APPENDIXES

APPENDIX 1:

Table 1: Basic Indicators, 1998–99

Regions and Countries	Share of Natural Resources in Total Trade (%)	Population (millions)	GNP ($ billions)	Trade to GNP Ratio		FDI to GDP Ratio	Collected Tariff Revenues (share of imports; simple average)
				Goods	Services		
Aggregate estimates, by level of income and region							
Low income	8.5	2,417	988	36.2	9.4	1.1	21.6
Lower-middle income	15.0	2,094	2,512	41.4	9.8	6.4	17.0
Upper-middle income	11.3	573	2,810	41.2	8.3	2.4	15.3
High income	5.2	891	22,921	35.9	8.9	2.0	6.6
MENA	31.7	291	599	40.0	9.0	0.8	9.6
Estimates by country							
Algeria	45.1	30	46.5	43.4	n.a.	0.01	15.1
Bahrain	26.6						4.4
Egypt	53.2	62	87.5	23.2	16.6	1.2	18.9
Iran	85.6	63	110.5	23.7	3.0	0.02	15.0*
Israel	1.9	6	99.0	54.0	19.2	1.9	1.0
Jordan	34.7	5	7.0	81.2	48.9	4.4	8.0
Kuwait	96.7	2	25.0	73.4	23.2	0.2	3.8
Lebanon	11.3	4	15.8	49.4	3.1	1.3	9.8
Libya	59.9	5	33.0	18.5	1.6	0.4	8.9
Morocco	13.2	28	33.8	52.2	11.8	0.9	16.7
Oman	50.1	2	12.1	46.2	5.5	0.7	2.7
Qatar	53.3	1	9.5	46.3	n.a.	0.8	n.a.
Saudi Arabia	90.5	21	128.0	55.3	10.4	1.9	10.0
Syria	81.7	16	15.2	46.3	19.4	0.5	20.1
Tunisia	16.0	9	19.9	75.2	20.4	3.3	8.6
Turkey	3.9	64	186.3	36.6	16.4	0.5	1.8
UAE	30.4	3	50.3	57.2	n.a.	0.2	n.a.
Yemen	90.0	17	5.9	61.3	11.3	-3.5	9.1
Averages/ Sum	Average	Sum	Sum	Avg.	Avg.	Avg.	Avg.
All MENA	48.2	327	780	51.9	18.2	0.9	9.6
Israel/ Turkey	2.9	70	285	45.3	17.8	1.2	1.4
Other MENA	57.3	257	495	53.1	18.3	0.8	10.8

* Valued at market exchange rates.

Source: World Development Indicators (Washington, DC: World Bank, 2000). Tariff data: *Government Financial Statistics Yearbook and International Financial Statistics* (Washington, DC: International Monetary Fund, 2000). M. Nabli and A. De Kleine, "Managing Global Integration in the Middle East and North Africa" in *Trade Policy Developments in the Middle East and North Africa,* B. Hoekman and H. Kheir el-Din, eds. (Washington, DC: World Bank, 2000).

Table 2: Average Unweighted Tariff Rates By Region

Region	1978–80	1981–85	1986–90	1991–95	1996–99
Africa	38.2	29.3	26.9	22.3	17.8
East Asia	23.5	26.9	20.7	14.6	10.4
Latin America	28.1	26.4	24.1	13.9	11.1
MENA*	29.6	24.6	24.1	22.9	19.3
South Asia	NA	71.9	69.8	38.9	30.7
Europe/Central Asia	12.0	21.6	14.9	8.1	10.1
Industrial economies	11.9	8.9	8.2	6.8	6.1

Notes: MENA excludes Gulf States, Iran, Iraq, Turkey, and Israel.
Source: World Development Indicators (Washington, DC: World Bank, various years), authors' computations.

Table 3: Education and Research and Development in MENA

Regions and countries	Net Enrollment Ratio in Secondary Schools (% of age group)		Scientists and Engineers (millions)	Hi-tech Exports (% mfg. exports)	Patent Applications Filed (number)	
					By Residents	by Non-residents
	1980	1997	1987–97	1998	1997	1997
Low Income	38	51			16,764	680,497
Lower-middle Income	64	70	763	15	34,272	445,265
Upper-middle Income	59	75	660	20	98,878	339,696
High Income	87	96	3,166	33	648,093	2,137,327
The MENA region	46	66		1	509	1,207
Averages/Sums	Avg.	Avg.	Avg.	Avg.	Sum	Sum
All MENA	49	58	293	3	397	8,402
Israel-Turkey	42	58	291	11	1,015	28,267
Other MENA	50	58	294	1	192	456
Central Europe	79	95	1,386	9	1,003	29,354

Source: World Development Indicators (Washington, DC: World Bank, 2000).

