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The distribution of the trade effects of the Arab Common Market

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THE DISTRIBUTION OF THE TRADE EFFECTS OF THE ARAB COMMON MARKET

by

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How much of the Arab Common Market provisions are actually implemented? And which member country benefits relatively more than the others from the common market

arrangement? These are the two major questions that this research attempts to provide answers for.

At present, the Arab Common Market is comprised of six member countries: Jordan, Syria, Iraq, Libya, Mauritania, and Democratic Yemen. Egypt was also a member until 1979 when its membership was suspended because of the Camp David Agreements. The first three are considered to be more advanced and were among the first to ratify the Common Market resolution as soon as it was passed in 1965. Accordingly, they are supposed to form a free trade area and are also supposed to be working on establishing a common external tariff against the outside world. Libya joined the Common Market in 1977. Mauritania and Democratic Yemen joined in 1980 and 1981 respectively. However, both were considered to be less advanced and were allowed to exclude a list of products from trade liberalization either to protect domestic industry or for revenue purposes. Goods not included in their exceptions lists were to be liberalized in a gradual process that will extend until 1988 for Mauritania and 1990 for Democratic Yemen.

Currently, a free trade area is in operation for Jordan, Syria, and Iraq, at least as far as the removal of tariffs is concerned. However, some other non-tariff barriers are still practiced, such as licensing and foreign exchange allocations. Libya still excludes a number of items from trade liberalization with the objective of protecting domestic industry.

Arab Common Market members belong to different economic systems and pursue different economic policies. Iraq and Syria are closer to being centrally planned than Jordan. Also, Iraq and Syria have more of a socialist orientation. Both practice state trading and foreign trade planning. State trading could have a significant, positive or negative, impact on directing trade towards partner countries. It definitely weakens the causal relationship between market forces and trade flows, and subjects trade more to political factors. Because of the extensive use of state trading by Iraq and Syria, trade among member countries of the Arab Common Market fluctuates considerably, dropping when political relationships are tense to negligible amounts and increasing when friendly relationships dominate to an amount not justifiable by market forces alone. This was achieved without resorting to any of the traditional commercial policy tools.

The second question regarding who benefits relatively more from the Arab Common Market was answered by looking at trade creation and trade diversion for each country and by looking at the volume of exports of each country to the other Common Market members and the degree of protection that those exports enjoy in their respective markets.

Jordan experienced a high degree of trade creation; it has the largest volume of exports, and its exports enjoy the highest degree of protection in the Syrian and Iraqi markets. Based on these criteria, Jordan is assumed to benefit more from the Common Market arrangement.

The research also identified other areas of research. Such areas include *ex ante* measurements of benefits for countries which are still reluctant to join the Common Market and an analysis of the impact of joint projects on the economies of the countries in which they are located and on other members. This is supposed to lead to a formula for allocating industries among member countries.

One conclusion of this research is that a pure rational approach will be insufficient for analyzing the impacts of economic integration, and that a multiple perspectives approach is a must for such an analysis.

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CHAPTER I

INTRODUCTION

Problem Background

Benefits of Integration Among Developing Countries

Several arguments have been advanced in favor of integration schemes among developing countries. Economic integration provides developing countries with larger markets which, for a number of industrial concerns, is necessary for taking advantage of modern production methods and establishing plants of optimal sizes. Developing countries are characterized by the low purchasing power of their markets, because their population is small; or even if the population is large, the poverty of the population in the vast majority of developing countries makes the internal market too small for a substantial number of industries to build optimum size plants. Integration, through enlarging the market, increases the number of industries which will be capable of operating under optimum conditions. So a number of projects which may not be feasible on an individual country basis will become practical if undertaken by several countries jointly. The above argument should not imply that market size is the only barrier for the industrialization of developing countries. Other factors such as political instability, level of education, unavailability of capital or infrastructure and others, constitute serious barriers to industrialization. As for production activities, which were feasible on a one-country level, and a larger than national market was not necessary to achieve optimum economies of scale, integration would increase efficiency through providing the opportunity for competition. It would help in reducing high costs and high profit margins which tend to prevail in monopolistic or overprotected markets.

Another advantage of integration is that it allows countries to specialize in products in which they have a comparative advantage relative to the rest of the region. Increasing the size of the market will increase the scope of specialization. This will result in reduction of costs and increased output and efficiency. This is particularly important for countries who have pursued industrialization through import substitution; import substitution will be more beneficial or less costly if planned on a regional rather than on a country level. Integration is also assumed to have a positive impact on industrialization through attracting foreign capital by the larger market size. This effect may become even stronger if effective protection is increased as a result of integration.

Integration, through increasing the market size and through its positive impact on industrialization, would reduce the vulnerability of the external sector of the developing country. This is done through the diversification in exports in kind (manufactured or semi-manufactured as well as primary goods) and in destination as they will export more to other members of the integration scheme and to other developing countries. Also, integration is regarded as a means of increasing the bargaining power of the developing economies.

One other major benefit of integration for some developing countries is its potential savings on foreign exchange. As more goods will be traded within the integrated region, especially consumer goods, more foreign exchange will be released for purchasing capital goods from the rest of the world. This will have a positive impact on the growth potential of a developing economy.

Disparities in the Distribution of Benefits

All above mentioned benefits, which are represented by increases in output and income due to economies of scale, specialization, inflow of foreign capital or increases in efficiency or rate of growth, are benefits which will accrue to the region as a whole. They will not necessarily be evenly distributed among member countries of an integration scheme. On the contrary, it has been suggested that the probability is high that such gains will be inequitably distributed among the member states. It is rarely the case that countries joining an integration scheme are of the same level of development or have the same opportunities of promoting growth or the same capabilities of benefiting from those opportunities. Those initial disparities are usually made worse as a result of integration. Industrial enterprises would tend to cluster in the same area and to form "development poles". Those poles are usually formed in more advanced areas due to the availability of skilled and semi-skilled labor, public utility services, banking and other service industries, and adequate transportation and communication systems among other factors. This skewed distribution of industry within the region will significantly impact the distribution of benefits among the various members of the integration system. The country which hosts the new industrial activity is the one who will benefit through increased employment and income, while all the members will bear the burden of import substitution through trade diversion in proportion to their consumption of the product.

There may exist some natural factors which could mitigate this polarization tendency. Such factors include different endowments of fixed natural resources, which serve as a basis of industrial complexes; and distribution costs.

Another factor counteracting the polarization tendencies is the trickle-down or "spread" effect. The country in which most of the new industrial activity will be concentrated will enjoy an increase in employment and in income. As a result, expenditures on all types of goods including those imported from the less developed areas will increase. This will increase production and income in the less developed area. The magnitude of this spread effect will depend on several factors such as the level of the increased outputs and the marginal propensity to import from the less developed area. It will also depend on the value of the multiplier in the less developed area. But still this spread effect is not expected to completely compensate the less developed country for its losses.

Measures for Ensuring Equity in Distribution of Costs and Benefits

As long as the overall or global effect of an integration scheme for the members as a whole is positive, then some policies could always be conceived to redistribute the benefits of integration in such a way that every member would be better off than it could be without integration.

A less advanced country may be allowed to maintain for a longer period protection for some of its industries on a non-reciprocal basis.

A less advanced country may be allowed to grant certain fiscal incentives to attract investment. A regional development bank may be established to seek viable projects and get the necessary financial and technical assistance for the enterprises. Such an institution could give lower interest loans and of longer maturity for investments in the less developed area.

There could also be direct financial compensation for the loss of customs revenue which the country incurred when it substituted foreign imports for more expensive imports from the other member countries. The latter could financially compensate the former from the extra income and excise taxes that they obtained from the increased industrial activities in their country. If countries had a unified external tariff, they could work out a customs revenue distribution formula which would include an enhancement factor allowing a significant transfer of resources to the less developed country.[1]

All countries of the integration scheme could agree on a regional investment policy through which they could channel resources to those sectors most important for the development process. Such a policy could incorporate constraints concerning the distribution of the projects among member countries which would minimize the accentuation of disparities among countries of different levels of development.

Statement of Problem

No country would enter into an integration scheme just because there would be global benefit, or the net gains for the whole would be greater than the net losses. What matters for the individual country is whether it would be better off as a result of integration. If global gains are positive, then this could mean that every country in a scheme could be better off if some measures are found to redistribute gains in a way acceptable to all members.

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[1]One such formula was applied in the Southern African Customs Union until 1976 where each of the 'peripheral' (Botswana, Lesotho and Swaziland) countries' share of total union revenues was equal to the ratio of its imports and dutiable production to that of the total union multiplied by an enhancement factor of 1.42.

Before such measures could be found, gains and losses of each country should be evaluated in order to determine the direction and the amount of compensation flows. This would require a more detailed study of the nature of gains and losses and the derivation of methods to estimate or quantify those gains and losses.

Estimating gains and losses is not an easy task. They cannot be measured objectively as they do seem to be a function of the objectives of the participating country and its particular economic situation. While one country may determine the value of an integration scheme by looking at its employment statistics, another may want to look at the status of its international reserves; still another would want to consider the impact of integration on its rate of growth or level of industrialization before being willing to join - or continue to participate - in such a scheme.

Nevertheless, it is sometimes indispensable for the survival of an integration group to try and analyze the impact of integration on various economic variables if an overall index of benefits cannot be established. Sometimes such an exercise is necessary to handle the complaints of one or more members of a group. In other cases it is necessary for planning purposes such as the distribution of integration projects among member countries.

Most of the strains in economic groupings result from the perception by one or more of the countries that the distribution of the benefits is unfair or inequitable. In some cases the failure of some members to share in this perception, or the failure to do something about it, resulted in the secession of one or more countries from the grouping.

Honduras, for example, complained that it was not obtaining a fair share of the benefits of integration in the Central American Common Market, since it has not helped its efforts to industrialize, but, on the contrary, has consolidated its position as a raw materials exporting country, and industrial goods importing country. The dispute culminated by the withdrawal of Honduras from the Central American Common Market. The East African Community was dissolved partly because of Uganda and Tanzania's resentment of what they perceived as the greater advantages gained from integration by the more developed Kenya. (Political antagonisms had a big role to play in the dissolution of the community). In the Southern African Customs Union, the peripheral countries of Botswana, Lesotho, and Swaziland are still trying to determine whether they really are better off by joining the Union, by trying to balance the measurable effects of the integration scheme.

One of the economic groupings which has been rather modest in achievements is The Arab Common Market which was established in 1965 with an ultimate objective of achieving full economic union through several stages starting with establishing a free trade area. However, very little has been written on evaluating what has been actually achieved in The Arab Common Market since 1965. It is often mentioned that a free trade area has been in operation since the end of 1970, but not much attention has been paid to the real degree of implementation of the common market resolution nor to the benefits that participating countries are currently deriving from having joined the common market.

Purpose of The Study

The purpose of this research is to survey the level of implementation of The Arab Common Market resolution and to identify the impediments to its full implementation, and then evaluate the benefits or the costs that each participating country is deriving from joining The Arab Common Market.

