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**Non-tariff measures related to foreign trade liberalization
in selected Arab countries****Summary**

Since the beginning of multilateral trade negotiations, a great focus has been put by international organizations and policymakers on lowering tariff barriers to further stimulate commercial trade. Significant progress has been achieved in this field so far and tariffs are no longer considered the most important barriers to trade as they were decades ago. Nevertheless, other types of measures were adopted, known as non-tariff measures (NTMs), which also hamper the exchange flow between countries.

This document presents and analyses the structure and importance of NTMs in four member States of the Economic and Social Commission for Western Asia (ESCWA). The purpose is to highlight their restrictive role on both imports and exports, and raise awareness of their negative impact on Arab interregional trade. The policy implications of such an analysis are diverse in nature, and go beyond the scope of this document. Yet, some are presented and a way forward is also suggested.

This document is presented to the Technical Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development in the Countries of the ESCWA Region at its ninth session, for review and discussion.

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Introduction

1. Non-tariff trade measures (NTMs) are defined as policy measures other than ordinary customs tariffs that may have an economic effect on international trade in goods. They may affect the price of traded goods by adding non-ad valorem fees, the quantity of traded goods, or both. Although the use of NTMs is, in many cases, legitimate, to ensure quality or protect consumers' health for example, they are also sometimes used as protectionist measures. It is usually difficult to clearly determine if the goal of the regulation is a legitimate or a protectionist one.
2. Since the beginning of multilateral trade negotiations under the auspices of the 1948 General Agreement on Tariffs and Trade (GATT), which later gave way to the creation of the World Trade Organization (WTO) in 1995, a great focus was put by international organizations and policymakers alike on lowering tariff barriers to further stimulate commercial exchange between countries. So far, significant progress has been achieved in this field and tariffs are no more considered the most important impediments to trade as they were some decades ago. Nevertheless, this sharp decline in tariffs gave rise to other types of measures that hamper trade flow between countries, namely NTMs. Although such measures were adopted in past decades, their importance grew after the continuous fall of tariffs in almost all countries.
3. Data on NTMs are extremely limited, particularly in developing countries. In the member States of the Economic and Social Commission for Western Asia (ESCWA), the first data sets on NTMs were collected in 2010, through a detailed survey and investigations under a collaborative research programme between the World Bank's Trade Division, the United Nations Conference for Trade and Development (UNCTAD) and the FEMISE (*Forum Euroméditerranéen des Instituts de Sciences Économiques*) Association, in close collaboration with the relevant ministerial departments. Results were made available through the World Integrated Trade Solution (WITS)¹ for only four Arab countries, namely Egypt, Lebanon, Morocco and Tunisia. Results on the Syrian Arab Republic were not confirmed by its Government at the time.
4. The purpose of this document is to present and analyse the structure and importance of NTMs in these four ESCWA member States, to assess their restrictive role on both imports and exports. As part of a large project, the document also seeks to contribute to the knowledge of NTMs in the Arab region and raise awareness of these barriers, which hamper the ability of ESCWA member States to trade with each other and build a strong and long-lasting regional trade system.