Table 4: Tariffs in Selected MENA Countries

ISIC sector	Sectors	Average Tariffs								Minimum and Maximum Tariffs													
		Egypt		Israel		Morocco	Tunisia	Turkey		Egypt				Israel		Morocco		Tunisia		Turkey			
		1998	2005	1995	1999	1995	1994	1993	1998	1998		2005		1999		1995		1994		1998			
										min	max	min	max	min	max	min	max	min	max	min	max	min	max
Average tariff																							
		26.8	45.8	8.3	7.5	23.5	30.7	27.1	12.7	6.3	140.1	10.5	160	0	33	4.7	56.2	11.6	43	1.3	47
Food products (311-314)		85.7	168	7.4	18.1	42.6	37.5	39	53.7	6.8	801.3	10	811	0	80.7	8.8	116.9	21	43	5	210
Industrial goods (321-390)		21.2	29.3	8.6	5.8	21.2	29.8	25.4	5.5	6.6	42.4	11.3	63	0	17.5	4.4	35	10.6	43	0.8	19
Detail, by sector (ISIC three digits)																							
100	Agriculture	18.1	27.5	5	20.6	29	34.1	28.4	28.1	1	4.0	2	8.0	0	250	0	365	10	43	0	145
200	Mining	10.0	21.7	0.3	0.3	7.6	22.9	21.4	0.2	3	4.0	3	60	0	12	0	35	0	43	0	10
311	Food Products	21.8	31.5	7.1	20.4	45.3	37.8	36.7	57.8	1	8.0	5	8.0	0	215	2.5	365	15	43	0	240
312	Other Food Products	22.6	37.2	8	7.6	27.4	34.4	35.4	21.9	1	4.0	5	8.0	0	34.4	0	45	1.5	43	0	145
313	Beverages	1489	1831	10.9	15.3	34.8	39.7	65.6	47.8	5	3000	10	3000	0	54.2	25	45	20	43	0	365
314	Tobacco	72	72	7.6	8.2	8.2	38.5	81.8	64.2	20	85	20	85	0	119	7.5	12.5	34	43	20	80
321	Textiles	36.3	28.8	17.1	9.2	31.6	38.4	30.3	8.8	5	5.4	5	6.0	0	20.1	0	35	1.7	43	0	13
322	Wearing Apparel	39.3	42	28	15.5	34.9	42.4	35.3	12	30	40	40	60	0	18	2.5	3.5	2.0	43	0	13
323	Leather & Products	26.9	45.4	6.1	5.7	27	36.8	35	8	5	40	20	60	0	21	7.5	35	20	43	0	20
324	Footwear	37.4	56.8	30.8	8.9	34.3	41.8	41.1	22.5	30	40	40	60	0	18	3.0	35	3.1	43	1.8	20
331	Wood Products	22.1	39.6	11.1	8.9	22.8	33.8	35	2.8	5	40	10	60	0	12	2.5	35	10	43	0	10
332	Furniture & Ixtures	39.1	58.3	17.8	11.3	34.2	42.5	36.7	10.6	30	40	20	60	0	12	17.5	35	29	43	0	18
341	Paper & Products	21.2	32.7	6.7	4.4	28.4	36.8	23.8	4.5	5	40	5	60	0	12	0	35	1.7	43	0	22
342	Printing & Publishing	23	42.4	10.1	5	22.5	29.3	15.2	1.9	0	40	20	60	0	12	0	35	0	43	0	0
351	Industrial Chemicals	12.3	16.6	3.6	2.7	12.4	23.2	23.8	5.7	3	4.0	3	6.0	0	12	0	35	1.5	43	0	21
352	Other Chemicals	19.8	31.8	6	4.8	17	26.3	21.6	3.1	0	40	3	70	0	12	0	35	0	43	0	23
353	Petroleum Refineries	10.3	21.7	3.7	3	11	9.1	33.2	2	5	30	1.0	40	0	12	0	35	0	43	0	7
354	Petroleum Products	13.5	23.8	1.8	1.8	9.5	18.5	21.5	0.2	3	2.0	2.0	40	0	8	2.5	35	0	43	0	7
355	Rubber Products	24.8	37.9	10.7	7.2	26.2	32.7	30.7	4.5	0	40	2	60	0	12	0	35	1.7	43	0	18
356	Plastic Products, NEC	27	54.2	11.1	10.2	33.8	38.3	40.9	6.5	10	40	10	60	0	12	17.5	35	20	43	0	7
361	Pottery, China, etc.	29.4	48.1	10.7	6.9	27.3	36.7	32.4	12.1	5	4.0	2.0	60	0	12	7.5	35	10	43	3	32
362	Glass & Products	26.5	48.9	9	7.2	21.5	34	28.9	4.8	5	4.0	20	60	0	16.9	0	35	2.0	43	0	11
369	Nonmetallic Products	24	41.1	6	4.9	21.8	34.7	33	3	5	40	10	60	0	12	0	35	10	43	0	8
371	Iron & Steel	15.5	24.5	4.4	2.4	11.4	23.7	17.9	6.3	3	3.0	2	60	0	12	0	35	1.0	43	0	17
372	Nonferrous Metals	14.5	26.1	2.7	2.1	11.7	27.5	18.2	3.4	1	3.0	2	50	0	12	0	35	0	43	0	10
381	Metal Products	23	40.3	9.3	7.9	26.3	35.5	31.4	4	5	40	2	60	0	12	0	35	0	43	0	17
382	Machinery	11.2	20.2	5.7	5.1	18.4	19.3	18.1	2.3	0	40	2	70	0	25	0	35	0	43	0	23
383	Electrical Machinery	19.1	34.8	9.1	5.4	19.8	31.3	23.9	3.2	5	4.0	2	7.0	0	18	0	35	1.0	43	0	14
384	Transport Equipment	23.6	36	3.9	3.9	20	26.5	26.6	5.5	0	135	2	160	0	12	0	35	0	43	0	28
385	Professional Goods	14.7	24.4	5.2	4	13.7	26.3	16.4	3.1	5	4.0	2	60	0	12	0	35	0	43	0	44
390	Other industries	26.3	42.8	9.2	8.8	25	37.2	29.6	4.9	0	40	10	60	0	100	0	45	1.0	43	0	40

Note: International Standard Industrial Classification (ISIC)

Sources: Trade Policy Reviews (Geneva: World Trade Organization, various years), authors' computations.

Table 5:
Product Concentration and Differentiation in MENA Exports

	Share of SITC Items (%) [a]		HH Indexes of Concentration [b]		Intra-industry Trade Indexes [c]		Share of Components in Total Ind. Trade (%)	
	1980	1994	1980	1994	1985	1997	Imports	Exports
			Natural resource-poor countries					
Israel	0.84	0.82	0.264	0.268	0.59	0.66	12.3	18.3
Turkey	0.79	0.90	0.230	0.113	0.16	0.33	12.5	3.9
Cyprus	0.59	0.40	0.148	0.183	0.30	0.29	8.0	2.6
Lebanon	0.81	0.68	0.158	0.169	0.24	0.18	13.3	2.4
Morocco								
Tunisia								
			Intermediate countries					
Bahrain	0.24	0.49	0.790	0.597	0.21	0.31	13.8	2.4
Egypt	0.33	0.72	0.575	0.265	0.07	0.17	11.9	2.1
Jordan	0.45	0.47	0.352	0.270	0.14	0.16	12.6	1.8
			Oil-rich countries					
Syria	0.48	0.51	0.619	0.655	0.07	0.07	7.6	0.4
Oman	0.42	0.54	0.922	0.747	0.12	0.24	22.7	21.8
UAE	0.82	0.86	0.870	0.683	0.28	0.28	10.5	1.3
Iran	0.37	0.72	0.814	0.806	0.23	0.13	15.8	2.6
Saudi Arabia	0.77	0.83	0.942	0.728	0.09	0.19	23.1	0.3
Qatar	0.01	0.14	0.934	0.628	0.09	0.07	14.3	0.0
Libya	0.18	0.32	0.961	0.780	0.20	0.16	17.7	0.3
Kuwait	0.79	0.59	0.732	0.932	0.12	0.08	15.0	5.6
Memo item :								
Average MENA	0.53	0.60	0.621	0.521	0.19	0.22	14.5	9.2

Notes :
[a] Percent of Stangard Industrial Trade Classification (SITC) items with "substantial" exports.
[b] The Hirschman-Herfindahl index is the sum of the squares of the market share held by each export item in total exports. The lower the index, the less concentrated exports are.
[c] The Grubel-Lloyd index, ranging from 0 to 1, is defined as $1 - [\Sigma\Sigma\Sigma| X_{ijk} - M_{ijk} / (X_{ijk} + M_{ijk})]$, where X_{ijk} represents the exports of products from industry i from country j to country k and M_{ijk} represents the imports of products from industry i by country j from country k. The higher the index the higher the share of intra-industry trade.
Sources: Handbook of Trade Statistics (Geneva: U.N. Conference on Trade and Development, 1999); Alexander Yeats and Francis Ng, "Beyond the Year 2000: Implications of the Middle East's Recent Trade Performance," in *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries,* B. Hoekman and J. Zarrouk, eds. (Ann Arbor, MI: University of Michigan Press, 2000).