It will be assumed that no overall index could be established to present the impact of integration in one final welfare figure. This is because each of the participating countries has different objectives, different valuation systems and hence different weights attached to each of the benefits that they believe they will get from integration.

This study will look into the static effects of the common market, i.e. those effects which refer to the welfare gains or losses from changes in the production and consumption patterns as a result of integration. Those include trade creation, trade diversion, and the consumption effect due to changes in relative prices. However, instead of looking at trade creation and trade diversion in total imports, this study will look at the impact of integration on each manufacturing sector which gives a better idea of the impact on sectoral production.

The study will also look at the degree of protection awarded to the exports of each member country in the markets of other member countries. This degree of protection is considered by some economists as an important measure of the gain a country derives from an integration arrangement particularly for those countries concerned mainly with export promotion or with domestic employment.

Both Syria and Jordan have been suffering from a chronic trade deficit and are very much concerned with promoting export trade.

Significance of the Research

For decades, Arab national political parties, moderates and radicals, and intellectuals with different inclinations, have been pursuing Arab unity or unity among some members of the Arab states as a major political objective. Most of the arguments advanced in support of this objective are economic. It is assumed that economic integration will be in the best interest of all concerned. Still, regardless of how modest is the experience of The Arab Common Market, very few attempts were made to measure the impact of this experience, if any, on the economies of the participating countries and the distribution of gains and losses among them. This research will attempt to fill part of this gap by providing two measurements of gains and losses for member countries.

Another significance is related to the current tendencies in economic cooperation among Arab countries. Those reflect a shift towards integration projects conducted as joint ventures between countries. Unity is seen as the end result, rather than the initial step. But also for those joint projects an equitable distribution of benefits is necessary for their success; and measures should be developed to evaluate the impact on the different countries of those projects. This research may be helpful in this respect, also.

Limitations of the Study

This study involves all six members of The Arab Common Market which are Jordan, Syria, Iraq, Libya, Mauritania, and Democratic Yemen.[2] Those countries are a subset of the signatories to the Arab Economic Unity Agreement which in turn are a subset of members of the Arab League.

In evaluating the implementation of the provisions of The Arab Common Market resolution all six members will be included. However, in assessing the gains and benefits accruing from the common market, only Jordan, Syria and Iraq are included because of three reasons. First, the membership of Mauritania and Democratic Yemen is too recent to be assessed. Mauritania joined the common market in 1980 and Democratic Yemen in 1981, and they are both supposed to implement the common market resolution in a gradual process which is supposed to take until 1988 for Mauritania and 1990 for Democratic Yemen. Second, the three countries: Libya, who joined the common market in 1977, Mauritania and Democratic Yemen are still maintaining a long list of goods which are to be excluded from trade liberalization. Third, the three countries of Jordan, Syria and Iraq do, in more than one sense, form a cohesive entity; geographically each has common borders with the other two, and historically and culturally they have more in common than with the other members of the common market. Also the three countries have been members of the common market since 1965 and an assessment of their benefits has been long due.

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[2]Egypt was a member of The Arab Common Market but its membership was suspended in March 1979 because of the Camp David Agreements with Israel.

Unfortunately, this research like many requiring detailed data, suffers from the unavailability and in some cases from the incompatibility of data sources. Incompatibilities arise from the fact that we are dealing with more than one country and for an extended period of time. Different countries may use different classification systems, and the same country may change the method of data collection and of data classification if a long period of time is involved. The problems of data sources and of data usage are discussed in Chapter Five.

Summary and Overview

The emphasis of this study is on evaluating the experience of economic integration in the form of a common market among some members of The Arab League.

This study will start by surveying, in Chapter Two existing literature on economic integration. Particular attention will be paid to the models used for assessing the distribution of gains and losses among members of an integration scheme among developing countries. Models applied to The Central American Common Market, East African Common Market and Southern African Customs Union will be assessed in terms of their basic assumptions of benefits and methodology for quantifying those benefits.

Chapter Three will present an overview of Arab economic integration and cooperation efforts with special emphasis on The Arab Economic Unity Agreement and the common market resolution. These will be analyzed and the extent of implementing the common market provisions in each member country will be discussed. A final section in the chapter is devoted to discussion of the problem of state trading in the Arab Common and its impact on the trade liberalization effort.

Chapter Four will be devoted to the analysis of the economies of members of The Arab Common Market. Special attention will be paid to the structure of their foreign trade in terms of traded goods and principal trading partners; and to the agricultural and manufacturing sector for each country. The chapter will also include a comparison of those countries in terms of their natural resources, growth and development indicators and structure of their manufacturing sector.

Chapter Five presents the measurement of gains and losses for Jordan, Syria and Iraq from participating in the market. It includes a survey of the model and of the data used and then an analysis of the obtained results. The chapter also includes an evaluation of the lists of goods to be excluded from trade liberalization that were submitted to The Council of Arab Economic Unity by Libya, Mauritania, and Democratic Yemen.

Finally, Chapter Six will give a summary and overview of the study as a whole and will include some concluding remarks and suggestions for further research.

CHAPTER II

ECONOMIC EFFECTS OF INTEGRATION

During the last two decades there has been a rather pronounced trend in groups of developing countries forming together a regional bloc where they agree to reduce or eliminate trade barriers among themselves, and agree to achieve a higher degree of economic cooperation with or without the ultimate aim of complete economic integration. Examples include the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), the Economic Community for West African States (ECOWAS), the Central African Customs and Economic Union (UDEAC), the East African Community (EAC), and the Association of South East Asian Nations (ASEAN).

Most of those regional groupings were formed in the belief that economic cooperation among groups of developing countries will foster their economic growth and will help them strengthen their overall position in relation to the developed countries, over and above the traditional gains that are expected from economic integration. The implicit assumption has been that economic integration is "good". The fact that some groupings are prospering seems to support this assumption but the strains in other groupings and the collapse of some, seems to indicate otherwise.

This chapter is organized into two major parts. In the first part the traditional theory of customs union will be discussed. This will cover a brief overview of the degrees of economic integration and of both the static and dynamic effects of integration.

The applicability of this traditional theory to developing countries will be briefly discussed and some conditions for a welfare increasing customs union will be listed.

The second part of the chapter is devoted to an assessment of empirical models used for measuring the distribution of costs and benefits among members of an integration scheme of developing countries.

Theoretical Aspects of Economic Integration

Degrees of Economic Cooperation and Integration

Economic cooperation can assume different forms or levels. It could range from a limited mutual reduction in tariffs to a complete economic integration involving the establishment of a supra-national authority entrusted with determining all economic and social policies for member countries. However, the various stages were classified by Balassa as follows:-[1]

1) A free trade area is a preferential arrangement where members eliminate tariffs among themselves but where each country retains its own tariff against the outside world.

2) A customs union goes one step further and members unify their tariffs against imports from the outside world.

3) A common market is the stage where members remove barriers to trade and to factor movements in addition to establishing a common external tariff.

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[1]Bella Balassa, The Theory of Economic Integration, (Illinois: Richard Irwin, 1961), p.2.

4) An economic union is a common market with some coordination of economic and social policies.

5) Total economic integration is the most advanced stage of economic integration which involves the establishment of a supra-national agency to which member countries relinquish their sovereignty over economic and social policies.

Traditional Theory of Customs Unions

Not much has been written about customs unions before the 1950's. There was, however, a general belief, that the formation of a customs union is a step towards free trade since it embodies the reduction or elimination of tariffs among its members, and therefore the formation of a customs union was believed to increase world welfare even though it would not lead to a world welfare maximum.[2]

In 1950 Viner challenged this belief by showing that a customs union combines elements of both free trade and of greater protection and could therefore either increase or decrease welfare. Viner then introduced the new concepts of trade creation and trade diversion. Trade creation referred to the case where as a result of forming the customs union there would be a shift in production from a higher cost source to a lower cost source. It represents an improvement in resource allocation. Trade diversion referred to the case where the shift is from the lower cost to a higher cost source. It represents a worsening in resource allocation.[3]

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[2]R.G. Lipsey, "The Theory of Customs Unions: A General Survey," Economic Journal 70 (September 1960):497.

[3]Jacob Viner, The Customs Union Issue (New York: Carnegie Endowment for International Peace, 1950), chapter 4.

An example of trade creation is when imports from a partner country replace after the formation of the union, domestically produced goods because the partner country is a more efficient producer although not the most efficient producer of the goods concerned. An example of trade diversion is when imports from a member country replace imports from the most efficient producer, since although the partner's price is higher than that of the most efficient producer it is less than that of the most efficient producer plus the tariff.

For Viner, trade creation increases welfare and trade diversion reduces welfare because it worsens resource allocation. However, this negative effect of trade diversion was questioned by Meade, Lipsey, Gehrel and others. They argued that a customs union does not only involve a shift in the source of imports but could also involve an increase in the volume of imports. If the partner's price is less than the price of the most efficient producer plus the tariff, then when forming the customs union imports will shift from the most efficient producer to the partner and this is trade diversion. However, this is accompanied by a drop in the price to the consumer who will increase purchases of the commodity, so the amount of consumer surplus will increase. They concluded that because of this consumption effect the net effect on welfare, even if only trade diversion takes place, is uncertain. It could be negative or positive.

Despite its shortcomings Viner's model initiated the process of formulating a theory of customs unions and of economic integration. Contributions multiplied each discussing a new aspect of the theory, or elaborating on an old one. New strands were added, and new fields were explored. The theory's application to the special case of developing countries was discussed and empirical models for measuring the effects of integration were built and used on some groups like the European Common Market.

Static and Dynamic Effects of Integration

Effects of economic integration are classified into two major groups, static effects and dynamic effects.

