement on Investment (MAI). The MAI is built upon a broad, asset-based definition of investment, which includes not only FDI as such, but also the direct and indirect ownership or control of any other asset such as portfolio investment. It provides that contracting parties shall accord to investments protected under the agreement, treatment no less favorable than that accorded to its own nationals' investments (NT) or to investments from any other country, whether or not a party to MAI (MFN), and in any case shall accord to them the more favorable of NT and MFN. It requires each contracting party to publish or make publicly available all its laws, regulations, procedures, rulings, and decisions pertinent to foreign investment. The MAI prohibits the imposition or enforcement upon a

foreign investor any one of the following performance requirements: trade related, transfer of technology, location of headquarters, research and development, employment of locals, minimum or maximum level of equity participation. Regarding privatization MAI states that all kinds of privatization must be compatible with NT and MFN, and confirms that NT, MFN and transparency clauses will apply to granting of investment incentives. MAI requires that each contracting party shall accord to foreign investment fair and equitable treatment and constant protection and security. Finally, MAI requires that in cases of disputes the parties should attempt to resolve the dispute through consultations, mediation, or conciliation. If the parties fail to resolve the dispute through these proceedings, the issue may be submitted to an arbitration tribunal, which will in general consist of three members appointed by the Secretary General of the ICSID. The OECD talks broke down in late 1998, following a decision by France to cease participation in the negotiations. The contracting parties could not agree on various issues including the definition of investments, rules on performance requirements, investment incentives, compensations in cases of regulatory takings, and dispute settlement. Furthermore the French demands for cultural exception and issues related with the inclusion of labor and environmental standards have also prevented the agreement on the MAI. With the demise of the efforts to negotiate the MAI at OECD, investment is proposed as a subject for future WTO negotiations.

On the other hand the Working Group on the Relationship between Trade and Investment formed under WTO continued the educational work that it began to undertake in 1997 on the basis of the mandate contained in paragraph 20 of the Singapore Ministerial Declaration. Various meetings were held during 1998. The substantive work of the Working Group continued to follow the Chair's Checklist of Issues Suggested for Study elaborated in June 1997. In particular the Working Group has agreed to discuss various issues grouped under three headings: the implications of the relationship between trade and investment for development and economic growth; the economic relationship between trade and investment; and a stocktaking and analysis of relevant existing international instruments and activities. Drawing on this work it compares existing international instruments and activities regarding trade and investment; identifying possible conflicts and gaps between them; consider common features and overlaps in existing international agreements, the advantages and

disadvantages of entering into bilateral, regional and multilateral rules on investment, the rights and obligations of home and host countries and of investors and home countries, and the relationship between possible future international co-operation on investment policy and possible future co-operation on competition policy.

On 8 December 1998, the Working Group issued a report on its work to the General Council and recommended that the General Council continue the educational work of the Working Group. On 9 December 1998, the General Council took notice of the report and accepted the recommendation. The WTO Working Group on Trade and Investment met on 3 June 1999. It discussed once again various issues relating to international investment rules (investment incentives and competition, compulsory transfer of technology, development aspects of an investment agreement) without coming to any conclusion. With the Seattle Ministerial Conference only a couple of months away (at the time of writing), delegations were not in a mood to move things much further. The Group will hold a last meeting before the WTO Ministerial at the end of September.

Regarding the need for multilateral framework it is stressed by various circles that a number of WTO agreements already embody or imply as stressed above disciplines on investment related policies. According to WTO (1996) the GATS, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the TRIMS, the Agreement on Subsidies and Countervailing Measures (ASCM), the plurilateral Agreement on Government Procurement and the Understanding on Rules and Procedures for the Settlement of Disputes provide certain disciplines on investment. Countries could approach the FDI issue as they have until now, that is bilaterally, regionally and plurilaterally, and on an ad hoc basis in the above WTO agreements. According to Hoekman and Saggi (1999) there is at this stage no need to integrate all these arrangements into a comprehensive and multilateral framework on investment. The countries should focus on eliminating entry restrictions, which are binding in particular in the service industries. Countries besides continuing the process of multilateral liberalization of trade could expand the specific commitments for services markets under the GATS.

The possibility of having investment as a subject in the future WTO negotiations raises challenging issues for the MENA countries. These countries have to study the question whether there is in fact a need for a

multilateral framework on investment. This issue will be decided at the Ministerial Meeting to be held in Seattle at the end of 1999. In case a decision is taken to include investment in the Millennium Round, the MENA countries have to decide upon their views on the specific problems to be negotiated at the Round. In particular they have to consider among others problems related with the definition of investments, rules on performance requirements, investment incentives, compensations in cases of regulatory takings, and dispute settlement.

We now turn to a discussion of some of these issues within the context of Turkey, which is a middle income developing country with a fairly well developed infrastructure including communication, transportation, finance and banking. Geographically it is well placed to service a number of countries in the region. Yet, the volume of inward FDI is low compared with the amount harbored by several other developing countries at a similar stage of development. Outward FDI is also relatively low, but is increasing. The volume of FDI outflow from Turkey to Central Asian economies, countries in the Caucasus and the Balkans has been increasing and is expected to increase further in the future. Thus Turkey is interested in not only increasing inward FDI but also in the protection of FDI and stability of FDI regimes in the neighboring countries.

As the country exporting capital, Turkey is interested in increased levels of access to foreign markets through FDI. Turkey intends to improve its competitiveness through better access to relatively cheaper inputs in foreign markets and to strengthen the Turkish companies by forming strategic alliances with foreign partners. On the other hand Turkey is keenly interested in increasing FDI inflow, as through FDI the country expects improved access to technology, marketing channels, organizational and managerial skills, and contribution to domestic savings and investment.