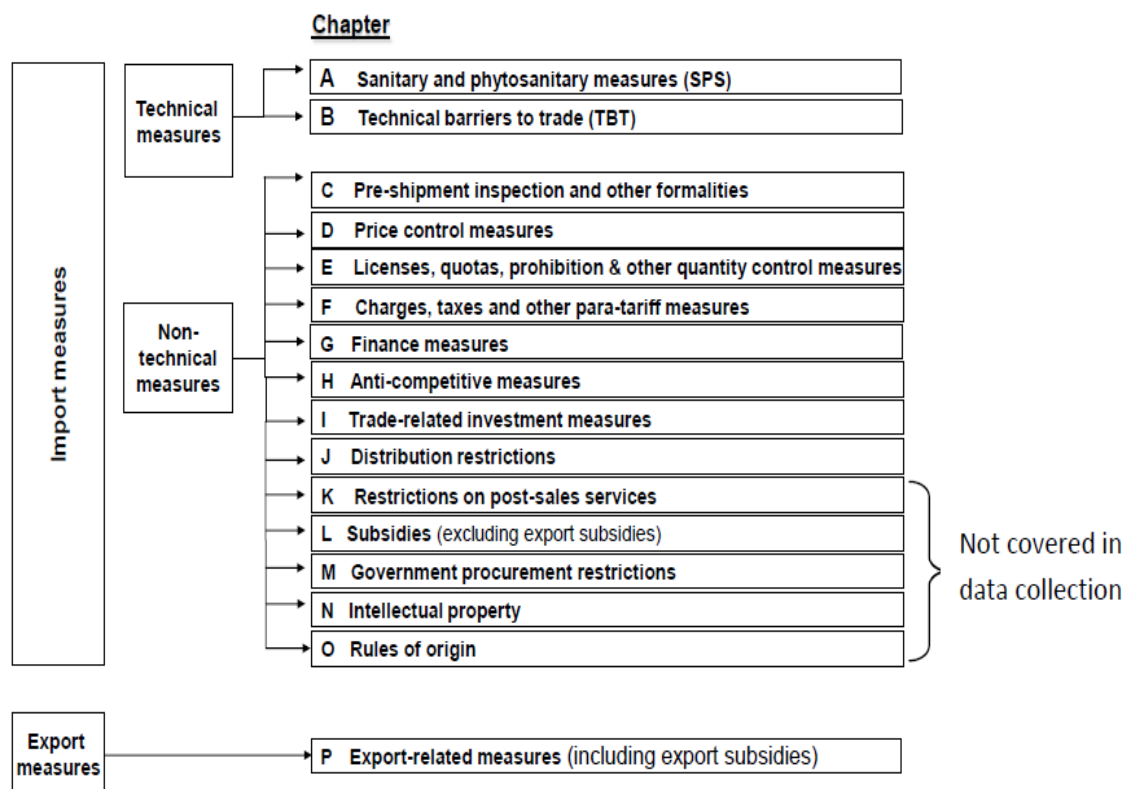
I. CLASSIFICATION OF NTMs

5. The classification of NTMs presented here is a taxonomy of all those measures that are considered relevant in the current situation of international trade. It was extensively discussed and agreed upon by several international organizations, which form the Multi-Agency Support Team (MAST) created to support the Group of Eminent Persons on Non-tariff Barriers established by the Secretary-General of UNCTAD in 2006. The classification was established and tested from 2007 to 2012; and the first version was published by UNCTAD in 2013.²
6. The measures are organized in 16 chapters, designated by alphabetical letters, each comprising "sub-branches" (designated by 1 digit following the letter), "twigs" (2 digits following the letter) and "leaves" (3 digits following the letter). It is important to note that no data have been collected so far for several chapters of the classification, such as government procurement restrictions (chapter M); subsidies (chapter L); and rules of origin (chapter O). The structure of the classification is presented in the following figure.

¹ The World Bank, World Integrated Trade Solution (WITS), available from <http://wits.worldbank.org/simulationtool.html>.

² UNCTAD, *Classification of Non-Tariff Measures* (New York and Geneva, 2013). For the general characteristics of the classification, see pages 1 and 2 of that publication.

Structure of the NTM classification



Source: UNCTAD, *Classification of Non-Tariff Measures*.

II. NTMs ON IMPORTS IN THE ARAB REGION

A. OVERVIEW

7. Non-tariff measures are usually applied on a non-discriminatory basis. However, given the commodity-specific nature of NTMs, regional trade may be affected by them. Their impact depends on the product structure of trade in a specific region and the importance of NTMs on the most traded products.

8. Table 1, on the imports of Egypt, Lebanon, Morocco and Tunisia by origin and NTM weights, shows that in 2012, more than half of Tunisian imports came from the European Union, against only around 5 per cent from members of the Greater Arab Free Trade Area (GAFTA). On average, 37.6 per cent of the total value of Tunisian imports are subject to NTMs. Figures fluctuate between 26.1 per cent and 64.3 per cent, depending on the origin of imports but as a direct consequence of the product structure of imports, not due to any NTMs applied on imports from a specific origin. The weight of NTMs is found to be highest for imports coming from Egypt.

9. Half of Morocco's imports also come from the European market; but as high as 12 per cent originate from GAFTA members, marking a greater orientation towards Arab countries compared to Tunisia, although the percentage is still small. Regarding the value of imports subject to NTMs, figures are extremely high, as on average 98 per cent are subject to one or more NTMs. In other terms, almost all products are affected by NTMs, which represents a real handicap for other countries' exporters and for Morocco itself, as relatively similar economies are offering better access to their markets, such as Tunisia, where only 37.6 per cent of imports are subject to NTMs, as mentioned above.

10. Egypt is less focused on the European market: only 29.2 per cent of total imports by value originate in European countries and 12.0 per cent come from GAFTA members. On average, 64.7 per cent of total import values are subject to one or more NTMs. Table 1 shows that imports from GAFTA members are the most constrained by NTMs, as an average of 90.3 per cent of their total value are affected by them. Products originating from European Union members are less affected by NTMs, with an average of around 56.9 per cent. This situation is the opposite of what has been recorded in Tunisia: the percentage of imports from GAFTA members is relatively high, but NTMs applied for products in which Arab countries are specialized are a barrier to greater imports from the region. This intraregional shortfall can be overcome if more attention is devoted to NTMs and their negative impact on Arab intraregional trade flows.

11. In the case of Lebanon, more than one third of imports come from European countries and almost 15 per cent from GAFTA members. The trade link with Egypt is much stronger than with Tunisia or Morocco, mainly due to geographical proximity. All products imported by Lebanon are subject to at least one NTM, which was not the case in the three other countries considered, although NTM weights are very high in Morocco as well.

TABLE 1. IMPORTS AND WEIGHT OF NTMS BY ORIGIN, 2012

	Origin \ Destination	Destination			
		Egypt	Lebanon	Morocco	Tunisia
Distribution of imports (<i>Percentage</i>)	Egypt		4	1	1
	Lebanon	0.2		0.1	0.1
	Morocco	0.1	0.3		0.5
	Tunisia	0.4	0.2	0.5	
	GAFTA	12.0	14.7	12.5	4.8
	European Union-27	29.2	38.7	47.4	54.0
Imports subject to NTMs as a percentage of the total value of imports	Egypt		100	97.1	64.3
	Lebanon	78.5		89.8	49.8
	Morocco	37.5	100		26.1
	Tunisia	96.3	100	99.9	
	GAFTA	90.3	100	99.5	26.9
	European Union-27	56.9	100	97.1	38.1
	World	64.7	100	98.1	37.6

Source: ESCWA calculations based on data from WITS.