Static effects refer to welfare gains or losses from a marginal reallocation of production and consumption patterns. The welfare effects could be depicted by referring to figure 1. The country joins the common market and it frees imports from partners who supply the goods at price P_c. However, before joining the common market, the country used to import the goods from the most efficient producer whose price is P_w. The price to the consumer was, after payment of the tariff, equal to

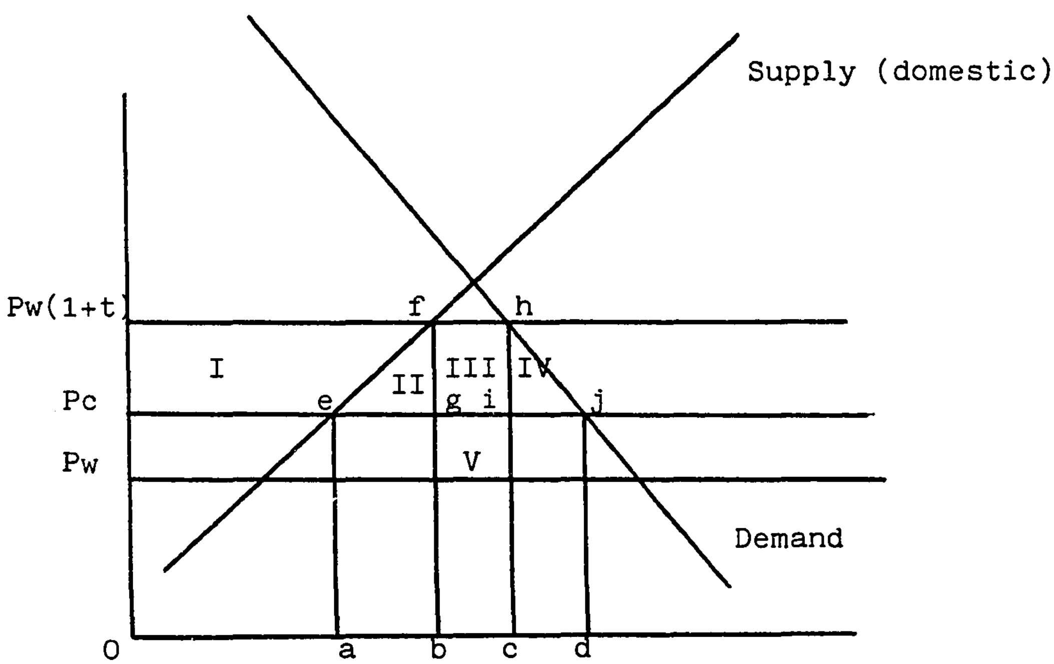

Figure 1

$P_w(1+t)$, where t is the tariff rate. The country used to produce "Ob", consume "Oc" and import the difference "bc". After joining the common market, the country will import from the partner paying a price of P_c which is higher than the price P_w which the country used to pay (this entails a loss), but the final consumer pays only P_c which is lower than what he used to pay which was $P_w(1+t)$. This entails a gain. Consumption will increase to "Od", production will drop to "Oa", and imports will increase to "ad". As a result of the drop in price there will be a gain in consumer surplus equal to the sum of the areas I,II,III, and IV. However, not all of this is net gain, Area I represents a loss in producers surplus, Area III along with Area V represent the tariff revenues that the government used to collect, and which are lost now, so the net gains are Areas II and IV. Area II represents the savings from releasing domestic resources originally producing the goods, and Area IV represents consumption gains net of loss of government revenues and producers surplus.

The traditional theory defined trade creation as the reduction in domestic output; "ab". The expansion in consumption "cd" is referred to as the consumption effect and is sometimes referred to as trade expansion. However, the trend now is to use the term trade creation, to refer to both trade creation and the consumption effect combined, so welfare gains from trade creation are represented by Areas II and IV.[4] Trade diversion is the switch in the source of imports from the most efficient producer to the less efficient partner and it involves the volume of trade equal to "bc". The welfare loss associated with this shift is dependent on the difference in price between what the country used to pay and what it is currently paying for its imports (P_c-P_w).

[4] William R. Cline, "Benefits and costs of economic integration: Methodology and Statistics." In Economic Integration in Central America, ed. William R. Cline and Enrique Delgado (Washington, D.C.:The Brookings Institution 1978), p.485

The welfare loss is the price difference multiplied by the quantity of trade shifted, which will be equal to Area V. This area represents that part of the loss in government revenue, which was not compensated for by an increase in consumer surplus. The net effect on welfare depends on which is larger: the gains represented by the sum of Areas II and IV, or the loss represented by Area V.

Other effects of economic integration are those of a dynamic nature. Some argue that dynamic effects are more important than the static effects of integration. Scitovsky argued that major gains would result from reorganization of production within the country. Integration will increase competition and efficiency and will put countries back on their production possibility frontiers.

It is also believed that integration through enlarging the market will bring about economies of scale. This is very important particularly for developing countries who have small markets in terms of purchasing power and who as a result cannot start several industries. In an empirical study, Brown tried to determine the minimum efficient scales in various branches of production and to compare them with the demands encountered in developing countries. He concluded that there is a strong case for fostering manufacturing industry within large common market areas rather than within small separate political territories.[5]

Other dynamic effects include the increase in investment both domestic and foreign. Economic integration is also assumed to increase the rate of growth because the enlargement of the market will result in more rapid technological changes.

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[5]A.J. Brown, "Economic Separation Versus a Common Market in Developing Countries," Yorkshire Bulletin of Economic & Social Research 13 (May 1961): 40.

This is based on the argument that integration will cause the size of the firms to grow and that larger firms spend proportionately more on research and development.[6]

Economic Integration and Less Developed Countries

Some writers believe that the traditional theory of economic integration has limited relevance to less advanced countries. They believe that the traditional theory looks at integration as a tariff issue while in the case of developing countries it should be looked at as an approach to economic development and that what should be stressed are the dynamic effects particularly the effects on economic structure rather than the static effects.[7]

Much significance in the case of developing countries is also placed on the enhanced bargaining power of integrated regions and the possibility of less developed areas of improving their terms of trade with respect to industrialised countries and of stabilising their export earnings if divided equitably among the members.[8]

Others argue that since economic integration theory bases its analysis on a situation of full employment, it fails to see the effect of integration on the expansion of output and the employment of unemployed or underdeveloped resources.

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[6]Bella Balassa, The Theory of Economic Integration (Illinois: Richard Irwin, 1961), pp.101-116.

[7]Tayseer Jaber, "The Relevance of Traditional Integration Theory to Less Developed Countries, "Journal of Common Market Studies 9 (March 1971): 254.

[8]Robert Allen, "Integration in Less Developed Areas", Kyklos 14 (1961) : 326-328.

Further benefits and costs relevant to developing countries will be discussed in a next section on the distribution of costs and benefits of integration among members of an integration scheme of developing countries.

Conditions for a Welfare Increasing Customs Union

It is not possible to determine *a priori* whether customs unions will help to increase or to decrease welfare. However, there is general agreement that there are certain conditions under which integration can confer economic gains. A summary of those conditions follows:-

a) The larger the economic size of the union, the greater will be the gains through reallocation of production.

b) Gains will be more if tariff rates among the countries within the region are initially high.

c) The gain is greater, or the loss is less, the more complementary are the pair of countries which form the union - i.e. the more different their costs.[9]

d) Customs unions are more likely to bring gain, the greater is the degree of overlapping between the class of commodities produced under tariff protection in the two countries.[10]

e) The previous two conditions put forward by Makover and Morton, and by Lipsey, could be combined together which will yield that the gain will be higher if the economies of members are initially competitive or substitutable but potentially complementary.

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[9] H. Makover and G. Morton, "A Contribution Towards a Theory of Customs Unions," Economic Journal 63 (March 1953): 38.

[10] R.G. Lipsey, "The Theory of Customs Unions: A General Summary," The Economic Journal 70 (September 1960):498.

f) Given a country's volume of international trade, a customs union is more likely to raise welfare the higher is the proportion of trade with the country's union partner and the lower the proportion with the outside world.[11]

g) A customs union is more likely to raise welfare the lower are purchases from the outside world relative to purchases of domestic commodities.[12]

Since developing countries have most of their trade with the outside world, and since they usually have very little trade among themselves, it has been argued that, based on conditions f and g, customs unions among developing countries will tend not to increase welfare. However, this argument neglects the dynamic effects of integration and neglects other static effects that usually developing countries expect from a customs union, such as stability of export earnings, improvement in their terms of trade, increasing employment and savings on foreign exchange other than the political aim of increasing the bargaining power of developing countries.

Measurement of Costs and Benefits

When countries enter into an integration scheme, they are less concerned with world welfare than with the immediate and tangible effect on their economies and on their potentialities for growth and development. It is the benefit that the country gains which matters and not the global benefits of integration to the group as a whole.

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[11]Ibid, p.508.

[12]Ibid.

Two questions are usually raised by member countries: are they better off as members of a regional grouping relative to what they could have been had they not joined the customs union? and how are they doing relative to other members of the union? Are disparities between members increasing or are less advanced countries following up with the more advanced ones?

Those questions raise a different issue in economic integration. It is related to the perception of some members of an integration scheme that the benefits of integration are not distributed fairly among all members. In some cases of integration, development poles do emerge as more industries move to the more advanced area which gives them the benefit of exporting to other member countries along with offering them the infrastructure and availability of skilled labor and other facilities. Polarization problems accentuate over time. But regardless whether the problem of unfair distribution of benefits is a mere perception or an agreed upon fact, a methodology is needed for estimating the distribution of benefits among member countries. The purpose is not pure knowledge of who gained. As long as there are global benefits to the integration scheme or as long as the gains to some are more than the losses to others, then a formula could always be found which compensates the losers for their loss or which redistributes the benefits in such a way to keep every member better off as a member than if he were outside the union.

The problem with this exercise is twofold. First there is no general agreement on a list of costs and benefits. This is largely dependent on the objectives of the countries entering into the union.

While one country's objective may be the increase in output or the reduction of its unemployment, another may be concerned mainly with its trade deficit and in hoping to save on its foreign exchange by joining the union, still another may be interested in achieving some structural changes by increasing its manufacturing output relative to its agricultural output. But even if benefits are identified there still remains the problem of quantifying them.

This section will discuss some of the models that tried to estimate the distribution of costs and benefits among members of customs unions of developing countries. The interest is mainly in the model itself, and not in the final result or the final figure. Each model will be discussed in terms of its basic idea of what constitutes benefits and costs and in terms of the methodology used for quantifying them.

Benefits and Intra-Area Trade

Great significance has been attached to intra-area trade as a determining factor in the distribution of costs and benefits among member countries of an integration scheme. An original contribution has been made by Dharam Ghai who tried to estimate benefits and costs accruing to each of the three members of the East African Common Market.

His model was elaborated upon by Hazlewood and then by R.N. Wood.[13] Ghai's model is based on the assumption that the "common market induced growth" and the distribution of benefits of this growth could be derived from a study of the composition and growth of inter-territorial trade. Ghai maintains that since most products traded among members of the common market enjoy a high degree of protection against foreign imports, it would be appropriate to take the value of each country's exports to the common market as an index of its gains and the degree of protection enjoyed by its exports in the common market as the best measure of its gain; that is, the higher the exports to the common market and the higher the degree of protection that a given country's exports enjoy in the markets of other member countries, the larger the gain. If foreign imports competing with country A's exports to the common market are duty free, then country A enjoys no special benefit from being a member in this common market.

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[13]For the original model see Dharam P. Ghai, "Territorial Distribution of the Benefits and Costs of the East African Common Market," in Federation in East Africa: Opportunities and Problems, ed. C. Leys and P. Robson (Nairobi: Oxford University Press, 1965) pp. 72-82; and for comments and further elaborations see the following four articles published in the Bulletin of the Oxford University Institute of Economics and Statistics; Arthur Hazlewood, "The East African Common Market: Importance and Effects," vol. 28 (November 1966): 273-279; Dharam P. Ghai, "The East African Common Market: Importance and Effects A Comment," vol. 29 (August 1967): 301-302; and Arthur Hazlewood, "The East African Common Market: A Rejoiner," vol. 29 (August 1967): 303-310.