Studies reveal that the main determinants of FDI inflow are political stability, geography, natural endowments, efficient infrastructure, good human capital and liberal trade policies. In addition foreign investors need transparent and predictable rules on which they can operate. The first set of issues have to be dealt with by Turkey. An investment treaty will do little to improve these issues. But such a treaty will certainly help to increase the transparency, predictability, and legal security in Turkey, and thus could be helpful in increasing the FDI inflow into Turkey. On the other hand regarding FDI outflows, Turkey realizes that unclear, ambiguous, biased

and controversial rules are deterrent to Turkish investors in Central Asia, Caucasus and the Balkans. Furthermore Turkey realises that national legislation in those countries is not sufficient to provide adequate security to Turkish investors and that laws and their enforcement may differ between countries. The investor protection mechanism of a multilateral investment agreement will increase the credibility of government commitments for Turkish investors. A need for a fair mechanism for dispute settlement is recognized. Finally, Turkey realizes that the issues cannot be solved by bilateral agreements as the agreements may have different coverage and may even apply different rules. Turkey realizes that an investment treaty will be helpful in all these cases.

The arguments against a multilateral agreement on investment in Turkey have been voiced by various circles. The trade unions emphasize that Turkey by signing an investment treaty will loose its sovereignty. The fear of loosing control seems to be a major concern of the trade unions. Other concerns are related with compensations for regulatory takings, inclusion of labor and environmental standards in the multilateral agreement, and issues raised by regional agreements. It seems that Turkey will actively participate in the negotiations of a multilateral agreement on investment and try to protect its interest in relevant international forums.

V. Conclusion

In addition to sharing a common interest in the strength of the multilateral trading system, MENA countries look to the system to further their own trading needs. These include, *inter alia*, ensuring the timely and full implementation of all URAs of interest to them (e.g., in such sectors as textile and clothing, and agriculture; and in areas such as special and differential treatment, and technical assistance), and that the system develops in a manner that will continue to serve their interests, be that in the area of existing rules (e.g., anti-dumping, countervailing duties, safeguards, and TBT), contemplated rules (e.g., in respect of trade and environment), promoting further liberalization in areas of export interest to them (e.g., further reductions in goods tariffs and in liberalization of services). MENA countries should ready themselves to become fully engaged in both the process and the results of the evolving international system and to contribute as full fledged partners to the universal set of rules and practices that will emerge.

Contrary to popular beliefs, traditional market access issues of the tariff kind still constitute a major challenge for multilateral negotiations. Fifty years of trade policy diplomacy and those engaged in international trade still face wide dispersion in tariffs across sectors and major product groups, and of course across different markets. Bindings are still an issue that needs to be tackled in the context of the next round of multilateral trade negotiations as are issues related to the practice of tariff escalation.

In the case of services, the basic theory of comparative advantage applies as it does to trade in goods. Significant benefits are expected to arise from liberalization of trade in services. The GATS, at which key rules have been negotiated, is considered as a first step for achieving liberalization of trade in services. The GATS rules are grouped under general disciplines and specific commitments. The general disciplines cover the MFN principle and transparency. Specific commitments are specified by each country for the sub-sectors of the twelve service sectors: business, communication, construction and engineering, distribution, education, environment, financial, health, tourism and travel, recreation and cultural, transport and other. Trade in services is defined in terms of four modes of supply: cross border supply, consumption abroad, commercial presence and presence of natural persons.

In the MENA countries services, as in all other countries, dominate the economic landscape, and growth of the service sector is recognized an important aspect of economic development. Many inputs used by agricultural and manufacturing sectors are services. These inputs include financial intermediation, insurance, business services, telecommunication, and transport of inputs and the goods produced. It is recognized that restrictive entry, monopoly and other barriers to trade raise the price of services. Hoekman and Braga (1997) note that in the case of manufacturing, access to globally efficient networks in communication and transportation is a necessary condition for international competitiveness, and that in the case of agriculture, poor transportation and storage facilities increase the costs of doing business. In the cases of goods, the extent of protection is usually measured by nominal protection rates. The same approach cannot be used in the case of services as here countries use not tariffs but mainly regulatory policies for purposes of protection. Estimation of tariff equivalents of these protective measures is in general not easy to obtain. Therefore rather crude estimates have been used in some empirical studies. Hoekman and Djankov (1997) assume that tariff equivalents of protection in construction,

communication, financial services, business and professional services amount to 20 percent, and that those in distribution, transport and storage to 40 percent. As the countries move to remove these barriers to trade, value-added in agriculture and manufacturing industries evaluated at international prices will be affected.

The effects of the removal of barriers to service trade are analyzed by effective rates of protection. Under the circumstances studied these rates obtained for different manufacturing and agricultural sectors could become negative. Such values would indicate that the removal of barriers to trade in services will lead to increases in value added in manufacturing and agricultural sectors evaluated at international prices. This information could be supplemented with information on the importance of different service sectors in the economy. To derive the importance of these sectors one can use input-output tables to determine the direct and indirect effects of an increase in final demand of a particular service sector on value added in different sectors of the economy, and the direct and indirect effects of an increase in final demand of a particular service sector on employment in the economy.

The effective protective rates together with the two measures of importance of the different service sectors could be used to order the service sectors. The ordering could then be used by the MENA countries for determining a strategy of liberalization of the various service sectors in the economy. The liberalization could be done unilaterally or multilaterally. Liberalization achieved in the context of GATS has advantages. It is stressed that multilateral commitments have the effect of tying in the degree of liberalization attained under the existing policy regime, and or of tying in future liberalization commitments. In both cases national policies become more predictable. In addition the possibility of making commitments to future trade liberalization in services can help shape essential macroeconomic and regulatory reforms. Furthermore commitments under the GATS provide a signal of policy stability and intent to potential foreign investors. Finally, a willingness to make commitments in the context of a multilateral negotiation may induce other countries to do likewise, in a virtuous circle of mutual benefits.

On the other hand the possibility of having investment as a subject in the future WTO negotiations raises challenging issues for the MENA countries. These countries have to study the question whether there is in fact a need

for a multilateral framework on investment. This issue will be decided at the Ministerial Meeting to be held in Seattle at the end of 1999. In case a decision is taken to include investment in the Millennium Round, the MENA countries have to formulate their views on the specific problems to be negotiated at the Round. In particular they have to consider among other issues, problems related to the definition of investments, rules on performance requirements, investment incentives, compensations in cases of regulatory takings, and dispute settlement.