B. NTM DISTRIBUTION BY PRODUCT LINE AND ORIGIN OF IMPORTS

12. Table 2 was compiled using the 2002 Harmonized Commodity Description and Coding System (HS) at the six-digit level. The total number of commodity groups (or lines) in this nomenclature is about 5,225. Tunisian imports cover about 83 per cent of that number, 21.1 per cent of which are subject to NTMs. When considering the number of lines of imports, the distribution of Tunisian imports is quite similar to their distribution by value: most come from the European market and only one third originate in GAFTA member States. The percentage of lines subject to NTMs in Tunisia does not seem to fluctuate greatly by partner.

13. In the case of Morocco, results do not vary either when considering the number of product lines instead of the value of imports. On average, almost 97 per cent of these lines were subject to one or more NTMs in 2012. There were no substantial fluctuations by partner, as shown in table 2.

14. When considering the number of lines of imports as a factor instead of total import value, results show a substantive variation in Egypt. Imports coming from GAFTA members represent almost half of the total number of import lines. Moreover, products imported from Arab countries into Egypt are as affected by NTMs as products imported from Europe or the rest of the world. This observation suggests that Egypt's imports from GAFTA members are more diversified, compared to those of Tunisia or Morocco.

15. Lebanese imports from GAFTA members are also more diversified than Moroccan and Tunisian imports, covering 35 per cent of all product lines of the country's imports. However, this share is still far below that of Lebanese imports from the European Union, which cover around 72 per cent of these lines. As highlighted in the previous section, the weight of NTMs is extremely high, reaching 100 per cent of product lines and trade partners.

TABLE 2. IMPORTS AND NTMS BY PRODUCT LINE, 2012

	Destination				
	Origin	Egypt	Lebanon	Morocco	Tunisia
Product lines at the HS 6-digit level imported from selected partners as a percentage of total product lines	Egypt		15.2	15.1	11.8
	Lebanon	11.5		4.2	3.1
	Morocco	3.2	6.7		11.4
	Tunisia	3.4	7.7	11.9	
	European Union-27	75.8	72.3	86.1	79.2
	GAFTA	46.2	34.7	27.2	30.5
	World	85.5	79.4	89.7	83.0
Product lines at the HS 6-digit level imported and subject to NTMs as a percentage of imported product lines	Egypt		100.0	98.6	29.3
	Lebanon	50.4		95.9	29.6
	Morocco	66.9	100.0		23.3
	Tunisia	59.8	100.0	98.2	
	European Union-27	51.2	100.0	96.9	19.9
	GAFTA	52.5	100.0	97.8	23.6
	World	54.0	100.0	96.8	21.1

Source: ESCWA calculations based on data from WITS.

C. NTM DISTRIBUTION BY CATEGORY

16. As shown in the structure of the NTM classification (page 4 of this document), there are three categories of NTMs: technical measures; non-technical measures; and export measures. Technical measures comprise sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT); and non-technical measures include all the remaining chapters, except export-related measures.

17. Tables in this section take into consideration the multiple NTMs applied for every six-digit HS code, i.e. for every product line. Each product is counted as many times as there are NTMs applied on it, which creates 'recurrent HS codes'. A 'unique HS code' refers to a code counted only once even when the product is subject to more than one NTM.

18. Data on Tunisia show that there are 15,392 NTMs applied on traded products when counting recurrent HS codes (table 3). The number drops down to 1,244 when considering unique HS codes, which means that, on average, Tunisia applies 12 NTMs for each unique HS code. The average number of NTMs applied by Tunisia in 2008, 2010 and 2012 was 10,880 measures, with a very low standard deviation. More than two thirds of these measures were of a technical nature; about one fifth were non-technical measures; and export-related measures only constituted 7.5 per cent of the total number of applied NTMs. This was expected, given the export-oriented character of the Tunisian economy, manifested by the various fiscal and financial incentives granted to exporters.

19. Chapter A (SPS) tops the list of the NTMs applied in Tunisia in 2008, 2010 and 2012; NTMs related to chapters D and H do not exceed 1 per cent of the total NTMs applied. Chapters E, G, I and J, related respectively to licenses, quotas, prohibition and other quantity control measures; finance measures; trade-related investment measures; and distribution restrictions are not pertinent to the Tunisian case, since none of the NTMs pertaining to those chapters was found in the 2010 country NTMs list.

TABLE 3. TUNISIA: NTMS ON IMPORTS BY CATEGORY, 2008, 2010 AND 2012

	NTM categories	No. of NTMs in the period considered	% of total	No. of NTMs applied in 2008	% of total	No. of NTMs applied in 2010	% of total	No. of NTMs applied in 2012	% of total
Import measures	Technical measures = A + B	11 015	71.6	7,836	71.7	7 799	71.6	7 743	71.6
	Non-technical measures = C + D + E + F + G + H + I + J	3 135	20.4	2 270	20.8	2 268	20.8	2 254	20.8
Export measures	Export measures = P	1 242	8.1	820	7.5	829	7.6	823	7.6
Total		15 392	100.0	10 926	100.0	10 896	100.0	10 820	100.0
Import measures	A - SPS	7 354	47.8	4 714	43.1	4 774	43.8	4 692	43.4
	B - TBT	3 661	23.8	3 122	28.6	3 025	27.8	3 051	28.2
	C - Pre-shipment inspection and other formalities	1 843	12.0	1 307	12.0	1 306	12	1 298	12
	D - Price control measures	47	0.3	32	0.3	37	0.3	33	0.3
	F - Charges, taxes and other para-tariff measures	1 146	7.4	847	7.8	842	7.7	840	7.8
	H - Anti-competitive measures	99	0.6	84	0.8	83	0.8	83	0.8
Export measures	P - Export related measures	1 242	8.1	820	7.5	829	7.6	823	7.6
Total		15 392	100.0	10 926	100.0	10 896	100.0	10 820	100.0

Source: ESCWA calculations based on data from WITS.