For empirical measurement of benefits, Ghai classifies each country's exports to the common market according to the ad-valorem duty that is charged on foreign competing imports. He defines eight tariff categories and calculates for each country the percentage of its exports which enjoy protection under each tariff category. He then calculates average tariff levels using as weights the value of exports to the common market.

As for the costs of participating in the common market where a common protective tariff is imposed against the outside world, Ghai maintains that when development favors one country the costs to every member country as a result of import substitution are generally not reflected in higher prices to consumer, but rather in the loss of government revenues from customs duties on imports replaced by domestic production or by the production of other member countries. The costs are shared by all countries but the benefits accrue to the country where import substitution takes place if this employs unemployed resources. One measure of this cost is the rate of customs duties imposed on competing imports, the higher the duties and the larger the value of imports from the common market the greater the loss to the importing country. This is based on the assumption that the price of domestically produced goods will be equal to the price of imports plus the tariff, so the difference between the cost of imports and domestic cost of production of substitutes is equal to the tariff. Empirically Ghai classifies each country's imports from the common market according to the ad-valorem duty that is charged on foreign competing imports, he then calculates the average protection for each country's imports using the actual value of imports as the weight for each tariff category. This gives a measure close to what has been termed in the traditional theory as trade diversion.

Shortcomings of the model: Although Ghai's model was viewed as a valuable contribution to the problem of measuring the distribution of gains of integration among member countries of an integration scheme, it still suffers from serious shortcomings:-

a) The analysis is partial; it covers only one feature of integration which is intra area trade.

b) It assumes, as Hazlewood points out, that all intra-regional trade is dependent on the existence of the common market. This is incorrect in the sense that a substantial amount of trade will still take place between member countries even if the common market did not exist.[14] So Hazlewood suggests that distinction should be drawn between "dependent" and "independent" trade by measuring how much of the trade which actually takes place depends on the existence of the common market and how much would take place even if there was no common market and no tariff preferences. As a result Hazlewood suggests that the measure of benefits should not be in terms of inter-territorial exports but of those which are dependent on the tariff preference.

[14]Arthur Hazlewood, "The East African Common Market: Importance and Effects," Bulletin of the Oxford University Institute of Economics and Statistics 28 (February, 1966): 3-4.

c) Since the balance of inter-territorial trade must be zero, total exports equalling total imports, Hazlewood argues that the gains to one country are exactly offset by losses to another, and therefore on balance the method does not allow for the possibility of a net gain for the common market as a whole.[15]

d) The method takes into consideration the final value of intra-regional trade and ignores the value added in the various goods. The gains that one country obtains from a given level of exports should not be the same when those exports include a very high content of imported components, as when they have a very high domestic value added.

To summarise, this model could be used if adjustments are made to include the effective level of protection in trade, and the value added in the goods exchanged as well as the alternative use of resources. Still it should be viewed as a partial measure of benefits and costs of integration and not one which encompasses the overall effects of integration.

Benefits and the Increase in Domestic Value Added

David Segal developed a different model which seems to overcome the major shortcoming of Ghai's model. Whereas Ghai's model completely ignored the value added or employment content of trade, Segal maintains that the gains from trade for a given member of the common market should be directly related to the amount of income generated by the additional exports to the common market.

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[15] Ibid, p.7.

Then in order to measure gains for countries of the East African Common Market, he assumes that the social opportunity cost of factors of production is very close to zero. He justifies this by classifying the East African economy as a labor surplus economy where the labor used in producing the additional exports is "drawn from redundancy in the agricultural labor force". As for capital, Segal observes that if it is blocked from entering a local industry, capital will not simply move to another industry but will be invested outside East Africa altogether.[16]

According to the above assumptions, benefits can be measured by the increase in employment or in African value added as a result of increased exports; that is gains are a function of: the monetary value of exports, the country's input-output coefficients and the value added or employment content of the country's production.

The major shortcoming of this model is its assumption of zero opportunity costs of factors of production.

Benefits and the "Spread" effect

It has been assumed that there is a tendency for different branches of industry to cluster together in greater aggregations. If this tendency is not checked, then as a result of the formation of a customs union, plants will tend to concentrate in only a few regions designed as "growth poles". Therefore integration will work against the development of the more backward regions as those regions will not be able to compete with those "growth poles" for the establishment of new industries.

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[16] David Segal, "On Making Customs Union Fair: An East African Example," Yale Economic Essays 10 (Fall 1970): 118.

Acknowledging such disparities in development, Brown develops a model to determine the distribution of additional income between the country which attracts the manufacturing activity which will be called Country A and the other countries of the customs union (Country B).[17] Brown assumes that the new production uses resources which would otherwise be unemployed. This will result in an increase in income for Country A. But as income in A increases, there will be an increased demand for the products of the less developed Country B. This "spread effect" will help increase income in Country B.

Brown tries to measure the impact of establishing a new production activity in Country A, on the income of Country A and that of Country B, taking into consideration the spread effect and the ultimate effects of the Keynesian Multiplier. He assumes that governments will receive customs revenues from goods consumed within their territories as well as from excise and direct taxes. He assumes a balanced budget, and that any change in revenue will immediately result in an equal change in expenditures on goods and services. He also assumes that all additional output is consumed inside the free trade area. With some mathematical manipulations Brown obtains an equation relating the income increase in Country B to that in Country A. Inputs to the equations include: marginal propensities to import from the area and from foreign countries for both countries, the rates of customs duties, marginal rates of revenue from direct taxes, marginal propensities to save, and the amount of additional output consumed in each country.

[17] A.J. Brown, "Customs Union Versus Economic Separatism in Developing Countries - Part II," Yorkshire Bulletin of Economic and Social Research 13 (November, 1961): 88-96.

Brown gives approximate values for those inputs and measures the magnitude of the change in income for countries of the East African Common Market. He concludes that the country in which a new industry is located will experience a rise in income equal to twice the new manufactured output, and the rest of the area will experience an increase in income equal to one tenth of the new manufactured output; and that under certain conditions, the rest of the area could experience a decrease in income.

Brown's model was criticized for having three major limitations. First, inputs to the equation are not generally available particularly in developing countries. Second, he assumes that the increase in production of some goods does not entail a reduction in the production of others. Third, it emphasizes short term benefits and neglests long term ones.[18]

Benefits and "Shiftability" of Industry

In some cases, even if disparities among countries of an integration scheme tend to increase, the less advanced country could be better off by staying a member, than by leaving the free trade area or the customs union. This all depends on a comparison between how the country is doing as a member of the union, and how it would have done without the union membership. It is in the attempt to lay down basis for this comparison that W.T. Newlyn presented his model on the shiftability of industry.

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[18] United Nations Conference on Trade and Development, Current Problems of Economic Integration: The Distribution of Benefits and Costs in Integration among Developing Countries (New York, 1973) , p.89-90.

He defines shiftable industries as those currently located in other member countries and exporting to the home country, but will move to the home country if its market is protected. He also defines common market based industries as a single plant industry located in any of the member countries and dependent on exports to other member countries. Those would not exist if the common market is dissolved.

So the gain that the home country can get from leaving the common market is represented by the industrial output of shiftable industries which would move to the home country. However, it will lose the industrial output of common market based industries located in its territories and which will not exist if the country leaves the common market. It will also lose in industrial exports to other member countries, which will drop as other member countries retaliate by erecting tariff barriers. And it will also lose through the spill-over effect when shiftable industries leave other member countries and when common market based industries in other member countries have to shut down.[19] The net effect depends on the value of industrial output in shiftable industries and in common market based industries.

Newlyn tries to find out what industries are shiftable in the East African Common Market. He adopts the criterion that if the average output per plant was less than the value of exports to the home country then that industry is shiftable and a plant will open in the home country if it leaves the common market.

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[19]W.T. Newlyn, "Gains and Losses in the East African Common Market," Yorkshire Bulletin of Economic and Social Research 17 (November, 1965): 133.

He then tries to determine the domestic value added of shiftable industries moving to the home countries. And by estimating the other changes in production due to the shut down in common market based industries and due to the change in exports he determines that there will be a clear gain to Tanganyika and an insignificant loss to Uganda from leaving the East African Common Market. However, this result was argued by Hazlewood who believed that the criterion used for shiftability which is when the average output per plant is less than the value of exports to the home country, is an "irrelevant and unhelpful statistic".[20] This is because there could be a wide dispersion around the average and because products are not homogeneous.

Shiftability and the Southern African Customs Union

The concept of shiftable industry was used by Paul Mosley, among other measures, to determine whether the three peripheral countries of the Southern African Customs Union, Botswana, Lesotho and Swaziland, are better off as members of the customs union or if they secede from it.

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[20]Arthur Hazlewood, "The 'Shiftability' of Industry and the Measurement of gains and losses in the East African Common Market," Bulletin of the Oxford University Institute of Economics and Statistics 28 (May, 1966): 66. Also for Newlyn's reply See W.T. Newlyn, "The Shiftability of Industry and the Measurement of Gains and Losses in the East African Common Market: A Reply," Bulletin of the Oxford University Institute of Economics and Statistics 28 (November, 1966): 281-282. Further comments were also made by P. Robson, "The Shiftability of Industry and the Measurement of Gains and Losses in the East African Common Market: Some Further Considerations," Bulletin of the Oxford University Institute of Economics and Statistics 30 (May, 1968): 153-155.

Mosley defined four categories of gains and losses. First, some gains will accrue as shiftable industries move to the peripheral countries and as existing manufacturers increase their output after they are protected from South African competition. Those gains are measured by the value added of the increased production.

Second, losses will accrue when common market based industries located in the peripheral countries will shut down and when others will reduce output because of reduced exports to South Africa. Three estimates of reduced exports to South Africa were given; a pessimistic estimate assumes that South African price elasticities of demand are infinite and that no switching of exports to other markets could be done; a middle estimate assumes a unit elastic demand and no switching of exports; and an optimistic estimate which assumes that all reductions of exports to South Africa are compensated for by switching of exports to other countries.

Third, the peripheral countries will lose the fiscal compensation they are currently receiving and will incur an additional cost of running an independent customs administration. On the other hand, they will also be collecting revenues on presently duty free imports of South Africa. Fourth, inflationary pressures will result from the increase on the price of imports from South Africa which will become subject to duties and for goods produced locally in substitution for those imports. Also an optimistic, intermediate and pessimistic estimate is given for the increase in the cost of living.

Given the pessimistic assumptions, Mosley calculates that all countries will lose from separate markets.

And given optimistic assumptions throughout, both Botswana and Lesotho will gain from separate markets while Swàziland will not.[22]

Static and Dynamic Benefits

Most of the previous models look at one or at a limited number of aspects of the integration process. A more comprehensive model was used by William R. Cline to assess the benefits and costs of integration in Central America. Cline examines five static welfare effects and three dynamic effects of integration.[22]

The static effects are those represented by once-for-all outward shifts in the production possibility frontier attainable to the country given its resources.