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Box 1. Efficient Negotiating Methods

Agreement at the outset on a "formula" (linear) reduction - agreement on a percentage cut to apply to all tariff lines in a given product or sectoral category. This modality:

- Removes the need for line-by-line haggling except in the "verification" stage; and allows for some rebalancing (greater or lesser reductions) to meet the overall target;
- Saves negotiating time while ensuring greater participation and contributions; helps to overcome the "reluctant concession" mentality in favor of individual and global welfare benefits; and helps to achieve broader harmonization of tariff levels by achieving greater reductions in areas where there are peaks/ escalation.
- Formula approaches were used among OECD countries in the Kennedy Round (50% linear cut as the goal, with exceptions to be negotiated) and the Tokyo Round (using applied rates as the starting point, 30-50 % cuts were achieved). In the Uruguay Round, an overall "target" (but no formula requirement) of one-third was set.
- Identification of clear base-lines for reductions, e.g. the applied tariff rate in a given year rather than the bound rate to be the starting point.
- Binding of new commitments to be at the newly applied rates or at ceilings of no more than say, 10 percent above applied.
- Agreement on priority sectors/product categories of interest to each MENA country and building "partnerships" with other countries/groups with similar interests; and a target cut to be achieved.
- Agreement on a residual target cut to be achieved overall by each country, to ensure liberalization beyond designated sectors.
- Conversion of remaining specific duties to ad-valorem rates for transparency purposes.
- Use of a Declaration to set out the participation, staging, coverage and exceptions, modalities for entry into force and future work program and resumed negotiations intentions, in a transparent way.
- Agreement to eliminate tariffs altogether below, say 3 percent (where exchange rate fluctuation and administrative costs of collection often cancel out the protection afforded).

Non-tariff barriers to be the subject, on a sectoral basis, of circulated requests and collation into illustrative lists for negotiation of removal or referral to horizontal rule-making negotiating groups.

Figure 1: Post-Uruguay Round Bound Tariffs by Stages of Processing, Selected Countries and Groups

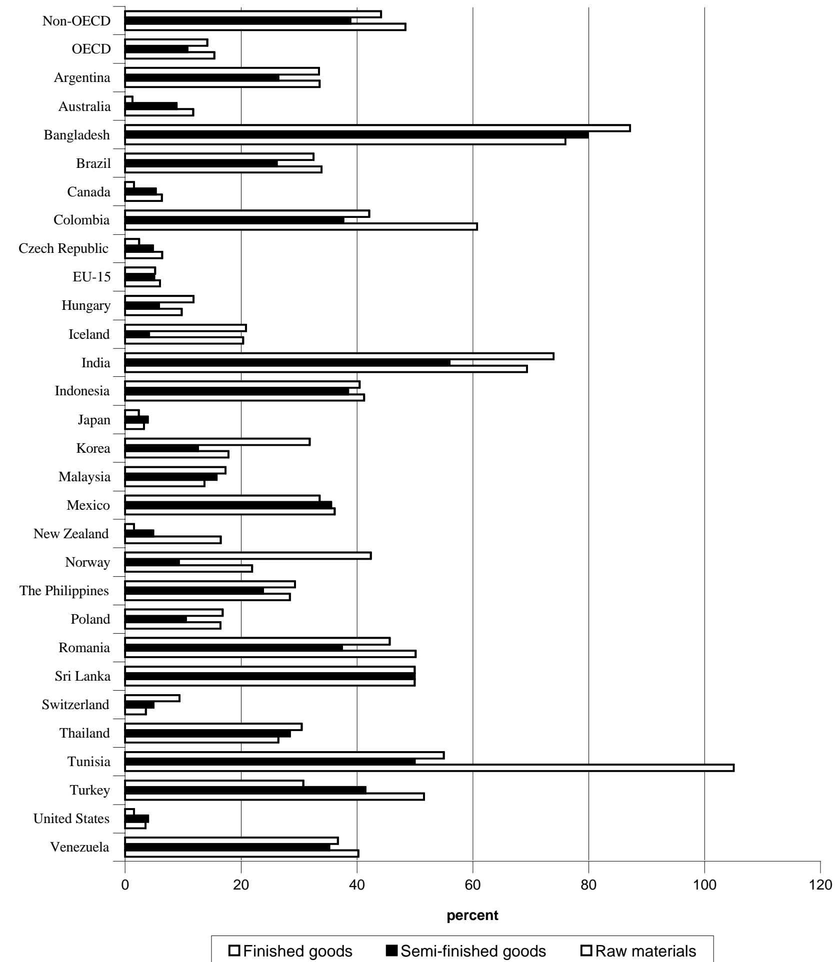

Table 1: The 1997 Geographic Destination of MENA Countries' Exports

Exporting Country	World ($million)	OECD Cntries	Of which: Eur.	North America	Asia	Other Cntries	Of which: Africa	Asia	Eur.	Middle East	Latin America	Not Specified
		(percent of total exports)										
Bahrain	3,174	25.0	8.8	3.7	12.6	75.0	1.7	46.1	5.3	20.3	0.3	1.4
Egypt	3,908	55.7	41.7	11.6	2.4	44.3	3.1	9.9	6.3	19.2	0.5	5.5
Iran, Islamic Rep.	24,925	39.5	25.1	1.5	12.9	60.5	6.2	19.4	5.7	3.4	1.6	24.3
Jordan	1,451	18.8	12.4	1.7	4.9	81.2	7.8	19.9	4.5	40.2	0.7	8.1
Kuwait	14,091	48.1	10.7	12.9	24.5	51.9	3.8	46.1	1.2	0.6	0.3	0
Lebanon	711	33.6	25.3	6.8	1.5	66.4	6.0	1.7	9.3	45.5	0.9	3.1
Libya	9,716	84.2	84.2	0.0	0.1	15.8	5.4	1.4	7.1	1.4	0.5	0.0
Oman	6,515	33.4	3.0	3.65	26.7	66.6	3.4	60.9	0.0	2.3	0.0	0.0
Qatar	5,562	55.1	1.0	3.2	50.8	44.9	1.5	36.7	0.2	4.3	0.0	2.3
Saudi Arabia	61,603	53.5	18.5	16.0	19.0	46.5	2.5	34.3	1.6	6.2	1.9	0.2
Syria	4,017	56.7	55.1	0.7	0.8	43.3	2.5	1.5	17.3	18.8	0.1	3.0
Turkey	26,246	57.2	48.2	8.1	0.8	42.8	2.8	4.6	18.8	10.7	0.9	4.9
UAE	30,442	46.3	4.8	2.9	38.6	53.7	2.2	29.6	0.9	7.8	0.1	13.3
Yemen	2,479	17.8	12.2	0.3	5.3	82.2	2.5	71.2	0.0	2.9	5.5	0.0

Source: Yeats and Ng (1999).