20. When recurrent HS codes are considered, there are 39,199 NTMs in force in Morocco (table 4). This figure is very high, reaching 2.5 times that of Tunisia. Two thirds of these NTMs are non-technical measures and one third is divided equally between technical measures and export-related measures. This structure is very different from what was recorded in the Tunisian case, where the bulk of applied NTMs consisted of technical measures, SPS and TBT.

21. The breakdown of the above-mentioned aggregates clearly shows that chapter F, corresponding to charges, taxes and other para-tariff measures, takes the lion's share of NTMs implemented in Morocco, with a percentage exceeding 50 per cent. This is true when considering the official NTM list and taking only into account the products imported during the three retained years.

22. Applied non-technical measures are more diversified in Morocco than in Tunisia: they pertain to 8 different chapters, compared to 6 chapters in the latter. Chapters E (licenses, quotas, prohibition and other quantity control measures); G (finance measures); and J (distribution restrictions) are into force in Morocco but not in Tunisia, while chapter H (anti-competitive measures) figures only in Tunisian data. This reflects the very different NTM structure applied in the two countries.

TABLE 4. MOROCCO: NTMS ON IMPORTS BY CATEGORY, 2008, 2011 AND 2012

	NTM categories	No. of NTMs in the period considered	% of total	No. of NTMs applied in 2008	% of total	No. of NTMs applied in 2011	% of total	No. of NTMs applied in 2012	% of total
Import measures	Technical measures = A + B	5 873	15.0	5 129	15.1	5 221	15.2	5 155	15.2
	Non-technical measures = C + D + E + F + G + H + I + J	26 797	68.4	23 354	68.6	23 460	68.4	23 259	68.4
Export measures	Export measures = P	6 529	16.7	5 554	16.3	5 629	16.4	5 583	16.4
Total		39 199	100.0	34 037	100.0	34 310	100	33 997	100
Import measures	A - SPS	2 034	5.2	1 491	4.4	1 597	4.7	1 545	4.5
	B - TBT	3 839	9.8	3 638	10.7	3 624	10.6	3 610	10.6
	C - Pre-shipment inspection and other formalities	502	1.3	387	1.1	408	1.2	404	1.2
	D - Price control measures	16	0.0	16	0.0	14	0.0	16	0
	E - Licenses, quotas, prohibition and other quantity control measures	226	0.6	172	0.5	181	0.5	179	0.5
	F - Charges, taxes and other para-tariff measures	20 927	53.4	18 284	53.7	18 351	53.5	18 191	53.5
	G - Finance measures	5 113	13.0	4 482	13.2	4 494	13.1	4 457	13.1
	J - Distribution restrictions	13	0.0	13	0.0	12	0.0	12	0
Export measures	P - Export-related measures	6 529	16.7	5 554	16.3	5 629	16.4	5 583	16.4
Total		39 199	100.0	34 037	100	34 310	100.0	33 997	100.0

Source: ESCWA calculations based on data from WITS.

23. Compared with the two previous countries, Egypt applies the smallest number of NTMs when recurrent HS codes are considered. Like Tunisian authorities but unlike Moroccan ones, Egyptian authorities widely apply technical measures. However, the composition is reversed inside this category in comparison to Tunisia, in so far that TBT measures are 3.5 times more implemented than SPS measures. When considering data over time, the composition seems quite stable in terms of percentage. Finally, three NTM chapters are not pertinent in the Egyptian case: chapters G (finance measures); H (anti-competitive measures); and I (trade-related investment measures).

TABLE 5. EGYPT: NTMS ON IMPORTS BY CATEGORY, 2008, 2011 AND 2012

	NTM categories	No. of NTMs in the period considered	% of total	No. of NTMs applied in 2008	% of total	No. of NTMs applied in 2011	% of total	No. of NTMs applied in 2012	% of total
Import measures	Technical measures = A + B	10 618	83.4	8 016	84.6	8 180	84.5	8 308	84.5
	Non-technical measures = C + D + E + F + G + H + I + J	1 540	12.1	1 133	12.0	1 173	12.1	1 179	12.0
Export measures	Export measures = P	574	4.5	331	3.5	326	3.4	346	3.5
Total		12 732	100.0	9 480	100.0	9 679	100.0	9 833	100.0
Import measures	A - SPS	2 365	18.6	1 492	15.7	1 552	16	1 603	16.3
	B - TBT	8 253	64.8	6 524	68.8	6 628	68.5	6 705	68.2
	C - Pre-shipment inspection and other formalities	555	4.4	395	4.2	424	4.4	421	4.3
	D - Price control measures	65	0.5	49	0.5	53	0.5	49	0.5
	E - Licenses, quotas, prohibition & other quantity control measures	8	0.1	6	0.1	6	0.1	5	0.1
	F - Charges, taxes and other para-tariff measures	910	7.1	681	7.2	688	7.1	702	7.1
	J - Distribution restrictions	2	0	2	0	2	0	2	0
Export measures	P - Export-related measures	574	4.5	331	3.5	326	3.4	346	3.5
Total		12 732	100.0	9 480	100.0	9 679	100.0	9 833	100.0

Source: ESCWA calculations based on data from WITS.