Table 6:
Resource Mobilization: Gross Domestic Investment and Savings, Highest Marginal Tax Rates and Stock Exchanges

Regions and Countries		Gross Domestic Investment (%GDP)		Gross Domestic Savings (%GDP)		Highest Tax Rate		Stock Market Capitalization			Listed Companies	
						Individual	Corporate	$ Bn	$ Bn	%GDP	Number	Number
		1990	1999	1990	1999	1999	1999	1990	1999	1999	1990	1999
Aggregate estimates, by level of income and region												
L	Low	24	20	21	19	--	--	54.6	268.1	0.271	3446	8332
M1	Lower-middle	31	27	30	30	--	--	58.2	751.8	0.299	1833	11451
M2	Upper-middle	23	22	25	23	--	--	372.3	1407.5	0.501	3081	5109
H	High	23	21	23	22	--	--	8913.2	33663.5	1.466	17064	24748
	The MENA region	24	22	22	19	--	--	53	151.6	0.253	817	1863
Estimates by individual country												
M2	Czech Rep.	25	30	28	29	40	35		11.8	0.227		164
M2	Hungary	25	30	28	28	40	18	0.5	16.3	0.349	21	66
M2	Poland	25	28	32	18	40	34	0.1	29.6	0.193	9	221
M2	Slovakia	33	39	24	28	42	40		0.7	0.037		845
M1	Algeria	29	27	27	12							
M1	Egypt	20	23	16	14	32	40	1.8	32.8	0.375	573	1032
M1	Iran	29	16	27	16	54	54	34.3	21.8	0.198	97	295
H	Israel	25	20	14	10	50	36	3.3	63.8	0.645	216	644
M1	Jordan	32	27					2.0	5.8	0.832	105	152
H	Kuwait	18	12	4	22	0	0		18.8	0.753		76
M2	Lebanon	18	28	-64	-13	0	45		1.9	0.122		13
M1	Morocco	25	23	16	18	44	35	1.0	13.7	0.405	71	55
M2	Saudi Arabia	20	21	30	26			48.2	60.4	0.472	59	73
M2	Syria			16	18							
M2	Tunisia	32	28	25	24			0.5	2.7	0.136	13	44
M2	Turkey	24	24	20	21	40	30	19.1	112.7	0.605	110	285
L	Yemen	15	21	9	13							
	Averages/Sums	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.
	All MENA	25	23	12	15	31	34	110.1	334.6	0.454	12.44	2669
	*Israel-Turkey	25	22	17	16	45	33	22.4	176.5	0.625	326	929
	*Other MENA	25	23	11	15	26	35	87.8	158.1	0.412	918	1740
	Central Europe	27	32	28	26	41	32	0.6	58.4	0.201	30	1296

Source: World Development Indicators (Washington, DC: World Bank, 2000).

Table 7: Impact of Alternative Reform Scenarios (%)

Percentage change in:	Euro-Med Agreement: Removal of Tariffs on Trade with EU	EU plus GAFTA (tariffs only)	EU plus GAFTA (tariffs and NTB removal)	Liberalization of Cross-Border Trade in Services	Removal of Services (investment barriers)	Full Service Reform	Service Reform plus Tariff Removal (EU plus GAFTA)	Service Reform plus Tariff and NTB Removal (EC and GAFTA)
A. Tunisia								
Welfare (real income)	4.4	4.5	7.0	2.2	6.9	9.2	9.3	12.8
Output	7.7	7.7	6.7	1.4	3.9	6.1	6.2	9.9
Consumer price index	-4.2	-4.3	-6.6	-2.2	-6.5	-8.5	-8.5	-11.4
Output share of:								
Agriculture	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Services	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Factor returns								
Capital	0.6	0.8	3.8	2.2	7.4	9.9	9.9	11.0
Labor	7.7	7.6	5.9	0.9	2.6	3.3	3.3	7.0
Factor allocations								
Capital	8.0	7.8	6.6	1.8	5.5	6.3	6.2	3.8
Labor	8.0	7.7	5.0	1.5	3.7	4.2	4.3	2.9
B. Egypt								
Welfare	-0.3	-0.1	4.6	1.1	5.6	6.5	6.6	10.2
Output	0.7	1.4	3.8	0.2	1.9	2.7	3.2	6.4
Consumer price index	-3.1	-3.7	-8.3	-5.5	-17.1	-22.6	-27.3	-31.9
Output share:								
Agriculture	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Services	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Factor returns								
Capital	1.0	1.1	4.3	0.2	7.8	7.6	9.3	11.3
Labor	4.7	7.9	16.2	1.5	3.3	4.8	6.1	14.1
Factor allocations								
Capital	1.8	2.9	5.1	0.8	2.9	2.2	2.6	4.3
Labor	3.5	5.9	9.5	0.5	2.5	2.2	2.2	3.5

Source: Denise Eby Konan, "Alternative Paths to Prosperity: Economic Integration Among Arab Countries," prepared for the Council on Foreign Relations Study Group on Middle East Trade Options (New York, NY: Council on Foreign Relations, 2001).

Appendix 2:
A Survey of Barriers to Trade and Investment in the MENA Region

Prepared by

Jamel Zarrouk[49]

I. Overview

This survey was undertaken on behalf of the Council on Foreign Relations to better understand trading constraints that hinder the development of private businesses in the Middle East and North Africa (MENA) region. Per the request of the CFR Study Group on Middle East Trade Options, the purpose of this survey is threefold: first, to generate information on trading costs and other trade policies that impose burdens on intra-regional trade and investment in the MENA region; second, to shed further light on the operations of the prevailing intra-regional trade agreements that have been concluded by many of the countries in the MENA region; and, finally, to identify the most important factors in intra-regional investment decisions as well as the perceived constraints to investment in MENA countries by the MENA investors who took part in the survey.