Table 2: Value and Share of OECD Countries' Total and Non-Oil Imports from MENA Countries, 1980, 1988 and 1997

	Value of OECD Countries Imports (US$ Million)			Share of OECD Imports from MENA(%)			Growth Rates	
All Goods	1980	1988	1997	1980	1988	1997	1980-88	1988-96
Bahrain	799	671	867	0.5	1.1	0.8	-2.2	3.2
Egypt	4,462	2,586	3,919	3.0	4.4	3.7	-6.8	5.2
Iran	10,010	5,369	9,551	6.6	9.1	8.9	-7.8	7.2
Jordan	70	185	300	0.0	0.3	0.3	12.2	6.0
Kuwait	9,785	4,587	7,458	6.5	7.8	7.0	-9.5	6.1
Lebanon	149	263	411	0.1	0.4	0.4	7.1	5.6
Libya	19,079	6,451	8,684	12.6	11.0	8.1	-13.6	3.7
Oman	2,811	2,147	2,372	1.9	3.7	2.2	-3.4	1.2
Qatar	4,546	1,268	3,372	3.0	2.2	3.2	-16.0	12.2
Saudi Arabia	77,751	19,958	35,604	51.4	34.0	33.3	-17.0	7.2
Syria	1,422	532	2,367	0.9	0.9	2.2	-12.3	18.7
Turkey	1,904	7,294	16,070	1.3	12.4	15.0	16.8	9.9
UAE	18,335	6,966	15,434	12.1	11.9	14.4	-12.1	9.9
Yemen	11	487	427	0.0	0.8	0.4	47.6	-1.6
All MENA	151,134	58,764	106,836	100.0	100.0	100.0	-12.3	6.8

Table 2: Contd.

Non-Energy	Value of OECD Countries Imports (US$ Million)			Share of OECD Imports from MENA (%)			Growth Rates	
	1980	1988	1997	1980	1988	1997	1980-88	1988-96
Bahrain	111	408	538	2.0	3.1	1.9	16.2	3.5
Egypt	747	978	2,148	13.5	7.5	7.5	3.4	9.8
Iran	877	905	1,438	15.8	6.9	5.0	0.4	5.8
Jordan	70	175	300	1.3	1.3	1.1	11.4	6.8
Kuwait	108	207	251	2.0	1.6	0.9	8.1	2.4
Lebanon	149	263	405	2.7	2.0	1.4	7.1	5.4
Libya	132	302	314	2.4	2.3	1.1	10.4	0.5
Oman	73	309	410	1.3	2.4	1.4	18.0	3.5
Qatar	22	56	219	0.4	0.4	0.8	12.1	16.9
Saudi Arabia	696	2,367	3,497	12.6	18.1	12.3	15.3	4.9
Syria	111	94	434	2.0	0.7	1.5	-2.1	19.3
Turkey	1,887	6,295	15,918	34.1	48.1	55.8	15.1	11.6
UAE	542	682	2,591	9.8	5.2	9.1	2.9	16.7
Yemen	9	42	45	0.2	0.3	0.2	19.4	0.9
All MENA	5,534	13,083	28,508	100.0	100.0	100.0	7.4	7.2

Source: Yeats and Ng (1999)

Table 3: Product Composition of OECD Imports from the Middle East, 1997

Exporting Country	Total Exports ($ million)	Product Group as a Percentage of Total Exports: Major Product Groups					Select Commodity Groups		
		All Foods	Agricultural Materials	Fuels	Ores & Metals	All Mfgs	Textiles & Clothing	Chemicals	Transport & Machinery
Bahrain	885.5	0.8	0.2	37.1	30.2	30.3	11.5	5.1	5.3
Egypt	4,318.00	4.2	3.0	48.5	4.7	37.2	25.9	2.1	2.2
Iran, Islamic Rep.	10,197.60	5.1	1.7	85.1	0.5	7.5	4.9	0.5	0.4
Jordan	330.2	3.5	3.9	0.0	34.7	52.6	8.4	22.6	16.4
Kuwait	7,629.70	0.1	0.1	96.6	0.1	2.1	0.1	0.3	0.8
Lebanon	446.1	8.8	4.0	1.4	9.9	69.9	4.8	8.5	9.5
Libya	9,216.70	0.0	0.2	96.3	0.0	3.3	0.0	2.8	0.1
Oman	2,372.30	1.8	0.0	82.7	0.3	14.3	5.7	0.1	4.2
Qatar	3,385.90	0.0	0.1	93.3	0.0	5.7	3.0	1.6	0.8
Saudi Arabia	36,621.90	0.1	0.1	90.2	0.3	9.0	0.1	4.1	2.6
Syria	2,823.60	3.0	7.7	80.7	1.0	7.5	4.2	0.1	0.3
Turkey	16,068.80	17.0	1.7	0.9	3.0	76.6	47.6	2.2	12.1
UAE	15,459.20	0.6	0.1	83.1	2.0	10.9	3.9	1.0	3.5
Yemen	427.7	4.8	2.3	89.4	0.6	2.7	0.0	0.0	1.7

Source: Yeats and Ng (1999) derived from United Nations Series D Trade Tapes. Import statistics as reported (c.i.f.) by the OECD countries. Product groups are defined as follows: All foods and feeds (SITC 0+1+22+4); Agricultural materials (2-22-27-28); mineral fuels (3); ores minerals and nonferrous metals (27+28+68); all manufactures (5 to 8 less 68); yarns, textiles and clothing (26+65+84); chemicals (5); transport and machinery (7).