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[21]Paul Mosley, "The Southern African Customs Union: A Reappraisal," World Development 6 (January, 1978):37. The article was later commented upon by Robson, Landell-Mills, And Cobbe and a reply was provided by Mosley. See Peter Robson, "Reappraising the Southern African Customs Union: A Comment," World Development 6 (April, 1978): 461-466; Pierre Landell-Mills, "The Southern African Customs Union: A Comment on Mosley's Reappraisal," World Development 7 (January, 1979): 83-85; Paul Mosley, "Reply to Robson and Landell-Mills," World Development 7 (January, 1979): 87-88; and James H. Cobbe, "Integration among Unequals: The Southern African Customs Union and Development," World Development 8 (April, 1980): 329-336.

[22]For Cline's model and theoretical justifications see William R. Cline, "Benefits and Costs of Economic Integration in Central America," in Economic Integration in Central America, ed. William R. Cline and Enrique Delgado (Washington, D.C.: The Brookings Institution, 1978), pp.59-121; and for the methodology and statistics he used see his second article in the same book under the title "Benefits and Costs of Economic Integration: Methodology and Statistics," pp.483-529.

The first two static effects are the traditional trade creation and trade diversion effects. The first is related to the situation where as a result of the elimination of tariffs on imports from partners, a member country will increase total imports and the second is when integration results in the country merely switching its purchases away from the world market and towards the members of the common market.

To measure trade creation, Cline selects a preintegration base year and examines trade patterns for that year. He then examines the pattern of trade during integration. Assuming that the preintegration pattern would prevail in the absence of integration, if total import propensity or imports as a fraction of consumption has risen, then there exists trade creation in the sector under examination. The amount of trade created is the increase in the total import propensity multiplied by the level of consumption in the terminal year. The welfare benefit will be approximately one half of the original tariff multiplied by the amount of trade creation.

Trade diversion exists in sectors where the propensity to import from the rest of the world has fallen as a result of integration. The size of trade diversion is the reduction in the propensity to import from the rest of the world multiplied by the terminal level of consumption. The welfare cost of trade diversion is related to the percentage excess of the price of the partner country to the world price.

Another static gain is obtained from the use of labor with low opportunity cost. This is based on the analysis that labor can be withdrawn from the traditional sectors at little or even no cost to production in these sectors.

The social gain, in this case, is equal to the excess of the labor cost embedded in output price over the social cost of that labor. In order to measure this gain, for a given country, Cline first measures the increase in output for each country as a result of integration which is obtainable from the increased demand of other member countries to this country's exports. Once the increase in output is determined, then the new wage income can be deduced. Net benefits will be equal to that part of wage income minus the shadow price of labor.

The fourth static gain discussed by Cline is the gain obtainable from savings on foreign exchange. This is based on the assumption that increased exports to partners will not come at the expense of reduced exports to the outside world. In this case countries will tend to have a trade balance increase vis-a-vis the outside world. In traditional customs union theory, the positive trade balance is not associated with a welfare gain because increased exports are offset by the opportunity cost of factors used. But in some developing countries the social opportunity cost of foreign exchange is considerably higher than the market exchange rate . Hence, savings of foreign exchange will result in a sizable welfare benefit. The net effect on the trade balance multiplied by the shadow price premium on foreign exchange will give the welfare gain from the savings of foreign exchange.

Cline's model offers an evaluation of the dynamic welfare gain attributable to integration in Central America. He discusses three types of gains: structural transformation, investment effects and competition.

Structural transformation was one of the main objectives of economic integration in Central America.

Specifically, the objective was to expand the manufacturing activities and to decrease dependence on the exports of raw materials. One means for expanding manufacturing activities was seen as the expansion of the market, and this will result from integration.

Cline looked at the change in the output of each sector attributable to integration, i.e. the output resulting from increased imports by other member countries. Then he summed output changes for all sectors of the manufacturing industry, and for primary products. He then determined the value added for the increased output in manufacturing industry on one hand, and for agriculture and mining on the other. Those changes gave an indication of the effect of integration on the sectoral structure of production.

The second dynamic effect of integration that Cline considered, was its impact on investment. The larger market resulting from integration is assumed to stimulate investment as prospects of profit become higher. To determine the effect on investment, a sample survey was conducted. It involved industrial firms in the five Central American countries. Interviewed firms were asked about their actual investments and about the percentage of those investments that would have taken place even in the absence of the common market.

The last dynamic effect that Cline considered was the effect of integration on competition. The increased competition will lead to increased efficiency. To determine whether this took place or not, Cline consulted a study on industrial concentration in Central America. The study suggests that when Central America is viewed as a whole free trade area, the degree of its industrial concentration is much lower than is the average concentration for each country viewed in isolation.

By including dynamic effects, the total welfare gain measured by Cline was double the estimate obtained by considering static effects only. Another observation is that gains from the non-traditional effects were much more important than gains through the traditional measures of trade creation and trade diversion. Actually two sources accounted for most of the gain, the static gain from economising on scarce foreign exchange and the dynamic gain attributable to increasing total investment.

The importance of Cline's model stems from its comprehensiveness and from its pioneering attempt at measuring non-traditional effects of integration. Previous attempts measured one or two effects at a time for an integration scheme. And although dynamic effects have been acknowledged, usually researchers shied away from measuring them. It is true, and Cline admits that, that including dynamic effects reduces the reliability of the results, yet to include them will give a much better idea about the size of benefits than if they are completely ignored.

Summary and Conclusion

This chapter reviewed the theory of customs unions as it stands now. Viners contribution and the two basic concepts of trade creation and diversion were discussed. Subsequent comments on Viner's model and recent propositions were briefly surveyed.

This chapter thoroughly discussed some of the major and sometimes controversial models used for measuring the distribution of costs and benefits among members of a customs union. Those models display a great deal of variety in terms of what they defined as the benefits accruing to member countries.

Whereas Ghai stressed interterritorial trade and the degree of protection in determining benefits, Segal stressed value added and Brown looked at the spill-over effect and the impact of the multiplier. Newlyn and Mosley chose a different approach. They looked at what will countries gain or lose if they leave the common market to determine what they are currently losing or gaining by being members of the common market.

Newlyn introduced the concept of shiftable and common market based industry. Cline offered a more comprehensive model encompassing both static and dynamic effects. Cline's static effects included non-traditional ones like gains from employing underemployed factors and gains from savings on foreign exchange.

The variety in those models reflects the difference in the objectives and expectations of member countries when they join an integration scheme. A change in an economic variable could be perceived as a benefit by one country and a loss by another (a typical example is an increase in foreign investment). But what those models show is that once the objective is clearly defined, then a way could be found to evaluate even if approximately, how much of this objective was actually achieved.

Although those models were built using an economically sound methodology and analysis, yet when they were used they suffered from the lack of accurate data. Precise models seem to require more accurate and difficult to obtain data, and readily available data seems to fit rather loose and general models. Empirical models for measuring gains and losses are subject to a trade off between the precision of the model and the availability of its inputs.

CHAPTER III

THE ARAB COMMON MARKET : GOALS AND ACCOMPLISHMENTS

August 13, 1983 marked the nineteenth anniversary of the resolution establishing the Arab Common Market. But is there an Arab common market in the technical sense of the term? This is the question that this chapter attempts to answer through studying the resolution itself; its objectives and its provisions and then through surveying how much of those provisions were actually implemented.

This chapter is organized into four parts. First, Arab efforts towards multilateral economic cooperation before the establishment of the Arab Common Market will be reviewed.

Second, the ideas of economic integration among Arab countries, as compared to economic cooperation, will be studied. In this part the Arab Economic Unity Agreement will be examined as the most important landmark in Arab economic integration efforts. The establishment of the Council of Arab Economic Unity as an institution responsible for implementing the provisions of the agreement will be discussed. And finally the most important decision of the Council, which called for the establishment of an Arab common market will be thoroughly analyzed.

Third, the degree of implementation of the various Arab Common provisions will be assessed. This will include a country-by-country assessment of achievements in trade liberalization, in customs unification, and in the unification of custom legislation and regulation.

Fourth, the problem of state trading in Arab Common Market countries will be discussed at length because of the significant role that state trading could play in either hindering or fostering the flow of trade as a result of the trade liberalization effort. This part will be followed by a chapter conclusion and summary.

Arab Economic Cooperation - Historical Background

The beginnings of Arab multilateral economic cooperation can be traced back to March 1945 when the League of Arab States was established. The Arab League Charter recognized the importance of, and advocated, cooperation among Arab states in financial and economic matters. The first step towards this cooperation was the signing of the Joint Defence and Economic Cooperation Treaty in April 1950.

The Treaty stipulated that the contracting states should cooperate to develop their economies and should facilitate the exchange of their national, agricultural and industrial products among one another. The Arab Economic Council was established to suggest methods for implementing the above-mentioned objectives. Among the achievements of the Arab Economic Council was the conclusion of a number of agreements the most important of which were The Convention for Facilitating Trade Exchange and Regulating Transit Trade Between States of the Arab League (often referred to as the Arab Trade Convention) in 1953, and the Economic Unity Agreement Among States of the Arab League in 1957.

Arab Trade Convention (1953)

The Convention came into force in December 1953 and was ratified by seven Arab countries: Lebanon, Jordan and Egypt in 1953, Saudi Arabia, Syria and Iraq in 1954 and Kuwait in 1962.[1] The primary purpose of the convention was to facilitate trade and transit movements among Arab countries. It extended preferential treatment in customs duties for the contracting parties. It originally embodied two schedules: Schedule A provided a list of farm and animal products, natural resources and food stuffs which would enjoy complete exemption from customs duties (those products are virtually most of the items listed under section I to IV of the Standard International Trade Classification, Revised (SITC); and Schedule B which contained a list of some 150 manufactured products which would enjoy a 25 percent reduction of the normal customs duties. The Convention has been subject to four amendments of which only the first two were ratified by all member states. According to those two amendments both Schedules A and B were enlarged, and two more schedules were added: Schedule C provided for a 50% reduction in normal customs duties of a list of nationally manufactured products (some of which were previously included in Schedule B and already enjoying a 25 percent reduction), and Schedule D provided for a 20 percent reduction in normal custom duties for a list of products assembled in the contracting countries.[2] Manufactured products included in Schedules B and C had to have the cost of local labor and Arab raw material exceed 50 percent of total production costs to be eligible for the tariff reduction. The percentage for products in Schedule D was set at 20 percent.

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[1]Alfred G. Musrey, An Arab Common Market: A Study in Inter-Arab Trade Relations, 1920-1967 (New York: Frederick A. Praeger, 1969),pp.241-242.

[2]United Nations, Economic Commission for Western Asia, "Economic Cooperation and Integration efforts in Selected Countries of Western Asia," in Studies on Development Problems in Countries of Western Asia (New York, 1975),pp.35-36.