Costs in international trade are transaction costs associated with inefficiencies in customs clearance procedures, land transport regulations and requirements, competition laws, and administrative red tape. These trading constraints have not been quantified, and their impact on intra-regional MENA trade and investment have not yet been fully understood. The survey is part of a research project to quantify barriers to international exchange (goods, services, and investment) in the region. The generated data is incorporated into a model-based assessment of the

[49] A team of professionals from the nine countries conducted company interviews and monitored the completion of the questionnaire by the surveyed companies under the author's general direction.

potential gains from deeper intra-regional integration, taking into account the eventual implementation of Euro-Med and Pan-Arab trade agreements and the trade agreements between Israel and its neighboring countries (Jordan and Egypt).

The survey was conducted during July-December 2000. A private enterprise questionnaire was designed and completed in nine countries and jurisdictions: Egypt, the West Bank and Gaza, Israel, Jordan, Lebanon, Saudi Arabia, Syria, Tunisia, and the United Arab Emirates (U.A.E.). The questionnaire covers some thirty to forty-five respondents in each country and was completed by randomly selected companies from a database of exporters and importers maintained by the Arab Trade Financing Program of the Arab Monetary Fund. Interviews were also conducted with key company managers for their opinions.

The questionnaire looks into the transaction costs of trading in MENA through various operations and assesses the business environment. The questions are grouped into four main topics. The first set deals with customs procedures, restrictions on overland transport and transit, competition policy (e.g., business licensing, exclusive distribution systems and restraints on parallel imports, nationality requirements, etc.), as well as "informal" constraints (e.g., corruption, political barriers). The second set of questions was designed to understand the effectiveness of trade agreements. The third set addresses the relative intensity of the barriers that are perceived to prevail on a bilateral basis between country pairs. Finally, the last part of the questionnaire surveys the business environment that prevails when companies in the MENA region decide to invest in other MENA countries.

The methodology adopted in this survey is mainly the ranking of regulatory and administrative constraints that create additional burdens to trading in the MENA region. Moreover, companies were also asked to quantify administrative costs (in terms of numbers of working hours and days) and informal constraints such as irregular payments to customs and tax officials. A final section deals with ranking both the major factors for foreign investment decisions and the constraints to intra-MENA investment.

- **Survey Results**

A total of 250 companies in nine MENA countries completed the questionnaire. The profiles of the surveyed countries and companies are included in Appendix 2, Tables 10, and 11. The surveyed companies are representative of the manufacturing and services sectors in each of the selected MENA countries. The compiled results are reported in four main sections: (a) estimates of trading costs in the MENA region; (b) the relative intensity of intra-regional trade barriers between country pairs; (c) MENA traders' assessment of the benefits or failures of regional trade agreements; and (d) MENA traders' perceptions of the business environment for intra-regional direct investment decisions.

A. Traders' Estimates of Trading Costs in the MENA Countries

The surveyed companies estimate the average costs of trading in MENA countries (excluding customs duties and domestic taxes on imports) to be about 10.6 percent of the value of trade. A breakdown of this estimate by type of trading activity shows that the reported values are close in magnitude and tend to confirm that there is no significant distinction in the approximated costs of trading in the MENA region.

Table 1:
Estimated Trading Costs in the MENA Region by Type of Trading Activities
(Percent of the value of imports)

	Range	Percent of Responses
Manufacturer & Exporter only	10 to 15	17
Manufacturer, Importer, & Exporter	8 to 10	33
Importer & Distributor	8 to 10	20
Importer & Exporter	5 to 10	16
Others	10 to 20	14
		100
Weighted Average Trading Costs	10.6%	

The compiled results rank the major sources of trading costs as customs clearance first, then public sector corruption, followed

by mandatory product standards and conformity certification, transshipment regulations, and entry visa restrictions (for business visits). When companies were asked in the questionnaire to rank the severity of a set of costly constraints including customs duties and domestic taxes, they ranked both of the latter at the top of the list as the most binding constraints. This result shows that even though tariffs are being reduced in most MENA countries, they still represent trade obstacles. Furthermore, the interviewed companies estimated that declining tariffs on imports were being offset by increases in domestic taxes.

Table 2: MENA Companies' Ranking of Trading Costs

	Ranking	Average score*	Standard Deviation
Customs Duties	1	3.0	1.1
Domestic Taxes	2	2.6	1.3
Customs Clearance	3	2.5	1.1
Public Sector Corruption	4	2.4	1.4
Inspection, conformity certification	5	2.2	1.3
Transshipment regulatory measures	6	2.1	1.3
Entry visa restrictions (for business)	7	1.8	1.5

* The average scores were scaled from 4 to 1, where 1 means that the constraint is not costly and 4 means that the constraint is prohibitive. Constraints with a score equal to or greater than 1.8 were retained in the final results.

Regarding other "informal" trading costs, the questionnaire addressed questions about corruption of customs officials and other trade-related officials when companies deal with import clearance and inspection. The compiled results show that MENA companies pay on average 1 percent of the value of imports as "additional payments" to customs officials. A large number of interviewed companies mentioned that these "irregular payments" are usually in kind. In addition, there was wide agreement among the interviewed companies that additional payments are a common practice in most MENA countries (for instance, not a single company is exempt from additional payments for clearance of an import transaction in Lebanon and Syria).

Table 3: Average "Additional Payments" (in percent of import value) to Customs Officials, by Country

	0–1%	2–9%	10–17%	18–25%	>25%	Don't know
West Bank and Gaza	92				8	
Egypt	33	12	3		3	48
Israel	73					27
Jordan	72	25				3
Lebanon	17	42	14	3		24
Saudi Arabia	33.3	33.3				33.3
Syria	41	42	8			9
Tunisia	77					23
U.A.E	82					18
Average	**56.3**	**18.6**	**3.6**	**0.5**	**1**	**20**

Note: The values represent company responses in %.

Estimates of additional payments to customs officials vary by country. As can be observed from the table above, at least half of the responding companies in Lebanon and Syria estimated typical additional payments to customs officials in both countries to range between 2 and 17 percent

Another set of intangible costs that the questionnaire addressed are those associated with import and export procedures and requirements, namely the time constraints for import clearance and inspection, the number of documents and signatures required to process a trade transaction, and the number of man-days that a company spends in dealing with and resolving problems with customs and other government officials.

The compiled results provide some estimates. For instance, it takes 2–5 days, on average, to release goods by imported air freight from customs, 2–10 days for sea shipment, and 1–3 days for a road shipment, whereas the international norm is less than 6 hours to clear air freight, less than 24 hours to clear sea freight, and less than 4 hours to clear transshipment by road. Another significant administrative cost is associated with the large number of documents and signatures required for processing a trade transaction, as shown in the following table.