Table 4: Post-UR Bound Tariff Lines by HS Section, (%)

Product group	Australia	Canada	EU-15	Japan	U S	Korea	Tunisia	Turkey
Live animals & products	100.0	100.0	100.0	93.0	100.0	65.5	56.4	62.3
Vegetable products	100.0	100.0	100.0	98.4	100.0	97.7	100.0	100.0
Fats and oils	100.0	100.0	100.0	100.0	100.0	100.0	92.7	99.6
Prepared food	100.0	100.0	100.0	99.6	100.0	94.9	93.4	100.0
Mineral products	100.0	93.5	100.0	85.8	98.9	89.3	3.1	8.0
Chemical & prod.	100.0	100.0	100.0	100.0	100.0	95.9	34.9	62.5
Plastics & rubber	94.2	100.0	100.0	100.0	99.7	99.3	73.8	44.8
Hides and skins	91.3	100.0	100.0	100.0	100.0	75.2	47.3	22.8
Wood and articles	100.0	100.0	100.0	88.5	100.0	85.0	46.7	41.3
Pulp, paper, etc.	100.0	100.0	100.0	100.0	100.0	100.0	39.0	33.9
Textile & articles	92.3	100.0	100.0	100.0	100.0	99.9	96.6	15.9
Footwear, headgear	90.9	100.0	100.0	100.0	100.0	100.0	19.7	2.9
Articles of stone	90.7	100.0	100.0	100.0	100.0	83.7	16.9	35.4
Precious stones	100.0	100.0	100.0	100.0	100.0	100.0	-	19.2
Base metals & prod.	95.0	100.0	100.0	100.0	100.0	99.4	25.3	17.5
Machinery	95.8	100.0	100.0	100.0	100.0	82.1	47.6	53.1
Transport equipment	93.9	94.2	100.0	100.0	100.0	65.6	47.7	61.2
Precision instruments	94.7	99.8	100.0	100.0	100.0	96.6	61.7	59.1
Arms and ammunition	100.0	100.0	100.0	100.0	100.0	100.0	-	0.0
Misc. manufactures	97.3	100.0	100.0	100.0	100.0	98.2	22.6	24.2
Works of art	100.0	77.8	100.0	100.0	100.0	100.0	-	0.0
Agriculture	99.9	100.0	100.0	99.5	100.0	96.3	97.1	100.0
Industry	95.8	99.5	100.0	98.7	99.9	90.5	46.3	35.0
All Lines	96.0	99.7	100.0	98.9	100.0	91.3	52.8	46.0

Source: Authors' own compilation from national sources.

Table 5: Post-UR Simple Bound Mean Tariff Rates and Differences in Mean MFN Tariffs in 1996 and Post-Uruguay Round Bound Tariff Rates

A. Post-Uruguay Round Bound Mean Tariffs

Product group	Australia	Canada	EU-15	Japan	Korea	Tunisia	Turkey	USA
Live animals & products	1.4	2.2	24.7	7.2	27.1	116.7	78.0	3.2
Vegetable products	2.2	3.6	13.2	7.3	109.6	128.1	41.7	3.8
Fats and oils	3.1	5.3	11.7	4.8	24.9	120.5	30.6	3.9
Prepared food	6.9	6.1	19.3	17.8	38.2	113.4	68.6	5.5
Mineral products	1.7	2.4	1.0	0.6	5.9	25.5	23.0	0.5
Chemical & prod.	8.0	4.0	4.7	2.5	9.7	38.3	24.5	3.2
Plastics & rubber	10.5	6.4	5.0	2.6	9.1	36.0	50.1	3.5
Hides and skins	9.2	5.6	2.7	10.3	18.0	68.5	99.6	4.6
Wood and articles	3.5	3.5	1.9	2.8	10.7	36.5	33.3	1.9
Pulp, paper, etc.	6.5	0.0	0.0	0.0	0.0	34.2	39.5	0.0
Textile & articles	24.5	12.3	7.9	6.6	18.5	57.7	75.7	8.2
Footwear, headgear	20.6	12.1	8.0	26.3	13.0	41.6	94.1	14.5
Articles of stone	9.2	3.9	3.9	1.1	15.5	35.6	57.6	4.5
Precious stones	5.8	3.6	0.7	1.4	8.4	-	20.0	2.6
Base metals & prod.	3.9	2.7	1.7	0.9	7.5	29.1	31.3	1.6
Machinery	10.1	4.0	2.6	0.1	13.2	27.4	26.5	1.6
Transport equipment	12.2	6.7	4.6	0.1	23.3	28.6	25.3	2.6
Precision instruments	3.7	3.5	2.6	0.3	11.0	33.3	29.2	4.4
Arms and ammunition	6.6	5.0	2.5	6.7	7.4	-	65.9	1.4
Misc. manufactures	13.4	6.0	2.4	1.7	10.1	41.0	71.3	2.9
Works of art	1.3	1.5	0.0	0.0	0.0	-	42.7	0.0
Agriculture	3.3	3.5	15.4	8.4	62.2	116.7	63.8	3.2
Industry	10.4	5.6	4.0	2.5	11.4	41.2	40.6	3.3
All Lines	9.6	5.0	7.2	4.8	18.3	59.0	44.7	3.8

Table 5: Contd.