This Convention represented a major step forward in Arab economic cooperation particularly in the field of trade. It not only extended preferential treatment to some Arab countries that had no bilateral trade agreements signed between them, but also offered a wider scope of tariff reductions and exemptions for those countries which already had bilateral agreements governing their trade.[3]

But still, important as it is, as the first Arab multilateral trade agreement, the Arab Trade Convention fell far short of establishing even a free trade area. It had several shortcomings the most important of which were:

- It was limited to the removal or reduction in customs duties and did not deal with other barriers to trade such as licensing and quantitative restrictions. This significantly limited the effectiveness of reducing tariff barriers as the contracting parties could limit the entry of goods through administrative and other non-tariff means.

- The treaty did not commit contracting parties not to increase the rates of duty on products not included in the treaty schedules.

- The treaty did not provide for the means necessary for supervising the implementation of its provisions.

- The treaty did not provide for an eventual elimination of all customs duties.

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[3]Ibid.

- It did not call for the establishment of a common external tariff vis-a-vis the outside world.

- The treaty did not aim for a long run coordination or integration of the economies of the contracting parties.

Arab Payments Convention

Another preferential multilateral agreement, The Arab Payments Convention of 1953, was signed by the same seven Arab Countries of the Arab Trade Convention. It aimed at facilitating payments corresponding to current account transactions set forth in a list attached to the Convention, and at granting the most-favored-nation treatment to such transfers. However the payment convention was very limited in terms of effectiveness, as it gave the contracting parties freedom to act unilaterally in accordance with national regulations and interests. It did not even require negotiations or formal notifications prior to such actions.[4]

The Ultimate Unity and the Common Market Resolution

The Arab Trade Convention and Arab Payments Convention of 1953 and the bilateral trade agreements signed between Arab countries during the fifties can at best be described as efforts towards economic cooperation in the field of trade and international payments.

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[4]United Nations, Economic and Social Office in Beirut, "International Cooperation and Trade Expansion in Various Countries in the Middle East," in Studies on Selected Development Problems in Various Countries in the Middle East (New York, 1967), p.25.

They fell far short of the economic unity which was viewed as one of the main objectives of the Arab League. Realizing the above, a committee of Arab experts was formed in 1956, upon the recommendation of the Political Committee of the Arab League, and it was entrusted with the preparation of a comprehensive plan for achieving economic unity among Arab states. Such a plan was prepared and submitted during the same year to the Political Committee. The plan which became known as the Economic Unity Agreement Among States of the Arab League was then approved by the Arab League Council in 1956 and adopted by the Economic Council in 1957 (The Agreement is also referred to as the Arab Economic Unity Agreement).

This Agreement, as far as its stipulations are concerned, provided for a framework for advanced economic cooperation among member states and had as its objective the achievement of a complete economic unity among the states of the Arab League.

The Economic Unity Agreement Among States of the Arab League

Although the Agreement was adopted by the Arab Economic Council in June 1957, it was not until 30 April 1964 that the Agreement entered into force and that was three months after the deposit of ratification instruments by three of the signatories which were: Kuwait (September 1962), Egypt (May 1963), and Iraq (January 1964). Ten more countries joined the agreement and deposited their instruments of ratification. Those countries were: Syria and Jordan (1964), Arab Republic of Yemen (1967), Sudan (1969), Democratic Republic of Yemen and the United Arab Emirates (1974); and Somalia, Libya, Mauritania and Palestine (1975).[5]

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[5]Council of Arab Economic Unity, General Secretariat, The Economic Unity Agreement Among States of the Arab League (Jordan,1982),p.3.

The objective of the Arab Economic Unity Agreement is the establishment of a complete economic unity among states of the Arab League. This is represented by the complete removal of all barriers to trade - national and foreign goods - and to factor movements; and by the unification of economic policies.[6]

The means for achieving the above objectives include the establishment of a customs union in its technical sense whereby all the countries would merge in a single customs area subject to a unified administration. Accordingly, import and export policies and regulations, and transport and transit regulations, would be unified, and a common tariff would be imposed against the external world. Also, statistical methods of classification and tabulations would be unified.

The Agreement also called for coordination of policies related to agriculture, industry and internal trade, and for coordination of monetary and fiscal policies in preparation for the unification of currencies. Also, coordinating legislation in the field of labor and social security, and in the field of taxation was included in the stipulated means for achieving economic unity.

Moreover, the Agreement established the Council of Arab Economic Unity (CAEU) as an autonomous regional institution composed of representatives of the contracting parties. The council was entrusted with the responsibility of implementing the provisions of the Agreement through elaborating the successive stages towards economic unity and supervising their implementation.

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[6]For the text of the Agreement and its annexes, see Appendix 2.

This included the specification of all the legislative, administrative and technical procedures for each stage. But, since the Agreement stipulated that the objective of economic unity will be achieved in a gradual way without rendering any damage to the basic interests of member states, the Council was asked to take into consideration in implementing the provisions of the Agreement "the special circumstances in some of the contracting parties without prejudice to the objectives of Arab Economic Unity".[7]

When compared with the Arab Trade Convention of 1953, the Arab Economic Unity Agreement represents a very advanced stage of economic cooperation and integration. Whereas the former did not even stipulate a free trade area, the latter aspired at a complete economic union among member states of the Arab League. Moreover, the Arab Economic Unity Agreement created a permanent body which is The Council of Arab Economic Unity for designing the means and for supervising the implementation of its provisions while the Arab Trade Convention suffered from the absence of such an organization. However, the Arab Economic Unity Agreement still suffered from two shortcomings which limited its effectiveness:-

- The Agreement provided loopholes for its implementation through allowing the Council to take into consideration "special circumstances in some of the contracting parties". This was a somewhat loose and ambiguous way of specifying exceptions since it did not provide a criterion for evaluating what constituted special circumstances and hence deserved special consideration.

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[7]See Article 14 of the Agreement.

- On the implementation of council resolution the Agreement stated only that they shall be executed by member states "in accordance with their constitutional procedures".[8] So the Council decisions were not binding on member states and required ratification by the national legislative authorities. This allowed any country not to implement any resolutions without the fear that special measures could be taken against it.

The Arab Common Market Resolution

The first and most important step towards the implementation of the Arab Economic Unity Agreement was Resolution Number 17, taken by the Council of Arab Economic Unity in August 1964, and which called for the establishment of an Arab common market.[9] The aim of the common market was defined as the achievement of the following bases:-

1- freedom of personal and capital mobility.
2- freedom of exchange of national and foreign goods and products.
3- freedom of residence, work, employment and practice of economic activity.
4- freedom of transport, transit, use of means of transport, ports and civil airports.

Trade Liberalization Scheme: Specifically, all the articles and provisions of Resolution Number 17 were tailored towards achieving the freedom of exchange of national goods and products, that is the establishment of a free trade area among member states of the Council of Arab Economic Unity.

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[8] See Article 12 of the Agreement.

[9] For the text of the Resolution and its annexes and amendments see Appendix 1.

This was to be achieved through the gradual elimination of all tariff and non-tariff barriers, including prohibitions, quotas and licenses, to the flow of agricultural and animal products and natural resources that originate from one of the contracting countries and that are imported in natural form, and to the flow of industrial products, manufactured in one of the contracting countries if the domestic cost of production constitutes not less than 40% of the total cost of production.

The Resolution set 1 January, 1965 as the starting date for moving towards the creation of a free trade area. A program was set up for the gradual elimination of customs duties and of all other restrictions. The program made use of the amended schedules of the Arab Trade Convention and classified products as to whether they appeared in lists A, B or C in the annex of that convention. According to that schedule, all agricultural and animal products, and natural resources would be exempt of all duties by the beginning of 1969, and all industrial products would be exempt of customs and other duties by the beginning of 1974.

As to the administrative restriction which include import and export prohibitions, quotas, licenses, and all other similar trade restrictions, they were to be removed on agricultural and animal products and natural resources in five annual stages of 20 percent each year starting the beginning of 1965. As to industrial products, they were to be exempt from all restrictions in ten yearly stages starting the beginning of 1965. According to the above schedule all products would be freed from all duties and restrictions by 1 January 1974 and hence the establishment of a free trade area would be completed by that date.

Although the above schedule sounded ambitious at the time, the Council of Arab Economic Unity decided in 1968 to accelerate the rate of freeing manufactured goods from tariff and non-tariff barriers. According to the Council resolution number 372 all manufactured goods would be free of all barriers as of 1 January 1971.

The liberalization schedule in its amended form is presented in Table 1. (Lists A, B and C are those annexed to the Arab Trade Convention of 1953 and whose products enjoyed in 1965 a reduction in customs duties of 100, 25 and 50 percent, respectively, as a result of trade liberalization agreed upon in that convention).

TABLE 1

SCHEDULE OF INTRA ARAB COMMON MARKET TRADE LIBERALIZATION
(percentage of reductions)

	Before 1965	As of 1 January 1965	1966	1967	1968	1969	1970	1971
	Exemptions from customs duties and other charges							
Products of vegetable or animal origin and minerals:								
-Products in list A	100	-	-	-	-	-	-	-
-Unlisted Products	-	20	40	60	80	100	-	-
Industrial Products								
-Products in list B	25	35	45	55	65	85	100	-
-Products in list C	50	60	70	80	90	100	-	-
-Unlisted Products	-	10	20	30	40	60	80	100
	Liberalization from Administrative Restrictions							
-Products of vegetable or animal origin and minerals	-	20	40	60	80	100	-	-
-Industrial Products	-	10	20	30	40	60	80	10C

SOURCE: United Nations Economic and Social Office in Beirut, "Institutional Framework of the Arab Common Market," in *Studies on Development Problems in Selected Countries of the Middle East*, 1972(New York,1973),p.5 (United Nations Publication Sales No. E.72.II.C.1)

The common market decision required each contracting country to submit to the Council by November 1964, a list of all restrictions and duties imposed on imports and exports, a list of all excise taxes and duties levied on the different products, and a list of all products subsidized in any form and the amount of subsidy. Then, two months prior to the commencement of each new stage of the common market, each country had to submit a list of all products it would actually liberate during the next stage.

Other than freeing imports from all duties and restrictions, Resolution Number 17 stipulated that the contracting states should abolish export duties levied on products exchanged among them, and that those goods should not be re-exported to non-member countries without the permission of the country of origin, and should not be re-exported to another member country if that country has a similar local production and if the exporting country has previously granted subsidies on these items. The Resolution also prohibited a contracting country from granting subsidies on domestic products exported to other contracting parties, where similar production exists in the importing country.

However, if "serious and justifiable reasons" existed, each contracting party had the right to apply to the Council for the exclusion of certain products from the trade liberalization program. The Council had the power to approve these exceptions for a specified period of time which was not to exceed the trade liberalization program.

Customs Unification: The resolution establishing the Arab Common Market as it was passed in 1964, did not stipulate anything concerning the unification of customs legislation or customs duties.

However, the Council passed another resolution, resolution number 19, on the same date calling for the unification of customs legislation and regulations during a five year period starting the beginning of 1965. It also called for unifying customs and other duties imposed on imports from other states in successive stages and during a five-year period starting the beginning of 1970. In 1970, the Council decided to add a new chapter to the resolution of the Arab Common Market, to which it transferred the provisions of the above decision concerning the unified customs legislations and duties, and it added to it that the implementation of the tariff unification should begin on 1 January, 1972. By adding this new chapter, Resolution Number 17, provided more for a customs union than for a free trade area.