24. Finally, as featured in table 6, NTMs applied in Lebanon consist primarily of non-technical measures, since their share amounts to almost 93 per cent of all NTMs applied in the country. These non-technical measures consist almost exclusively of chapter F, namely charges, taxes and other para-tariff measures. This NTM structure is unique to Lebanon and is different from that of the other three countries studied. The remaining non-tariff measures in place are very few.

TABLE 6. LEBANON: NTMS ON IMPORTS BY CATEGORY, 2008, 2011 AND 2012

	NTM categories	No. of NTMs in the period considered	% of total	No. of NTMs applied in 2008	% of total	No. of NTMs applied in 2011	% of total	No. of NTMs applied in 2012	% of total
Import measures	Technical measures = A + B	1 173	5.2	752	4.1	730	4.0	721	4.1
	Non-technical measures = C + D + E + F + G + H + I + J	20 921	92.8	17 116	94.3	17 039	94.4	16 622	94.3
Export measures	Export measures = P	441	2.0	281	1.5	286	1.6	277	1.6
Total		22 535	100.0	18 149	100.0	18 055	100.0	17 620	100.0
Import measures	A - SPS	260	1.2	171	0.9	156	0.9	164	0.9
	B - TBT	913	4.1	581	3.2	574	3.2	557	3.2
	E - Licenses, quotas, prohibition & other quantity control measures	21	0.1	16	0.1	15	0.1	18	0.1
	F - Charges, taxes and other para-tariff measures	20 900	92.7	17 100	94.2	17 024	94.3	16 604	94.2
Export measures	P - Export related measures	441	2.0	281	1.5	286	1.6	277	1.6
Total		22 535	100.0	18 149	100.0	18 055	100.0	17 620	100.0

Source: ESCWA calculations based on data from WITS.

D. NTM DISTRIBUTION BY GROUP OF PRODUCTS

25. Data on Tunisia show that, when considering product groups, animals, vegetables and food products top the lists of the 6-digit tariff lines subject to one or more NTMs and that of NTMs applied when considering recurrent HS codes. Together, they constitute half of the total number of tariff lines subject to one or more NTMs and almost two thirds of all Tunisian NTMs are applied on them. Most of these NTMs are from chapter A (SPS). These groups are then followed by machinery, electronics and chemicals, which are subject essentially to chapter B measures (TBT).

26. In Morocco, when considering both sections of table 7, animal products appear not as affected by NTMs as in Tunisia. This means that, for livestock exporters, the Moroccan market is much more accessible than the Tunisian one, while the opposite is true for textile and clothing exporters.

27. Table 7 also reveals that, overall, the most protected groups are textile and clothing; chemicals; and machinery and electronics, in terms of number of HS lines subject to one or more NTMs. The average number of NTMs applied on these groups is about five. In Egypt, for example, 833 textile and clothing products are affected by 3,916 NTMs. However, in terms of number of measures affecting each line, livestock reached an average of 11 NTMs; and produce an average of 7 NTMs; both of which are higher than the average number of NTMs affecting the three above-mentioned most protected groups.

TABLE 7. NUMBER OF NTMS APPLIED BY PRODUCT GROUP

Product group	Number of HS lines subject to one or more NTMs				Total	Number of NTMs applied by group of product				Total
	Egypt	Lebanon	Morocco	Tunisia		Egypt	Lebanon	Morocco	Tunisia	
Animals	219	236	214	225	894	2 223	1 078	2 899	4 172	10 372
Chemicals	587	857	824	109	2 377	1 658	3 628	6 446	1 037	12 769
Food products	195	202	203	163	763	877	901	2 028	2 441	6 247
Footwear	54	70	55	20	199	108	296	396	181	981
Fuels	43	45	42	4	134	119	199	272	34	624
Hides and skins	75	82	80	12	249	248	343	502	176	1,269
Machinery and electronics	13	808	804	137	1 762	25	3 230	5 031	1 306	9 592
Metals	28	584	581	31	1 224	70	2 361	3,522	310	6 263
Minerals	109	114	108	9	340	317	479	651	91	1 538
Miscellaneous	14	407	393	100	914	26	1 666	2 433	681	4 806
Plastic or rubber	220	213	216	16	665	728	861	1 306	154	3 049
Produce	315	317	327	263	1 222	1 425	1 276	3 420	3 317	9 438
Stone and glass	65	200	203	29	497	159	783	1270	264	2 476
Textile and clothing	833	927	822	48	2 630	3 916	3 880	6 453	463	14 712
Transportation	..	137	132	35	304	..	577	840	343	1 760
Wood	224	243	236	43	746	833	977	1 730	422	3 962
Total	2 994	5 442	5 240	1 244		12 732	22 535	39 199	15 392	

Source: ESCWA calculations based on data from WITS.