B. Differences in Mean MFN Tariffs in 1996 and Post-UR Bound Tariffs

Product group	Australia	Canada	EU-15	Japan	Korea	Tunisia	Turkey	USA
Live animals & products	-0.6	60.9	7.6	4.1	-9.1	-81.2	-66.5	3.3
Vegetable products	-1.4	3.0	4.6	1.7	-89.9	-94.6	-22.4	2.3
Fats and oils	-1.3	7.8	3.5	2.8	-13.7	-88.5	-11.0	1.0
Prepared food	-2.2	14.2	6.0	4.5	-17.5	-76.2	-30.6	8.6
Mineral products	-1.1	-1.2	0.3	0.2	-2.1	-7.9	-20.2	0.5
Chemical & prod.	-6.3	0.1	1.0	0.4	-1.8	-14.5	-17.7	1.6
Plastics & rubber	-4.3	1.8	1.6	0.4	-1.3	-9.5	-41.1	0.5
Hides and skins	-4.5	0.2	0.5	2.5	-11.7	-35.8	-86.7	0.9
Wood and articles	0.2	0.4	1.1	1.2	-5.5	-5.9	-28.8	1.4
Pulp, paper, etc.	-3.1	2.8	5.1	1.8	6.4	-1.2	-32.1	1.7
Textile & articles	-5.5	3.6	1.6	2.0	-10.8	-21.0	-64.8	2.8
Footwear, headgear	-9.5	2.9	0.8	2.0	-5.0	-3.3	-72.5	0.6
Articles of stone	-4.7	1.8	1.0	0.5	-7.6	-4.6	-48.8	1.8
Precious stones	-4.7	-0.4	0.6	0.2	-2.9	-	-15.6	1.7
Base metals & prod.	0.0	2.4	2.2	1.7	-0.1	-6.2	-22.8	2.4
Machinery	-6.0	0.0	0.9	0.0	-5.3	-1.9	-19.4	1.4
Transport equipment	-6.5	0.7	0.9	0.0	-16.7	-4.4	-16.6	0.8
Precision instruments	-1.7	0.2	1.1	0.0	-3.0	-6.2	-22.6	0.8
Arms and ammunition	-4.8	0.4	1.0	0.9	-3.3	-	-57.7	1.8
Misc. manufactures	-8.7	1.8	1.9	0.6	-2.0	-5.8	-60.0	1.7
Works of art	-1.3	0.6	0.0	0.0	0.0	-	-39.7	0.0
All Lines								
Absolute Difference	-3.5	4.2	2.4	1.9	-9.2	-30.2	-34.4	2.4
Percentage change	-58.2	45.9	24.8	28.7	-101.2	-104.9	-334.4	38.7

Source: Authors' own compilation from national sources.

Table 6: Tariffs against the Largest Non-Oil Imports of EU and US from MENA Countries

		EU		US	
SITC	**Description**	**Bound**	**Applied**	**Bound**	**Applied**
054	Fresh vegetables	10.82	13.46	5.46	7.58
121	Unmanufactured tobacco	27.38	34.85	39.35	69.66
263	Cotton	0.00	0.15	1.30	1.75
292	Crude vegetable materials	2.44	3.93	1.02	1.42
512	Organic chemicals	7.89	10.31	3.95	6.06
541	Medicinal products	0.34	0.35	0.15	0.15
581	Plastic materials	4.60	5.66	3.18	3.22
651	Textile yarns	3.97	6.16	7.06	9.11
652	Woven cotton fabrics	7.97	9.56	8.36	11.17
656	Textile products, nes	6.83	7.55	6.57	9.34
657	Floor covers	6.18	7.60	4.29	7.46
667	Precious stones	0.00	0.20	2.12	2.98
684	Aluminum	6.87	7.61	3.53	3.71
695	Tools	2.35	3.32	2.98	4.07
711	Non-electric power machinery	2.70	3.83	4.16	6.23
714	Office machinery	1.62	1.90	0.40	3.47
722	Electric power machinery	1.26	3.99	0.00	0.43
724	Telecommunications equipment	2.04	2.83	1.05	2.73
893	Articles of plastic, nes	6.40	7.48	4.54	4.81
897	Gold and silverware	2.44	3.25	4.84	6.63

Source: The product list is from Yeats and Ng (1999) while calculations are the authors' own.

Table 7: Tariffs against Dynamic Exports of MENA Countries in the EU and the US Markets (%).

		EU		US	
SITC	Description	Bound	Applied	Bound	Applied
001	Live animals	14.81	20.46	0.58	1.04
231	Synthetic Rubber	0.00	0.00	0.00	0.00
273	Stone & Gravel	0.00	0.11	0.59	1.71
421	Fixed Vegetable Oils	17.36	21.29	6.50	7.64
533	Paints & Pigments	6.14	6.53	3.63	4.12
611	Leather	2.99	3.29	2.39	3.29
613	Dressed Fur Skins	0.63	1.75	2.66	3.32
641	Paper & Board	0.00	6.05	0.00	1.12
666	Pottery	8.40	9.14	5.72	7.61
672	Primary Irons Forms	0.00	2.33	0.00	3.54
673	Iron Shapes	0.00	3.46	0.00	3.81
674	Iron and Steel Plate	0.00	3.44	0.00	4.10
677	Iron Wire	0.54	3.13	0.00	2.18
678	Iron Tubes	0.00	4.20	0.00	6.44
681	Silver and Platinum	0.00	0.68	1.34	2.18
686	Zinc	3.44	4.10	2.24	4.54
691	Structures & Parts	1.79	3.94	1.58	4.45
693	Wire Products	1.52	4.52	1.18	3.87
725	Domestic Electric Equipment	1.70	2.56	0.00	1.03
961	Nongold Coins	0.00	0.00	0.00	0.00

Source: The product list is from Yeats and Ng (1999) while calculations are the authors' own.

Table 8: Specific Commitments of MENA Countries by Sectors

CPC Code		BAH	EG	KUW	MAU	MOR	Qatar	TUN	TK	UAE
	Business Services			YES		YES	YES		YES	YES
	Professional Services			yes		yes	yes		yes	yes
861	Legal								X	
862	Accounting, Auditing and bookkeeping					X	X		X	X
863	Taxation						X			X
8671	Architectual			X			X		X	X
8672	Engineering			X					X	X
8673	Integrated Engineering			X						
8674	Urban Planning and Landscape architectual			X						X
9312	Medical and Dental						X			
932	Vetarinary						X			X
93191	Services provided by midwives, nurses									
	Other									
	Computer and Related Services			yes		yes			yes	yes
841	Consultancy services related to installation			X		X			X	X
842	Software Implementation			X					X	X
843	Data Processing			X					X	X
844	Data Base			X						X
845+849	Other									
	Research and Development Services			yes						yes
851	R&D services on natural sciences			X						X
852	R&D services on social sciences			X						X
853	Interdisciplinary R&D Services			X						X
	Real Estate Services									
821	Involving own or Leased Property									
822	On a free or contract basis									
	Rental/Leasing Services without Operators									
83103	Relating to Ships									
83104	Relating to Aircraft									
83101+83102 +83105	Relating to other Transport Equipment									
83106-83109	Relating to other Machinery and Equipment									
832	Other									

Table 8: Contd.