Before adding this new chapter, Resolution Number 17 was criticised for not aiming at the erection of a common external tariff as tariff differentials, particularly on imports of raw materials among members of a free trade area may conceal differences in relative production efficiency and make it difficult to distinguish between economical and uneconomical industrial units within the area.[10]

Payment Arrangements: Resolution Number 17 called for the establishment of an Arab payments union and an Arab monetary fund to achieve mutual convertibility of the currencies of the contracting parties.

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[10]United Nations Economic and Social Office in Beirut, "International Cooperation and Trade Expansion in Various Countries in the Middle East," in Studies on Selected Development Problems in Various Countries in the Middle East (New York, 1967),p.27.

However, until such arrangements were made, the resolution called for settling payments for goods and services in compliance with existing bilateral payment agreements. Where no such agreements existed, the resolution called for the settlement of payments in US Dollars, Sterling Pound, or any other currency acceptable by both parties.

Ratification of the Resolution: Like all other resolutions of the Council of Arab Economic Unity, the resolution establishing the Arab Common Market was to be executed in accordance with the constitutional procedures for each of the contracting countries. At the time the resolution was passed (August 1964) only five Arab countries were members of the Arab Economic Unity Agreement and only four of them ratified the common market resolution.

Those countries were: Jordan, Syria, Iraq and Egypt. The resolution was later ratified by Libya in 1977, Mauritania in July 1980 and The Democratic Republic of Yemen in 1981. However, Egypt's membership was suspended in March 1979 as a result of the Camp David agreements; consequently, membership as of July, 1983 included Jordan, Syria, Iraq, Libya, Mauritania and Democratic Yemen.

The Less Advanced Countries and the Compensation Fund: By the end of 1975, eight more Arab countries had joined the Arab Economic Unity Agreement which increased the number of members to the Agreement to thirteen countries. But still only four countries had ratified the Arab Common Market resolution. Consequently the CAEU started urging members who had not ratified the Common Market Resolution to do so or to give adequate explanations.

Libya joined the Arab Common Market in 1977 and the Council responded to the explanations submitted by other countries for not joining the Arab Common Market by offering concessionary terms for less advanced countries who would join the common market. According to an offer extended to Sudan and Democratic Yemen, Arab Common Market Countries would immediately liberate their imports from both countries from all tariffs, fees and all administrative barriers but both countries will reduce tariffs and import fees by 50 percent only, upon implementation of the resolution; this percentage will be increased by ten percent annually. Both countries were also allowed to submit an exceptions list for protecting domestic industries or for revenue purposes. The items on the list could be changed and the exceptions could continue for a maximum of five years.[11]

Although neither Sudan nor Democratic Yemen responded at that time by joining the Arab Common Market, this offer was considered to be the minimum criteria for any country to join the common market.

Compensation Fund: Noticing that possible revenue losses from customs duties as a result of trade liberalization, were the cause of concern for the less advanced countries who considered joining the Arab Common Market, the Council of Arab Economic Unity in 1978 decided to establish a compensation fund to compensate the less advanced countries for their loss of revenues as a result of integration. The general secretariat was instructed to conduct research on the feasibility of such a fund.[12]

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[11]See Council resolution number 780 of 7 June 1978 in Council of Arab Economic Unity, General Secretariat, Resolutions of the Council of Arab Economic Unity, vol.1: From June 1964 to June 1975; vol.2: From December 1975 to July 1980 (October 1980), 2: 151-153 (in Arabic).

[12]See Council resolution number 785 of 7 December 1978, Ibid, 2:175.

Implementation of the Arab Common Market

Since the Arab Common Market resolution was passed, the Council was urging member countries to ratify the resolution and implement its provisions. The Council formed committees for the development of the common market. One such committee was formed in 1975 and was supposed to conduct studies on the impediments to the full implementation of Arab Common Market provisions. Its objective was to remove those impediments in order to develop the Arab Common Market.

Extent of Trade Liberalization

Several studies were conducted by the Council's Secretariat to determine the extent of trade liberalization in Arab Common Market countries.[13] Most surveys showed that in general there has been complete liberalization from customs duties and other import or export duties and from most administrative barriers. There remains however some administrative barriers that need to be dealt with, as the following country-by-country analysis shows.

Jordan. All products imported into Jordan from other Arab Common Market members are exempt from customs duties and all other import duties. The only requirement is that the merchant obtains an import license which is granted almost automatically and the purpose of which is, statistical and for forecasting import trends.

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[13]For the most recent and comprehensive study see Council of Arab Economic Unity, General Secretariat, A Field Survey of the implementation of the Arab Common Market Provisions (Jordan, 1981), (in Arabic). By the time the study was completed Democratic Yemen and Mauritania's membership was too recent to be evaluated. So the study surveyed implementation in four countries only: Jordan, Syria, Iraq and Libya. So unless otherwise indicated, all information about implementation in those four countries was obtained from the abovementioned study.

However, Jordan prohibits the importation of a very limited number of products; namely vegetable ghee and cigarettes, and this prohibition applies also to imports from Arab Common Market countries. Also, during certain periods of the year, Jordan prohibits the importation of specific agricultural products from all countries including Arab Common Market countries. Another non-tariff barrier which is still applied in Jordan is requiring the importer of certain products to purchase a given percentage of his total demand quantity from domestic manufacturers in order to issue him an import license for the remainder of the quantity. This applies to imports of corrugated cardboard and to water pipes (less than 2½" in diameter) where the importer has to purchase 30 percent and 50 percent of the total quantity demanded, respectively, from domestic producers.[14]

Exports to Arab Common Market countries are exempt from all export fees except for a stamp which should be attached to the export permit and which costs two Dinars, (approximately 6 US dollars) regardless of the value of the exported items.

As to non-tariff barriers, Jordan imposes only two types of prohibitions on exports to Arab Common Market countries; exports of metal scraps, plastics and petroleum are prohibited to ensure their availability for domestic industry, and exports of some agricultural products are prohibited during certain periods of the year to ensure their availability for the local consumer.

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[14] Nabih Salameh, "Trade Policy in Jordan" (Master's Thesis, The University of Jordan, 1982), p.90 (In Arabic).

There are also no restrictions on payments for imports from Arab Common Market countries. As to exports, Jordan usually requires that payments for exports be remitted back to the country; but exports to Arab Common Market countries are exempt from this requirement.

Syria. As of January 1971 all imports from Arab Common Market countries (except tobacco and its products) were completely liberalized from all administrative barriers, and from all customs duties and all other fees and import taxes as decreed by resolution number 28 of the Ministry of Economy and Commerce. Syria uses a system of import licensing and foreign exchange permits as major instruments for implementing trade policy. However, imports from Arab Common Market countries do not require the prior issuance of an import license.

Exports: As of January 1969 all exports from Syria to Arab Common Market countries were exempt from export licenses and from export prohibitions as by resolution 210 of the Ministry of Economy and Foreign Trade. Still all exports have to be paid for using hard currencies which must be sold to the Syrian Commercial Bank.

However, although almost all trade with Arab Common Market countries has been freed from most tariff and non-tariff barriers, it must be mentioned that the role played by those barriers in determining the value, composition or source of imports is not very significant. This is due to the fact that foreign trade is subject to the provisions of the annual plan and that a high percentage of it is conducted through state trading enterprises. This significantly reduces the impact of removing conventional trade barriers on the expansion of regional trade. (State trading in Arab Common Market countries will be discussed in a later section).

Iraq. All imports into Iraq from Arab Common Market countries are exempt from tariffs and other protection barriers and prohibitions. However, all imports including those from Arab Common Market countries are subject to an import license which is necessary for effecting payment transfers for imports. There are also no export barriers. Yet it should be mentioned that foreign trade in Iraq is largely regulated through the annual plan and a large percentage of it is conducted through state trading enterprises. This as will be discussed in a later section significantly reduces the impact of removing tariffs on the flow of imports.

Imports from Arab Common Market countries are extended preferential treatment in the following respects:-

- Protection and prohibition measures do not apply to Arab Common Market products.

- As a general policy, foreign products are always priced higher than similar domestic products, but this does not apply to products imported from Arab Common Market countries.

- Arab Common Market countries are allowed to set up trade fairs in Iraq and sell their products directly to the public.

- The Jordan trade center is allowed to sell Jordanian products without prior price setting by the Iraqi authorities.[15]

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[15]The source of information on this preferential treatment is a letter from the Iraqi Embassy in Jordan (commercial section) to the Council of Arab Economic Unity quoted in The CAEU, General Secretariat, A Field Survey of the Implementation of Arab Common Market Provisions (Jordan,1981),p.7 (in Arabic).

Libya. All products imported from any of the Arab Common Market countries are exempt from all customs duties and import taxes and from all administrative restrictions. However, all imports into Libya, even from Arab Common Market countries are subject to licensing, and it is maintained that the license is necessary for statistical considerations. Also, there is an exceptions list to liberalization of imports which includes a number of industrial and agricultural products that are to be protected until 1985.[16] There are no barriers to exports from Libya to Arab Common Market countries.

All import and export activities in Libya are conducted by the public sector, the impact of which will be discussed in a later section.

Mauritania. Mauritania joined The Arab Common Market in 1980 and is supposed to achieve trade liberalization by 1988. Mauritania submitted to the CAEU two lists of goods. List A included goods which are to be freed immediately, when imported from Arab Common Market countries, from all tariff and non-tariff barriers; and list B included goods to be excepted from liberalization because they represent an essential source of revenue for the Treasury.[17] All items not included in either list will be gradually liberalized from all customs duties and other import duties as follows:-

- A 20 percent reduction in July 1980.
- A 10 percent reduction in July each following year.

Hence complete elimination of custom duties and all other import duties is to be achieved in 1988.[18]

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[16]For Libya's exceptions list see Appendix 5.

[17]For Mauritania's exceptions list see Appendix 4.

[18]See Council resolution number 804 of 3 July 1980 in Council of Arab Economic Unity, General Secretariat, Resolutions of the Council of Arab Economic Unity, Vol.1:From June 1964 to June 1975; Vol.2:From December 1975 to July 1980 (October 1980), 2:335-336 (in Arabic).

On the other hand, Jordan, Syria, Iraq and Libya (with the exception of goods listed in its exceptions list) were to immediately free imports from Mauritania from all custom duties and other import taxes.

Democratic Yemen. Democratic Yemen reached in December 1981 an agreement with the CAEU to implement Common Market provisions on the following basis:-

- Goods included in "list A" will be immediately freed from all customs and other import duties when imported from Arab Common Market countries.
- Goods included in "list B" will not be subject to trade liberalization.[19]
- Tariffs and other import fees on goods not included in either list will be reduced gradually as follows:
  - 20 percent reduction in July 1982.
  - 10 percent reduction in July each following year.