Note: Two dots (..) indicate that data are not available. When dividing the number of NTMs applied to a group of products by the number of HS lines subject to those NTMs, we obtain the average number of NTMs applied for this selected product group. For example, if we divide 4,172 (NTMs applied on animal trade in Tunisia) by 225 (number of lines in the animal product group in Tunisia), we obtain an average of 18 NTMs applied in the country for the import of animal products.

III. NTMS ON EXPORTS TO MARKETS OF THE ARAB REGION

A. EXPORTS AND NTMS BY VALUE

28. Tunisian exports have been showing a decreasing tendency since 2011, because of the political turmoil that hit the country in early 2011. The same observations on the structure of Tunisian imports are pertinent for its exports: the country's main export partner is the European Union, with a market share of about 71.5 per cent against only 7.6 per cent of exports destined to GAFTA markets. This could be attributed, among other factors, to the fact that Tunisia is specialized in the export of products that generally face restrictive

NTMs in Arab countries. The percentage of Tunisian exports that face NTMs in the three other Arab countries considered ranges from 59.6 per cent to a striking 100 per cent of the total value of Tunisian exports (table 8). However, the European Union is also imposing NTMs on a vast majority of the products exported by Tunisia. It thus seems that the complexity of the structure of NTMs applied to products by the importing country is what matters most. In other words, when an exporter of a given product faces 2 or 3 NTMs in an importing country A, it is very different from a situation where this same exporter faces 15 or 16 NTMs in another importing country B.

29. Table 8 also shows that around 57 per cent of Morocco's exports in 2012 were absorbed by the European market, against only 3.5 per cent for GAFTA members. This means that Morocco suffers from a great commercial deficit when taking into consideration only exchange flows with Arab countries, as the country imports around 12 per cent of its total import products from GAFTA members.³ However, Morocco also suffers from trade deficit with the European market and the rest of the world, even if the fact is more striking in the case of its exchange flows with the Arab region.

30. The fact that Moroccan exports to the European Union market exceed by 16 times exports to the Arab region makes it clear that access to the markets of Arab countries is currently impeded; but also that there is room for improvement if that access is made easier. The lower part of table 8 shows a ranking of Moroccan accessibility to the markets of the three other Arab countries: only 32 per cent of the total value of Moroccan exports faces NTMs in Tunisia, compared to 71.2 per cent in Egypt and 100 per cent in Lebanon. The Tunisian market is thus by far more open to Moroccan exports than the two other markets.

31. Egyptian exports to the European Union and to GAFTA members exhibit opposite paths. What is remarkable is that in 2012, Egyptian exports to Arab countries exceeded exports to European countries for the first time. If it is later proven that this achievement is not due to temporary circumstances such as the political unrest in Syria, these data could be a positive sign of deeper intraregional integration. On average, 37 per cent of the total value of products exported by Egypt face NTMs in Tunisia; the percentage is much higher with Morocco, which imposes NTMs on almost all products as described earlier. The same conclusion can be drawn for Lebanon.

32. Table 8 clearly reveals a specific feature of Lebanese exports that is not shared with the other three countries. Lebanese exports to GAFTA members account for around 38 per cent of its exports. The share of the European market is about one fourth of this percentage. These figures reflect rather well-established trade connections with Arab countries. In terms of market access, around 29 per cent of Lebanese exports are subject to one or more NTMs in Tunisia, compared to 37 per cent in Egypt. As expected, the percentage reaches as high as 99 per cent in the case of Morocco, since the country imposes common NTMs for almost all six-digit HS codes.

TABLE 8. EXPORTS AND NTMS BY DESTINATION, 2012

Destination \ Origin	Origin				
	Egypt	Lebanon	Morocco	Tunisia	
Distribution of exports (<i>Percentage</i>)	Egypt	0.3	0.6	0.5	
	Lebanon	2.9	0.2	0.1	
	Morocco	1.3	1.8	1.2	
	Tunisia	0.9	0.2	0.6	
	European Union-27	26.8	9.9	56.8	71.5
	GAFTA	29.0	37.9	3.5	7.6
Exports subject to NTMs as a percentage of the total value of exports	Egypt		36.5	71.2	59.6
	Lebanon	100.0		100.0	100.0
	Morocco	98.4	99.1		98.9
	Tunisia	37.4	28.8	31.8	

Source: ESCWA calculations based on data from WITS.

³ The World Bank, WITS, available from <http://wits.worldbank.org/simulationtool.html>.

B. EXPORTS AND NTMS BY PRODUCT LINE

33. Table 9 clearly shows that Tunisia and Morocco are the most diversified economies among the four Arab countries in this study. Their exports to the European Union cover respectively 70 per cent and 77 per cent of product lines at the HS six-digit level, compared with only 50 per cent for Egypt and 46 per cent for Lebanon. However, the picture changes much when focusing on exports to GAFTA members: Lebanon and Egypt are the most diversified with respectively 80 and 82 per cent, compared with only 36 per cent for Morocco and around 57 per cent for Tunisia. Tunisian exports to Arab countries are subject to a high number of NTMs, mainly in Morocco (97 per cent) and Lebanon (100 per cent). Tunisia is by far the least restricted market for Arab exports, with an average of 26.5 per cent of product lines subject to NTMs in it.