		BAH	EG	KUW	MAU	MOR	Qatar	TUN	TK	UAE
	Other Business Services			yes		yes			yes	yes
871	Advertising Services			X					X	X
864	Mkt Res. and public Opinion Polling Services			X					X	X
865	Management Consulting Service			X		X			X	X
866	Services related to Man. Consulting			X						
8676	Technical Testing and Analysis serv.			X						X
881	Services incidental to agri, hunting &forestry			X					X	
882	Services incidental to fishing			X						
883+5115	Services incidental to mining								X	
884+885-88442	Services incidental to Manufacturing			X						
887	Services incidental to Energy Distribution									
872	Placement and supply of Personnel					X				
873	Investigation and Security									
8675	Related Scientific and technical Consulting			X						
633+8861-8866	Maintanance and Repair of Equipment			X						
874	Building-Cleaning Services			X						
875	Photographic services			X						
876	Packaging Services			X					X	
88442	Printing, Publishing			X						
87909	Convention Services			X						X
8790	Other									
	Communication Services					YES	YES	YES	YES	YES
7511	Postal Services								yes	
7512	Courier Services						yes		yes	yes
	Telecommunication Services					yes		yes	yes	
7521	Voice Telephone Services					X		X	X	
7523	Packet-Switched data Transmission					X		X	X	
7523	Circuit-Switched data transmission Services								X	
7523	Telex Services					X		X	X	
7522	Telegraph Services								X	
7521+7529	Fascimile Services					X			X	
7522+7523	Private Leased Circuit Services					X			X	

Table 8: Contd.

		BAH	EG	KUW	MAU	MOR	Qatar	TUN	TK	UAE
7523	Electronic Mail					X			X	
7523	Voice Mail					X			X	
7523	On-line Information and data base Retrievel					X			X	
7523	Electronic Data Interchange					X			X	
7523	Enhanced Value-added fascimile services								X	
n.a.	Code and Protocol Conversion								X	
843	On-line Information and/or data Processing								X	
	Other								X	
	Audiovisual Services									
9611	Motion Picture and Video Tape Production									
9612	Motion Picture Projection Service									
9613	Radio and Television Services									
7524	Radio and Television transmission Services									
n.a.	Sound Recording									
	Other									
	Other									
	Construction & Rel. Eng. Services		YES	YES		YES	YES		YES	YES
512	General Construction Work for Buildings			yes		yes	yes		yes	yes
513	General Construction Work for Civil Eng		yes	yes		yes	yes		yes	yes
514+516	Installation and Assembly Work		yes	yes		yes	yes		yes	yes
517	Building Completion and Finishing Work		yes	yes		yes	yes		yes	yes
511+515+518	Other								yes	yes
	Distribution Services			YES						
621	Commission agents' services			yes						
622	Wholesale Trade Services			yes						
631+632+6111+6113+6121	Retailing Services			yes						
8929	Franchising									
	Other									
	Educational Services								YES	
921	Primary Education services								yes	
922	Secondary Education Services								yes	
923	Higher Education Services								yes	

Table 8: Contd.

		BAH	EG	KUW	MAU	MOR	Qatar	TUN	TK	UAE
924	Adult Education									
929	Other Education Services								yes	
	Environmental Services			YES		YES	YES		YES	YES
9401	Sewage Services			yes		yes	yes		yes	yes
9402	Refuse Disposal Services			yes		yes	yes		yes	yes
9403	Sanitation and similar Services			yes		yes	yes		yes	yes
	Other						yes		yes	yes
	Financial Services	YES	YES	YES		YES	YES	YES	YES	YES
812	*Insurance and Insurance Related Services*	yes	yes			yes	yes	yes	yes	
	Direct Insurance	X	X			X	X	X	X	
	Life	X	X			X		X	X	
	Non-Life	X	X			X	X	X	X	
81299	Reinsurance and Retrocession	X	X			X	X	X	X	
8140	Services auxiliary to insurance	X	X				X	X	X	
	Banking and other Financial Services	yes	yes			yes	yes	yes	yes	yes
81115-81119	Acceptance of Deposits and other repayable funds	X	X	X		X	X	X	X	X
8113	Lending of all types	X	X	X		X	X	X	X	X
8112	Financial leasing	X	X	X		X	X	X	X	X
81339	All Payment and money Transmission Services	X	X	X		X	X	X	X	X
81199	Guarantees and Commitments	X	X	X		X	X	X	X	X
	Trading for own Account or for account of Customer	X	X	X		X	X	X	X	X
81339	Money Market Instruments	X	X	X			X		X	X
81333	Foreign Exchange	X	X	X			X		X	X
81339	Derivative Products	X		X			X		X	X
81339	Exchange Rate and Interest Rate	X		X			X		X	X
81321	Transferable Securities	X	X	X		X	X	X	X	X
81339	Other Negotiatable Instruments	X		X		X	X		X	X
8132	Participation in Issues of all kinds of Securities	X	X	X		X	X	X	X	X
81339	Money Broking	X	X	X			X		X	X
8119+81323	Asset Management	X	X	X			X	X	X	X
81339	Settlement and Clearing Services for financial assets	X	X	X			X		X	
8131	Provision and transfer of Financial Information	X		X		X	X		X	X

Table 8: Contd.

		BAH	EG	KUW	MAU	MOR	Qatar	TUN	TK	UAE
8131 or 8133	Advisory and intermediation Services	X	X	X			X	X	X	X
	Health Related & Social Services			YES					YES	
9311	Hospital Services			yes					yes	
9319	Other Human Health Services			yes						
933	Social Services			yes						
	Other									
	Tourism & Travel Services		YES	YES	YES	YES	YES	YES	YES	YES
641-643	Hotels and Restaurants		yes	yes	yes	yes	yes	yes	yes	yes
7471	Travel Agencies and Tour Operator Services		yes	yes	yes	yes		yes	yes	
7472	Tourist Guide Services			yes	yes	yes				yes
	Other		yes			yes				
	Recreational, Cult. & Sp. Services			YES						
9619	Entertainment Services			yes						
962	News Agency Services									
963	Libraries, Archives and Museums									
964	Sporting and other Recreational Services			yes						
	Other									
	Transport Services		YES			YES			YES	
	Maritime Transport Services		yes						yes	
7211	Passenger Transportation		X						X	
7212	Freight Transportation		X						X	
7213	Rentals of Vessals with Crew								X	
8868	Maintanence and Repair of Vessels								X	
7214	Pushing and Towing Services									
745	Supporting Services for Maritime Transport		X							
	Internal Waterways Transport									
7221	Passenger Transportation									
7222	Freight Transportation									
7223	Rental of Vessels with Crew									
8868	Maintanence and Repair of Vessels									
7224	Pushing and Towing Services									
745	Supporting Services for Internal Waterways									

Table 8: Contd.