Table 4:
Typical Number of Documents and Signatures Required to Process a Trade Transaction

Transaction	Number of Documents		Number of Signatures	
	Imports	Exports	Imports	Exports
Air Freight	5	5	10–20	8–10
Sea Freight	6	5	12–20	0
Road Transport	5	5	11–15	11–15

Another administrative cost that the survey addresses is the number of man-days per year that MENA companies spend resolving problems with customs and other government officials. The compiled data show that the average company time is estimated at around 95 man-days per year, although the mode (i.e., more than 50 percent of the respondents) is about 30 man-days. Moreover, about 10 percent of the respondents have daily contacts (365 days per year) with customs and other government officials. Interviewed companies consider such daily contacts with government officials an inducement to corruption and view them as additional costs of trading. This significant factor may also explain the high ranking of "public sector corruption" in the list of most costly constraints perceived by MENA companies. The compiled results by country show that three countries spend more time than the regional average time in dealing with customs and tax departments: traders in Egypt, Jordan, and Syria spent an average of 100, 200, and 209 man-days, respectively.

Finally, companies were asked whether difficulties in dealing with customs and other trade officials have decreased or increased in the last three years. The compiled results show that, on average, 41 percent of the respondents consider these difficulties to have decreased, 36 percent believe that the difficulties have remained about the same, and 15 percent judged that the difficulties with customs officials have increased. The following table displays detailed responses to this question in each of the surveyed countries.

Table 5:
Companies' Perception of the Difficulties in Dealing With Customs & Tax Officials Today Compared to Three Years Ago (Percent of total responses by surveyed country)

	Increased	Remained the Same	Decreased	Don't Know
Egypt	16	22	56	6
West Bank and Gaza	35	35	18	12
Israel	10	20	60	10
Jordan	5	26	63	7
Lebanon	17	50	31	3
Saudi Arabia	17	67	17	–
Syria	33	50	17	–
Tunisia	17	46	25	13
U.A.E	4	35	38	23
Average	**15**	**36**	**41**	**9**

Barriers to Services

The survey addressed obstacles to establishing and operating a business in the services sector by asking MENA companies to judge how problematic the laws and regulations are to service activities. The responding companies mentioned business licensing procedures, state monopoly in certain activities (e.g., insurance), exclusive agency laws, required employment of nationals, and public corruption as the major obstacles to services activities in the MENA region. Other results of restrictive factors to foreign suppliers of services are discussed later, in the section on barriers to intra-regional investment.

Table 6:
Ranking Barriers to Establishment and Operation of Service Activities in MENA

	Rank
Business Licensing	1
State Monopoly	2
Prohibited Parallel Imports (Exclusive Agency Laws)	3
Employment of National Labor Required	4
Public Sector Corruption and Red Tape	5

B. Intensity of Trade Barriers on a Bilateral Basis Between Country Pairs

The questionnaire included a set of questions asking exporting companies to judge the relative intensity of trade barriers in other countries of the MENA region on a bilateral pair basis. Preliminary compiled results identify a group of MENA countries that were judged as problematic by the interviewed companies. In this group, the five most problematic for MENA traders are, from most to least difficult, the West Bank and Gaza, Syria, Egypt, Tunisia, and Saudi Arabia.

The interviewed companies cited various reasons. For the West Bank and Gaza, first in the list of the problematic countries, some of the frequently noted factors are "border closure, restriction by Israeli government, Israeli cross border restrictions." In Syria, ranked the second-most problematic country, some of the cited reasons address the issues of "bureaucracy, complex trade laws, lack of banking services to open letters of credits for Syrian importers, and corruption." In Egypt, which ranked third by interviewed companies, the market is judged to be "highly protected by high customs duties, import prohibition, product standards, unclear conformity certification procedure, and red tape." In Tunisia, which ranks fourth as a problematic country, some of the reported reasons include "complex trade laws and directives, high customs duties, product inspection at the border takes too long, government subsidies to Tunisian exporters for air transportation, insurance, etc." Saudi Arabia is ranked fifth for reasons such as "Saudi visa restrictions for business visit, local agency law that allows Saudi nationals only to register for business and to be an agent of a foreign company, discrimination by customs against Arab-made products but easier access to Saudi markets for Asian, North American, and European products."

Table 7:
MENA Companies Ranking of Most Problematic MENA Countries For their Trading Activities
(Percent of total responses by country)

	Extremely Problematic	Problematic	Not problematic	Mean* Score	Rank
West Bank and Gaza	52.5	33.9	13.6	2.0	1
Syria	31.7	49.2	19.0	2.1	2
Egypt	30.0	46.3	23.8	2.41	3
Tunisia	28.6	52.3	19.0	2.43	4
Saudi Arabia	16.4	51.0	32.7	2.8	5

* Weighted average. The countries are ranked by mean score where a score of 1 means that the country is extremely problematic and 4 means that the country is not problematic.

C. Understanding the Effectiveness of Trade Agreements

The questionnaire asked the interviewed companies whether trade agreements signed with MENA countries or other foreign countries have benefited their business, which of the trade agreements benefited their businesses, and how such agreements worked in favor of their growth.

Regarding the interviewed companies' view on trade agreements, 51.5 percent replied that they have not benefited from any of the trade agreements signed by their governments with foreign countries, against 48.5 percent who replied that they have. For the latter, the trade agreements that have most benefited their businesses are, in order of their beneficial impact, the Pan-Arab trade agreements such as bilateral protocols, followed by the WTO agreements, then the Gulf Cooperation Council (GCC) economic agreement, and finally the Euro-Med Free Trade Area. According to the company responses, these agreements seem to work most in lowering tariffs and in providing companies with preferential access to exports. For the Euro-Med agreements, companies cited the "mise à niveau" (or restructuring) program supported by the EU aid program for Mediterranean partner countries as the main item to have worked in their favor so far.

For those that replied as not having benefited from the trade agreements, many obstacles were cited. Some of the obstacles that are listed can be summarized as follows:

- Lack of knowledge/awareness of the benefits of these agreements;
- Government agencies do not make enough effort to inform the public about the benefits of these agreements;
- Strong competition from Asian countries outweighs the benefits of agreements;
- Implementation problems: partner countries do not commit to terms and conditions of the agreements. The articles of some agreements are left to the interpretation of customs officials who lack knowledge about the operations of these agreements;
- Trade agreements did not resolve the numerous administrative procedures and paperwork and red tape;
- Implementation of certain articles of agreements is not reciprocal; and
- Transportation among Arab countries is difficult.