TABLE 9. EXPORTS AND NTMS BY PRODUCT LINES

	Origin				
	Destination	Egypt	Lebanon	Morocco	Tunisia
Product lines at the HS 6-digit level exported to selected partners as a percentage of total product lines	Egypt		21.9	5.7	5.2
	Lebanon	19.7		3.2	4.0
	Morocco	18.7	9.6		15.8
	Tunisia	13.8	5.4	12.9	
	European Union-27	49.8	45.5	77.0	70.3
	GAFTA	82.2	80.2	36.2	57.3
Product lines at the HS 6-digit level exported and subject to NTMs as a percentage of exported product lines	Egypt		54.5	55.0	54.8
	Lebanon	100.0		100.0	100.0
	Morocco	97.1	97.1		97.1
	Tunisia	28.8	27.1	23.6	

Source: ESCWA calculations based on data from WITS.

IV. IMPACT OF NTMS ON THE ECONOMY

34. Growth is a complex phenomenon, driven both by supply-side conditions – i.e. the change in the level of productive capacities, namely labour, human and physical capital and technology – and by demand-side conditions affecting the use of these capacities. Together, these two types of conditions determine the economy's production path. The way in which trade integration, through various mechanisms, can act as a catalyst to improve both demand- and supply-side conditions varies very much from country to country, depending on the level of economic and technological development, the geographical situation and the size with respect to the world economy. Through bilateral and multilateral agreements, most Arab countries can be granted greater access to foreign markets, hence greater potential demand for their products, in GAFTA in particular.

35. On the supply side, trade entails the use of a wide variety of modern inputs. Indeed, producers use the tools most relevant to their production. Tools are not only goods, but also knowledge and practice embodied in imported goods. Given the existing technological gap between most of the Arab countries and more advanced countries, the former will benefit from using already existing technologies adapted to their needs rather than investing in costly research and development programmes.

36. Trade integration can greatly contribute to growth by setting the domestic economic conditions to improve the competitiveness of Arab products. International experience indeed suggests that the unilateral removal of countries' own trade barriers helps to create the needed economic environment to improve external competitiveness and foster growth, through greater productivity and investment opportunities.

37. In small countries, open trade policy is a powerful substitute for active competition policy in tradable sectors. Competition brings many benefits: firms in competitive markets cannot charge excessive costs, which is beneficial for consumers and industries using their products as inputs. Inefficient industries disappear or become more efficient, raising average productivity. Competition creates the incentives to fully exploit the more diverse set of inputs and technologies that become available with increased trade.

38. For private importers, the elimination and/or reduction of NTMs among trade partners would eliminate or at least reduce the rent derived from many of these NTMs and consequently eliminate the wasteful expenditure of resources on rent-seeking behaviour. Removing trade-restricting NTMs and harmonizing the others would bring a real gain in resources, and welfare should increase significantly for all households.⁴

39. The other positive aspect of removing or reducing NTMs is transparency in import operations. For some importers, removing or reducing trade-restricting NTMs will eliminate their power on import operations and thus on the local market. All operators will import in the same transparency conditions, which will increase competition among importers and then reduce the domestic prices of both imported and domestic products. The effect on the government budget will be important as income from import operations will be higher.

40. Competition among importers will lower trade margins and diversify the number of products available. Both consumers and investors will benefit from such reforms. At the same time, government revenues will be endogenously affected by the depreciation of the real exchange rate as a result of import growth. A reform of the exchange rate system will also be needed in most countries, mainly to increase exports and reduce imports.

41. A relatively recent study⁵ measured the impact of NTMs on the Syrian economy using a static computable general equilibrium (CGE) model. It highlighted that NTMs can be considered similar to import taxes, and studied the implications of their removal through two policy simulations: (a) a complete removal of tariffs; and (b) a complete removal of NTMs in the form of quantitative restrictions (QRs) of imports. Results suggested a number of interesting features, detailed in the cited paper. The amplitude of changes resulting from the cancellation of NTMs in the form of QRs far exceeded that of changes resulting from the removal of tariff barriers, which was not surprising given the estimated magnitude of QRs as a percentage of GDP (5.4 per cent) compared with that of tariffs.

42. This comparison between the two policy outcomes suggested that NTMs entailed much greater price distortions than tariff barriers did in Syria. More recent calculations⁶ for a panel of commodities imported by Tunisia and Morocco, representing respectively an average between 30 and 40 per cent of their imports, showed a simple average of ad-valorem equivalents (AVEs)⁷ of 62.6 per cent for Morocco and 13.4 per cent for Tunisia. Simulations using a CGE model carried out at ESCWA on the impacts of removing the corresponding NTMs indicate a significant welfare gain for Morocco, reaching around 0.6 per cent increase in GDP compared with only 0.3 per cent for Tunisia. The impacts are much higher at the sectoral level as a direct result of high standard deviation of AVEs among products.

⁴ See Jensen, J., and David Tarr, "Trade, foreign exchange, and energy policies in the Islamic Republic of Iran: reform agenda, economic implications, and impact on the poor", January 2002, p.7, for further information on the benefits of removing NTMs (Available from <http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-2768>).

⁵ Chemingui, M. A., and S. Dessus, "Assessing non-tariff barriers in Syria", *Journal of Policy Modeling*, vol. 30, No. 5 (2008).