		BAH	EG	KUW	MAU	MOR	Qatar	TUN	TK	UAE
	Air Transport Services					yes				
731	Passenger Transportation									
732	Freight Transportation									
734	Rental of Aircraft with Crew									
8868	Maintenance and Repair of Aircraft					X				
746	Supporting Services					X				
733	*Space Transport*									
	Rail Transport Services								yes	
7111	Passenger Transportation								X	
7112	Freight Transportation									
7113	Pushing and Towing Services									
8868	Maintenance and Repair of Transport Equipment									
743	Supporting Services for Rail Transport									
	Road Transport Services					yes			yes	
7121+7122	Passenger Transportation					X			X	
7123	Freight Transportation					X			X	
7124	Rental of Commercial Vehicles with Operator									
6112+8867	Maintenence and Repair of Road Transport									
744	Supporting Services for Road Transport									
	Pipeline Transport									
7131	Transportation of Fuels									
7139	Transportation of other Goods									
	Services Auxiliary to all Modes of Transport								yes	
741	Cargo Handling Services								X	
742	Storage and Warehouse Services								X	
748	Freight Transport Agency Services								X	
749	Other								X	
	Other Transport Services									
95+97+98+99	**Other Services Not Included Elsewhere**									

Note: See the classification given in "Services Sectoral Classification List" (MTN.GNS/W/120 of 10 July 1991) and the Annex on Financial Services

Table 9: Market Access Commitments under GATS on Life and Non-Life Insurance

	Limitations on Cross Border	Limitations on Consumption Abroad	Limitations on Commercial Presence			
			Legal Form	Number of Suppliers	Equity	Other
Bahrain (o)	none	none	none	none	none	none
Egypt	life: none; non-life: U	none	B not allowed	DL	49%	-
Morocco (o)	U	U	local registration	-	-	-
Qatar (o)	none no commitments on life insurance	none	-	frozen at 5: 1995 levels	-	-
Tunisia	local risks only with resident insurance enterprises; imports must be insured locally	none for non-residents	S as a public limited company or mutual society; B can only ins non-residents	-	-	-
Turkey	life: U non-life U except for ltd class	none for ltd class	joint stock, mutual co. or B	-	-	-

Note: The abbreviations used are the following: B: branches; S: subsidiaries; U: unbound; DL: discretionary licensing or economic needs test

Source: Mattoo (1998) and Member's commitments

Table 10: Market Access Commitments under GATS on Acceptance of Deposit and Lending

	Limitations on Border	Limitations on Abroad	Limitations on Commercial Presence					
			Legal Form	Number of Suppliers	Equity	Number branches	Value of Of Assets	Othr
Bahrain	None	None	S or B	-	49% for onshore and 100 % for offshore	-	-	-
Egypt	U	U	joint stock company or partnership limited by shares	none for joint ventures; DL for B	DLSO	-	G for dealing through B	-
Kuwait	deposits U lending only syn. loans through Kuwaiti banks or investment companies.	none	-	DL	40% + Kuwaiti gov. or financial institutions share-holding	-	-	-
Morocco	deposits U lending: U except for financing investment and commercial transactions with Morocco	U	-	R	DL	-	-	-
Qatar	none	none	-	frozen at 1995 levels (8 B)	-	-	-	-
Tunisia	U	none for non-resident banks; residents subject to authorization	-	DL	foreign acquisition of shares in Tunisian companies allowed up to 50%	-	-	-
Turkey	none	none	joint stock co. or B	-	-	DL on B	-	-
UAE	none	none	-	new and expansion of existing: U	-	-	-	-

Note: The abbreviations used are the following: B: branches; S: subsidiaries; R: reciprocity condition or MFN exemption; U: unbound; DL: discretionary licensing or economic needs test; DLSO: discretionary limits on single ownership; G: grandfathering provision.
Source: Mattoo (1998) and Members' commitments

Table 11: Indicators in the Basic Telecommunications Sector

	GDP per capita 1997 PPP ($)	Telephone Mainlines (per 1000 people)	Cost of local calls (1995-1997) Average ($ US)	Cost of call to US (1995-1997) Average ($ US per 3 minutes)	Waiting time for telephone lines in years (1995-1997) Average
Algeria	4,460	44	0.02	4.91	7.9
Bahrain	-	243	0.05	5.59	0.1
Comoros	1,530	8	0.20	-	-
Djibouti	-	13	0.19	-	0.0
Egypt, Arab Rep.	3,050	51	-	6.82	3.9
Iran, Islamic Rep.	5,460	92	0.01	6.02	1.9
Iraq	-	33	-	-	-
Jordan	3,450	63	0.02	-	4.8
Kuwait	18,100	226	0.00	5.48	0.2
Lebanon	5,940	146	0.03	7.29	-
Libya	-	63	0.02	-	-
Mauritania	1,730	5	0.13	-	0.7
Morocco	3,310	46	0.09	6.59	0.2
Oman	9,980	84	0.07	-	0.2
Qatar	16,080	237	-	5.44	0.1
Saudi Arabia	10,120	106	0.02	6.41	5.8
Somalia	-	2	-	-	-
Sudan	1,560	3	0.03	8.02	10.0
Syrian Arab Republic	3,250	79	0.04	33.41	10.0
Tunisia	5,300	64	0.07	6.08	1.3
Turkey	6,350	229	0.06	2.34	0.4
United Arab Emirates	18,110	323	0.00	3.78	0.0
West Bank and Gaza	-	41	0.05	0.61	10.0
Yemen, Rep.	-	13	0.02	-	5.0
Germany	21,260	534	0.15	2.49	0.0
Japan	24,070	485	0.09	4.41	0.0

Source: World Development Indicators on CD-ROM, 1999