D. Assessing the Business Environment for Direct Intra-Regional Investment

The questionnaire includes a module for respondents who are decision-makers about foreign direct investment (FDI). The questions asked what the potential Arab investors think about intra-regional FDI and asked them to rank the most important factors in FDI decisions by potential MENA investors.

The compiled responses show that MENA investors name the following factors as extremely important:

Table 8

Factor	Rank
Ability to repatriate capital	1
Political stability	2
Predictability and reliability	3
Size of the domestic market	4
Legal system to enforce contract	5

Who are the leading hosts for intra-regional FDI in MENA? Surveyed entrepreneurs rank Saudi Arabia first, the United Arab Emirates second, Egypt third, Lebanon fourth, Libya fifth, Israel sixth, and finally Algeria.

Regarding the reported responses to major factors constraining investment in the MENA region, the provision of a legal system that ensures that the terms of business contracts can be enforced is listed as the primary factor. This is followed by the role of the state in directly intervening to protect exclusive agents by giving territorial distributors monopoly power over imports (this is more so in the Gulf countries). Government limits on ownership of real estate and equities are ranked in third and fourth places, respectively. This is complemented by concerns about corruption and red tape in the government of the FDI host.

Table 9:
Companies' Perceptions of the Most Restrictive Constraints to Intra-Regional Investment

Constraint	Rank
Legal system enforcement	1
Agency law restricting business to nationals only	2
Prohibited foreign ownership of real estate	3
Limitation on foreign ownership of equities	4
Government corruption and red tape in FDI host	5
Tax system and fees	6

Concluding Remarks

The Council on Foreign Relations survey reveals the impact of the policy conditions under which trade and investment operate in MENA region. Although tariffs and other taxes on imports have been declining in most MENA countries in recent years, MENA companies still perceive tariffs and domestic taxes as relatively high and tending to top trading costs. These tend to be compounded by the costs of complying with regulations and administrative constraints. Finally, additional opinions of surveyed entrepreneurs on barriers to trade and investment in MENA are listed as follows:

Lebanon

1. Create an Arab regional Export-Import Bank to promote Arab exports around the world.
2. Lower customs tariff/taxes.
3. Reduce customs inspections.
4. Make transit operations in Syria cheaper and less complicated.

5. Ease transit operations for trucks in Arab countries.
6. Complicated customs clearance procedure, complicated documents, country of origin document not necessary, questionnaire is too long and detailed.
7. Customs are expensive. Moreover, additional costs (non-tariff barriers) have to be taken into consideration. The questionnaire did not include an important factor, which is the size of the state monopoly in Arab countries.
8. Non-tariff trade barriers still lead inter-Arab trade barriers and restrictions.
9. Our wishes are to simplify customs procedures and to reduce the fines on non-conformity invoices.
10. Registration of pharmaceuticals at the ministries of health is a major obstacle in all Arab countries.
11. The questionnaire is very long. It states obvious problems that are explicit to everybody. Instead we should have a project proposal to vote on for implementation of a new system.
12. To be able to export to a government institution without getting into the headaches of administrative procedures.
13. What we really need is government loans through banks for long-term periods and subsidies.

Saudi Arabia

1. Import Tariff / Custom Inspection Charges / Legalization Charges.
2. Removal or substantial reduction of customs duties coverage of trade risk by an Export-Import bank, similar to the U.S. Export-Import Bank or France's Coface.

Tunisia

1. Administrative obstacles, bribes, hard currency regulations are major obstacles in Tunisia.
2. Corruption is becoming rampant in Tunisia.
3. Costs of trading are somewhat caused by government bureaucracy, which is a major obstacle. If you have no customs connections you will face troubles and obstacles or vice versa. Many obstacles for businessmen with customs and taxation officials.

4. Rules and regulations are main obstacles to inter-Arab trade.
5. Tax payment regulations are complex.
6. There are noticeable incentives by the government to encourage exports.
7. There are problems regarding sales tax of international trading companies, especially value-added tax. Normal questionnaire.
8. There is government support through export promotion fund. However, there are difficulties with the Central Bank regarding hard currency earnings.
9. Trading is not costly in Tunisia. Relations with government are all right.

Egypt

1. High rents are major trading costs in MENA.
2. Increasing intra-regional trade information helps resolve problems and suggest appropriate solutions.
3. Commercial rentals in Arab countries are very high.
4. Promote tourism by road between Arab countries. This is a major potential market from which all Arab countries can benefit if they liberalize the movement of persons and intra-Arab tourism. Privatize national airlines and make them function effectively.
5. The company sees potential sales of its products in the United States and Europe (software products, integration systems) as well as in Arab countries. The company estimates that 20 percent of its current sales can be diverted to Arab countries (GCC, Jordan mainly).

Jordan

1. Dealing with Arab countries is a major problem. It is impossible to compare our products to theirs due to high cost in our country for production. Trade agreements are not beneficial. No stability in labor. High cost of production and capital.
2. Registration procedures of pharmaceuticals take a long time and many unnecessary documents. Tariffs have gone up on nonmedical products: tariffs 30 percent, sales tax 175 percent, clearance charges 5 percent.

Israel

1. Because trade with the West Bank and Gaza is not regular import and export, there are no customs duties between Israel and the West Bank and Gaza. The only complication is that the Palestinian Authority supply ministry requests a label in Arabic that corresponds exactly to the Hebrew text.
2. Much of the actual work with customs and other agencies is done through shipping agents or other companies (like "Toam"), and their answers could be highly relevant to this research.

United Arab Emirates

1. Discrimination between nationals and foreigners. Obtaining visa is difficult and cost is high, managing transport is expensive.
2. Flexibility is required in terms of day-to-day activities between private sector and customs/other regulatory agencies.
3. In general, there are no problems with government. Only problem is the video rights paper that needs to be certified in the Ministry of Foreign Affairs in Abu Dhabi. The whole procedure takes one week.
4. Lack of national skilled labor in information-technology industry. Therefore cannot deal with government. The government wants to deal only with nationals.
5. No problem with the government.
6. Overall condition of conducting trading activity in MENA region has improved
7. System procedures are good and easy in UAE. Lack of bankruptcy laws; companies are exposed to people who flee the country. Restriction on visas for expatriate work force.
8. The law profession is reserved only for nationals. Other nationalities cannot appear in court. We are the only Asian firm in the country to get a "no objection" letter. Also the presence of unqualified nationals in the Ministry of Labor.
9. The law that requires having a local sponsor is not good. The sponsors often end up earning a large percentage of the profits without putting in any effort. Restriction on owning real estate also prohibits setting up new businesses.