⁶ Augier, P., and others, "Non-tariff measures in the MENA region: improving governance for competitiveness", MENA Working Paper Series, No. 56 (Washington, D.C., World Bank, 2012).

⁷ Ad valorem equivalent is defined by Augier and others (2012) as "the rate of an ad-valorem tariff that would have the same effect on imports" as NTMs.

43. In general, and despite the legitimacy of using many NTMs, it has been made evident through surveys on NTMs over the world and particularly in Arab countries that the fast development of their use is mainly driven by a protective objective, namely offsetting the loss of effective protection resulting from the implementation of multiples free trade agreements. Results of many evaluations⁸ and experiences suggest that long-term rewards from trade reform are substantial: deeper integration among Arab countries and with their key partners would irreversibly put them on a much higher growth path, pulled by competition and the modernization of their productive capacities. It would also greatly support the transition of the Arab industrial sector, currently dominated by the extraction of natural resources, towards an export-led manufacturing industry. Implemented over the next decade, a strategy aiming to maximize the impact of existing trade agreements could bring another percentage point of annual real GDP growth and raise per capita incomes. The described high gains in economic growth will be achieved only if NTMs, mainly those with a trade-restrictive purpose, are eliminated. The realization of the full benefits will require that domestic reforms go hand in hand with trade reforms. In particular, the liberalization of the domestic investment regime and of the financial sector, and reform in trade-related services should be forcefully pursued to allow Arab economies to seize the opportunities created by trade reform. What is needed is a shift from a shallow to a deep trade integration strategy.

V. POLICY IMPLICATIONS AND THE WAY FORWARD

44. Policy implications stemming from such results are of various natures, and it goes beyond the scope of this document to discuss them in detail. Yet, a few remarks can be made when it comes to the designs of future Arab trade regimes within the context of a full implementation of GAFTA, the initiation of the Arab Custom Union, and the reinforcement of the partnership with the European Union and with other major trade partners. Given the nature of the comparative advantages of the Arab non-oil-based economies, it is likely and confirmed by the results of this paper that Arab economic integration both between these economies and with Arab oil-based economies would result in new specialization patterns, with a strong increase in imports from Europe and the United States of America, and a large increase in intra-Arab trade. For this to happen, though, trade integration should go much beyond the sole reduction in tariffs to also tackle NTMs.

45. Trade reform, if it focuses only on tariff reduction within GAFTA and the Euro-Mediterranean Partnership, will have limited growth benefits. On the contrary, if Governments abolish the widespread NTMs and eliminate quantitative trade restrictions, trade policy can become a central instrument to redress the growth prospects of many Arab countries. Analysis has indeed revealed that the abolition of NTMs would render the GAFTA agreements very effective. The trade pattern that would emerge is a strong increase of imports from the rest of the world (through a large rise in investment goods) and a large increase in exports going to GAFTA. This demonstrates how trade can allow countries to exploit their comparative advantages, specifically their geographic and economic features.

46. Investment expansion due to higher returns on capital will be the driving force of growth. However, the trade reforms would imply substantial reallocations of workers and investments, although only a few sectors would confront absolute declines in economic activity. Much of these adjustments will be voluntary and will reflect the expansion of the relevant sectors.

47. The growth strategy suggested by these results is closely related to the sequencing of trade and investment liberalization. In the very short term, Arab countries could use the comfort of current tariff

⁸ See for example Zarrouk, J., "A survey of barriers to trade and investment in Arab countries", in *Arab Economic Integration: Between Hope and Reality*, A. Galal and B. Hoekman eds. (Cairo, Egyptian Center for Economic Studies, 2003); Rodriguez, F., and D. Rodrik, "Trade policy and economic growth: a skeptic's guide to the cross-national evidence", in *NBER Macroeconomics Annual 2000*, Bernanke, B. and K. Rogoff eds. (Cambridge, Massachusetts Institute of Technology Press for the National Bureau of Economic Research, 2001); S. Dessus, and A. Suwa., *Regional Integration and Internal Reforms in the Mediterranean Area* (Paris, OECD, 2000); and B. Hoekman and P. Messerlin, *Harnessing Trade for Development and Growth in the Middle East* (New York, Council on Foreign Relations, 2002).

protection to implement a radical liberalization of the domestic investment regime, accompanied by the immediate lifting of all quantitative restrictions to trade. However, and to make the removal of trade-restrictive NTMs feasible, other reforms should be implemented, including strengthening competitiveness among GAFTA members through better or higher coordination and, if possible, a harmonization of macroeconomic and sectoral policies. These measures are the prerequisites of an open and competitive economic space, where investments and trade operations are carried out on the basis of relative comparative advantages rather than on seeking rents, incentives and advantages.

48. Given the demonstrated key importance of NTMs in trade regulations and regional integration, and to further advance this analysis, ESCWA is currently implementing a large project on the identification and costs of NTMs in Arab countries. The main phases are the following:

(a) Extension of NTM surveys to the Arab countries that were not covered by this study, mainly in the Gulf Cooperation Council sub-region, in collaboration with the World Bank and UNCTAD;

(b) Analysis of NTM changes over time through the selection of a panel of commodities, to be monitored every two years;

(c) Estimation of AVEs for the selected products every two years for a panel of Arab countries;

(d) Evaluation of the costs of NTMs and the benefits of their harmonization and/or reduction.