10. The Ministry of Labor requires the company to employ nationals. But well-qualified nationals are not available. This regulation restricts the company's growth.
11. The questionnaire does not have many questions related to hotel or service industry.
12. The system and policies of the government are very trade-friendly.
13. There is no problem in conducting business in Dubai.
14. There is no unified customs policy. Some far Eastern markets use Dubai as a dumping market. There is no policy on quality standards.
15. Trading costs have been on the increase, and globalization has led to fierce competition. Customs and municipality authorities have been effective in controlling defective goods and at quality control.
16. Trading costs are extremely high and escalating. Establishment costs are increasing. Licensing costs are also high.
17. Trading costs are increased. Terminal handling costs and delivery order fees have increased. Insufficient time to clear the goods from the port.
18. Trading costs are high in the UAE due to general high cost of living. Good understanding between private sector and customs agencies.
19. UAE customs procedures are generally less expensive and less time-consuming than those of neighboring countries in the GCC and wider Middle East.
20. We have a very cordial and professional relationship with customs and our activity level is at its peak in the UAE.

Syria

1. Additional trading cost in loading and reloading by customs at the border. Laboratory analysis is inaccurate and too slow. For rice imports, non-transparent standard accepted by customs officials. For dairy products, non-transparent directive.
2. Although some changes took place in the administration of foreign trade, we are still suffering from the lack of transparency of the laws and lack of coordination between different administrative agencies.

3. Lack of facilities during customs clearance. No protection for perishable goods during inspection.
4. The relations between the private sector and the customs and other government agencies are very bad and not fair. The questionnaire is reasonable, and we hope it reaches interesting findings on trading cost in the region.
5. Trading costs and customs duties on imports and customs (payments) for exports are all very high and hinder our trading activities. The questionnaire is well detailed and can lead to interesting conclusions and comments.
6. Trading costs are moderate for our business. The relationship that our business has with the official authorities is improving. The questionnaire is good and well studied.
7. Trading costs are very high in Syria in comparison to other Arab countries with open trade regimes. Lack of transparency of the relationship between the private sector and the official authorities in Syria.
8. Trading costs are very high in Syria. Customs duties in first place, then, additional payments that are as high as customs duties. Syrian authorities do not understand that the world is moving fast in reforms and liberalization.
9. Unfortunately the cost of trading is very high. The additional payments are equal to the real cost of trading (customs duties).

Table 10:
Sampled Country Profile

Country	Number of companies interviewed	Percent
Egypt	41	16. 4
Gaza-West Bank	20	8
Israel	20	8
Jordan	44	17. 6
Lebanon	44	17. 6
Saudi Arabia	7	2 .8
Syria	14	5.6
Tunisia	30	12
U.A.E.	30	12
Total	250	100

Table 11:
Sampled Company Profile by Economic Activity

Type of Activity	Number of companies interviewed	Percent	Cumulative Percent
Textiles and Garments Manufacturing	34	13.6	13.6
Furniture, Paper Products, Leather, and Handicrafts	20	8.0	21.6
Agro-Processing, Food, and Beverages	32	12.8	34.4
Chemicals, Plastics, and Pharmaceuticals	32	12.8	47.2
Stone, Clay, and Glass Products	10	4.0	51.2
Heavy Industry*	30	12.0	63.2
Services			
Travel, Hotels, Tourism		2.0	65.2
Transportation and Storage Services	8	3.2	68.4
Communications (Service Providers, Courier, Video Production/Distribution)	4	1.6	70.0
Construction, Civil Enginering & Architectural Services	9	1.6	71.6
Distribution (Wholesale Retail Trade, Franchising)	59	23.6	95.2
Insurance Services	2	0.8	96.0
Computer Services (Software, Systems Design, Data Processing, Computer Maintenance, Repair)	4	1.6	97.6
Miscellaneous Business Services (Legal, Educational, Accounting, Personal Finance, etc.)	6	2.4	100.0
Total	250	100.0	

* Primary and Manufactured Metal Products, Machinery and Equipment, Electronic Equipment, Transportation Equipment, and Other Miscellaneous Manufacturing Industries

Appendix 3:
The Trade Models Used For Simulations
Prepared by

Denise Eby Konan

This appendix presents the theoretical structure of the Egypt and Tunisia computable general equilibrium (CGE) models and describes the benchmark datasets.[50] The models used are standard computable general equilibrium models that incorporate detailed information on the structure of production, employment, and trade in order to explore the magnitude of the potential gains from liberalization. They are applied to two MENA countries: Egypt and Tunisia. They are based on a competitive, constant-returns-to-scale approach. The two MENA countries are modeled as price takers on world markets—that is, their policy changes are assumed not to significantly alter prices in the region or the world.

The Tunisia model uses a Social Accounting Matrix (SAM) based on the 1995 input-output table provided by the Institut National de la Statistique. Economic activity is disaggregated into 36 sectors, including agriculture, petroleum and mining, utilities, 17 manufacturing sectors, and 14 service sectors. Data on tariff collections and bilateral trade for the year 1995 were obtained from the Ministry of International Cooperation and Investment. Collections data on the value-added tax were obtained from the Ministry of Finance. See Konan for further discussion.[51]

In the case of Egypt, the model is developed from a 1994 SAM. The SAM is initially benchmarked to the 1990 input-output table from Central Agency for Public Mobilization and

[50] The modeling exercises are discussed in detail in: Denise Eby Konan, "Alternative Paths to Prosperity: Economic Integration Among Arab Countries" prepared for the Council on Foreign Relations Study Group on Middle East Trade Options (New York, NY: Council on Foreign Relations, 2001).

[51] Ibid.

Statistics (CAPMAS) and is updated to 1994 using trade and tariff data. The 38-sector model includes agriculture, mining, manufacturing, and services. A rather complex tax structure is represented. The indirect tax cum subsidy levied on production in the 1990 benchmark is phased out in 1993 and is replaced with a goods and services tax.[52] Trade and tariff collections were obtained on a bilateral basis from Egypt's Ministry of International Cooperation.

Constant returns to scale and perfect competition imply that prices equal marginal costs of output. Final outputs are produced according to a Leontief function using intermediate inputs and real value-added. A constant elasticity of substitution (CES) production function describes the substitutability between labor and capital inputs in producing real added value. Intermediate inputs and final goods are differentiated by country of origin according to the Armington assumption, so that export and import prices differ across regions. In each sector, demand for domestically produced and imported goods is represented by a CES function, and intermediate imports are also differentiated by region of supply in a CES structure. Similarly, industries supply regionally differentiated goods to both domestic and foreign markets. Production follows a nested, two-stage constant elasticity of transformation (CET) function. Total output is first calculated as the sum of domestic supply and total exports, with the latter then being allocated across regions European Union [EU], Greater Arab Free Trade Area [GAFTA], and rest of the world according to a sub-CET function. Capital is assumed to be freely mobile across sectors, as is labor.

A representative consumer maximizes a nested CES utility function with a corresponding multistaged budget constraint. In the first stage, the consumer decides how much to spend on goods from each sector, given the budget constraint. Income elasticities across sectors are set at unity as given by a Cobb-Douglas (CD) utility

[52] For further discussion of tax reform in Egypt in the context of this model, see Konan and Keith E. Maskus, "Joint Trade Liberalization and Tax Reform in a Small Open Economy, The Case of Egypt," October 1997, since published in *Journal of Development Economics,* vol. 61, no. 2: (April 2000), pp. 365–92.

nest. In the second nest, the consumer determines domestic and aggregate import expenditures in each sector according to a CES function. Then, given a budget for imports, the consumer selects purchases of imports from each region. These latter functions also characterize the split between government consumption and investment spending on domestic and imported goods and services. The representative consumer receives income from primary factors (labor and capital), net transfers from the government, the current-account deficit, as well as any net economic rents from the operation of non-tariff barriers (NTBs) to trade. Two standard closure rules are imposed: the savings-investment balance and a fixed current account balance.

Traditional trade agreements involve the reduction of tariff and other border barriers in the flow of agricultural and manufactured goods. These barriers drive a wedge between domestic prices and world prices. Some border barriers provide tax revenue (such as with a tariff) or rents for the domestic agents. Other barriers, such as redundant customs procedures that might be streamlined with deep integration, are simply frictional and use real economic resources. A deeper trade agreement might achieve cooperation in other domestic regulatory policies to allow foreign participation in the provision of services. Service regulations may involve legal impediments that raise market imperfections. For example, a licensing procedure that favors local firms may limit the number of entrants (creating rents) and select inefficient suppliers (dead-weight loss). We thus distinguish, in our simulations, between frictional and rent- (or tax)-generating trade barriers. To define the initial situation, the models use data derived both from the survey and the literature.[53] In the case of Tunisia, an NTB equiv-

[53]Riad al Khouri, "Trade Policies in Jordan, Lebanon and Saudi Arabia," in *Trade Policy Developments in the Middle East and North Africa*, B. Hoekman and H. Kheirel-Din, ed., (Washington, DC: World Bank, 2000). See also Cassing, et al, "Enhancing Egypt's Exports," in *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries*, Hoekman and J. Zarrouk, ed., (Ann Arbor, MI: University of Michigan Press, 2000); Ahmed Galal, "The Welfare Impact of Telecom Reform in Egypt: An Ex Ante Analysis," in S. Fawzy and A. Galal, eds., *Partners for Development: New Roles for Government and the Private Sector in the Middle East and North Africa* (Washington, DC: World Bank, 1999); Maria Oliva, "Recent Trade Liberalization Experiences in Middle East and North African Countries," IMF Working Paper Series WP/00/27 (Washington, DC:

alent to a 5 percent tariff is assumed, based on the survey and other studies. The ad valorem equivalents of service sector policy distortions range from 10 percent for business services to 30–50 percent for finance and insurance, to 200 percent for international telecommunications. A 3 percent domestic wedge is applied to construction, transport, health, and education; a 15 percent wedge is applied to domestic telecommunications; and a 10–50 percent wedge is applied to other services. In the Egyptian case, a 10 percent NTB is assumed on trade in goods, again in accordance with the survey; a 6 percent service cost wedge is assumed for labor-intensive services and a 200 percent wedge is assumed for international communications. Additional costs in the service sector range from 6 percent for construction and transport, to 10 percent for distribution, 30 percent for communications and 60 percent for financial services.

Liberalization scenarios presented in Appendix 1, Table 7, consider the following possibilities. The first option is a "shallow" trade agreement with Europe (Column 2) or with Europe and Greater Arab League (Column 3) in which the country eliminates tariff barriers on goods on a discriminatory basis. As discussed in the text, Tunisia would experience a 4.4 percent increase in welfare from an EU agreement and would have little additional gain from an Arab agreement. This reflects the concentration of Tunisian trade with the EU. Egypt, in contrast, would likely lose from either a shallow EU agreement or GAFTA due to the significance of the US as a trading partner.

It is possible that NTBs might be reduced or streamlined on a most-favored-nation basis in the course of a deep integration agreement with the EU and GAFTA countries. In column 4, resource-using NTBs are eliminated with all trading partners, while tariff

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International Monetary Fund, February 2000); Jamel Zarrouk, "Regulatory Regimes and Trade Costs," in *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries;* Jamel Zarrouk, "Para-Tariff Measures in Arab Countries," in *Trade Policy Developments in the Middle East and North Africa;* Jamel Zarrouk, "A Survey of Barriers to Trade and Investment in the MENA Region," prepared for the Council on Foreign Relations Study Group on Middle East Trade Options (New York, NY: Council on Foreign Relations, 2001).

barriers are reduced with partner European and MENA countries. Welfare gains are quite significant for Tunisia at 7 percent and are notable for Egypt at 4.6 percent.

Services trade has witnessed dynamic growth rates in the advanced world. Liberalization of domestic barriers to cross-border trade and to foreign investment may provide a scope for gains. This possibility is considered in Columns 5 to 7 of Appendix 1, Table 7. The border barriers on services trade tend not to appear in the form of a tax (tariff equivalent) but rather in the form of resource-using regulatory restrictions. Column 5 assumes that services barriers are eliminated on an MFN basis. The resulting welfare gain is roughly 1 percent for Egypt and 2 percent for Tunisia.

Many services require close proximity between the provider and the client, making foreign investment an important mode of delivery. Yet both Tunisia and Egypt maintain high regulatory barriers to inward foreign investment. Column 6 considers the possibility that the domestic market becomes more competitive and operates using world "best practices" when inward investment in services is permitted. The potential welfare gain associated with investment liberalization is 7 percent in Tunisia and 5.6 percent in Egypt. Full service liberalization through a reduction of barriers to both trade and investment potentially raises Tunisian welfare by more than 9 percent and Egyptian welfare by nearly 7 percent, as seen in Column 7. Combining goods and services liberalization in the context of an EU and GAFTA agreement provides substantial scope for gains. Column 9 shows that Tunisia may gain 12.8 percent and Egypt 10.2 percent in welfare.

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