Complete abolition of tariffs and import duties will be achieved by 1990. After that the gradual reduction in the exceptions list will be discussed with the CAEU.[20]

On the other hand, Arab Common Market countries will immediately free imports from Democratic Yemen from all customs duties and other import taxes and all administrative trade barriers. However, in the case of the less advanced countries, reciprocity will apply, where the exceptions list of each of those countries will be the base of reciprocal treatment.

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[19] For Democratic Yemen's exceptions list see Appendix 3.

[20] See Council resolution number 824 of 2 December 1981 in Council of Arab Economic Unity, General Secretariat, Resolutions of the Thirty Eighth Regular Session (Jordan, 2 December 1981), pp.19-20 (in Arabic).

Unified Customs Legislation and Regulations

After several and lengthy deliberations and discussions among member countries within the Council framework, the Council approved in June 1965 a form for the Unified Customs Law.[21] All member countries were supposed to issue their own Customs Law in accordance with this Unified Customs Law. Member countries were allowed to maintain minor differences for a five year transition period. This period, after it was extended, is supposed to end in 1983.[22]

During this period, member countries are supposed to furnish the Council with their comments on the Unified Customs Law and with the difficulties they encounter while trying to implement it. The Council has also adopted a standard form for the directory on Customs Reconciliation Settlements[23] and has worked out and approved a new form for the certificate of origin.[24]

The Council also worked on and adopted in 1980 a Unified directory for customs terminology.[25]

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[21]See Council resolution number 706 of 4 June, 1975 in Council of Arab Economic Unity, General Secretariat, Resolutions of the Council of Arab Economic Unity, Vol.1: From June 1964 to June 1975; Vol.2: From December 1975 to July 1980 (October 1980) 1:535 (in Arabic).

[22]The transition period was extended by the council resolution number 830 of 6 December 1982, see CAEU, General Secretariat, Resolutions of the Thirty Ninth Regular Session (Jordan, 6 December, 1982), p.14 (in Arabic).

[23]See Council resolution number 795 of 6 December, 1979 in Council of Arab Economic Unity, General Secretariat, Resolutions of the Council of Arab Economic Unity, Vol.1: From June 1964 to June 1975; Vol.2: From December 1975 to July 1980 (October 1980) 2:274 (in Arabic).

[24]See Council resolution number 780 of 7 June, 1978, ibid, 2:154 (in Arabic).

[25]See Council resolution number 804 of 3 July, 1980, ibid, 2:334 (in Arabic).

Although the Council had called on all member states to issue their Customs Laws in accordance with the Unified Customs Law, only two countries had actually done so; they are Syria and Democratic Yemen; and a third country, the Arab Republic of Yemen had used most of the Provisions of the Unified Customs Law in its own Customs Law.[26] The remaining countries are still studying the Law but none had informed the Council of difficulties or impediments to its implementation.[27]

Customs Unification

In 1978, The General Secretariat of the Council was entrusted with forming a joint committee of specialists in customs and in trade affairs, to lay down the basis for customs unification and for establishing a common tariff to be applied by all Arab Common Market countries against the outside world. Tariff unification was to be achieved gradually and in several stages. The first stage was seen as the unification of customs and import duties on raw materials which are inputs to similar industries in member countries.

A list of similar industries in Arab Common Market countries and of imports to those industries was accumulated. A common tariff was calculated by taking the average of the two lowest rates. The Council approved the unified schedule in December 1981.[28] Another list of similar industries is currently being studies. The Council called in its December 1981 session, on a committee of experts to be convened to discuss the new list and to submit its recommendations so that the Council can decide upon those recommendations in its next session in December 1983.

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[26] Council of Arab Economic Unity, General Secretariat, Report of the Secretary General on the Follow up of the Implementation of Council Resolutions, and of the Council's Committees and Activities (submitted to the 39th council session),(Jordan,2-3 May 1982), p.30 (in Arabic)

[27] Ibid, p.31.

[28] See resolution 824 of 2 December 1981 in CAEU, General Secretariat, Resolutions of the Thirty Eighth Regular Session (Jordan, 2 December 1981), p.21 (in Arabic).

Compensation Fund

The General Secretariat of The Council of Arab Economic Unity was assigned, in 1978, the duty of conducting a comprehensive research on the feasibility of the fund. The research was supposed to establish the methodology for forecasting increased revenues due to increased exports -those revenues will be used among other sources to finance the fund-, and to forecast the loss of revenue by the less advanced countries as a result of tariff abolitions and reductions.

The General Secretariat worked out a draft agreement on the compensation fund and the agreement was presented in 1981 to member countries for comments and modifications.

By December 1982 the project was still under discussion by member countries.

State Trading in the Arab Common Market

In all integration schemes among market economies, the abolition of trade barriers such as tariffs, quotas, prohibitions, foreign exchange allocation, licensing and other administrative measures, results usually in achieving the stated objective of integration which is creating a single market and expanding the free flow of trade among member countries by creating identical competitive conditions for producers and consumers.

In centrally planned and in socialist economies, the amount and composition of imports are determined by the annual plan and all import and export activities are conducted through state export and import monopolies. In this case commercial barriers and their removal are irrelevant in determining the flow of trade since the annual plan and not the price system determines the composition of trade. Integration among centrally planned economies is usually achieved through coordination of plans and trade will reflect the specialization in production agreed upon in the plan.

Member countries of the Arab Common Market are not well represented by the pure models of market economies or centrally planned economies, or by capitalist or socialist economies. Moreover, members themselves are not similar in the degree they apply central planning or state trading where state trading enterprises refer to those enterprises owned wholly or in part by the state and where they import not only for their own needs but for general distribution in the country.[29]

Problems and Benefits of State Trading

State trading enterprises require special attention because their actions could consistently deviate from rational commercial behaviour. This is particularly true if they are intended to pursue certain objectives which are considered to be of high social value.

Depending on those objectives the existence of state trading could have either a positive or a negative impact on trade expansion among members of an integration scheme.

State trading could hinder trade liberalization in many ways especially if the integration agreement stresses the abolition of trade barriers as a means to achieve integration.

Usually abolition of trade barriers could be effective in market economies or when market forces and the price system determine what to import and how much to import.

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[29] United Nations Conference on Trade and Development, Current Problems of Economic Integration: State Trading and Regional Economic Integration Among Developing Countries, by Dharam P. Ghai, (New York, 1973), p.9.

But when state trading is present, market forces are significantly undermined especially if the state trading enterprise has a monopoly in importation of given items. A state trading enterprise could practice a discriminatory purchasing policy simply by deciding not to import from member states products which are superior to local products in terms of price and quality. This could be done without resorting to any of the commercial barriers that have been lifted and hence without the appearance of a breach of the agreement.

Moreover, if the state trading enterprise controls the distribution of imports it could add high mark-ups to imports or charge high commissions to wholesalers thereby putting imports at a disadvantage without resorting to commercial barriers. Also in cases where the country has a bilateral trade agreement with a third country outside the regional arrangement, it could have commitments to buy specific products from the third country regardless of the possibly lower price of member countries.

On the other hand state trading could play a very positive role in achieving trade expansion among member countries of an integration scheme. They are more able to fulfil trade commitments embodied in bilateral and multilateral agreements. They are also more capable of overcoming some of the obstacles to trade among developing countries; such as the failure to develop commercial and financial links because of lack of information about product availability or because of prejudices in favour of well-known brands. They could do this by introducing the new products and brands and by improving knowledge about product availability and marketing possibilities in the member countries.

The impact of state trading on trade depends on several factors such as the links between the importing enterprise and the internal distribution system, the links with the central organs of the government or the autonomy or discretion the enterprise enjoys, and on whether the state trading enterprise enjoys a monopoly in importing specific products or is faced with competition from other state trading enterprises. As to whether the net impact will be to facilitate or hinder trade, this seems to depend mainly on the intentions and real commitments of member countries. And hence in countries where state trading plays a significant role, political considerations and political relationships among countries will largely determine the flow of trade and the role of economic factors and of commercial policy is minimized.

Extent of State Trading in Arab Common Market Countries

Countries of the Arab Common Market resort to state trading in different degrees. At one extreme lies Jordan with the minimum of state trading and at the other end of the spectrum lies Libya where all trade is handled by government agencies, and somewhere in between lies Syria and Iraq. The reasons why state trading is implemented vary. It could be viewed as an extension of the policy of public ownership to the field of foreign trade such as the case with Libya. It could be used to maintain price stability or even price reduction of certain essential imports particularly if their alternative is monopolistic or oligopolistic importing firms. State trading is also viewed as an instrument of planning and control of imports, since through them governments can more effectively control the value and composition of imports in accordance with the annual plan.

Jordan. Among all members of Arab Common Market, Jordan is the closest to a market free-enterprise economy. Almost all import and export activities are done by the private sector. Market forces freely determine the value, composition and source of imports.[30] (The only limitations are boycott rules which apply to Israel and South Africa).

State trading in Jordan was resorted to in order to assume access to and achieve the price stability of vital imports and is limited to a very few number of essential goods which are imported solely by the Ministry of Supply. Those goods are: rice, sugar, olive oil, red lentils, wheat, flour and fresh meat. The prices of those products are also controlled by the government.

Also the importation of cement is confined to the Jordan Cement Company and the importation of crude oil is confined to the Jordan Oil Refinery.[31]

The main instrument for the government to affect foreign trade is tariff policy and therefore the removal of tariff barriers could genuinely affect the flow of trade since it cannot be circumvented by the invisible means of state trading.

Syria. Syria practices all of foreign trade planning, import licensing and state trading. A large share of imports, one estimate is seventy percent of imports, are handled directly by state trading enterprises.[32]

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[30]CAEU, General Secretariat, Foreign Trade Regulations in Arab Common Market Countries and Possibilities for Coordination Among Those Systems, (Jordan 1981), p.4 (in Arabic).

[31]CAEU, General Secretariat, A Field Survey of the Implementation of Arab Common Market Provisions (Jordan 1981), p.4 (in Arabic).

[32]United Nations Conference on Trade and Development, Current Problems of Economic Integration: State Trading and Regional Economic Integration Among Developing Countries, by Dharam P. Ghai, (New York, 1973),p.35.

There are six state trading organizations involved in import activities. They are specialized along commodity lines and they are affiliated to the Ministry of Economy and Foreign Trade. Usually when state trading is practiced this is done through two types of enterprises: The first are state trading organizations which are responsible for planning and coordination in the field of foreign trade and the second are public trading companies which are responsible for carrying out actual foreign trade transactions according to plans and regulations formulated by the state trading organizations.[33] This distinction does not hold in the case of Syria, where the specialized state trading enterprises carry out actual import transactions themselves through their own technical departments. None of those organizations established their own public trading companies which resulted in having the activities of planning, policy making and actual business activities carried out by the same organization. In Syria, state trading enterprises are specialized in foreign trade and they do not participate in domestic trade activities which are carried out by other specialized enterprises.

The six specialized state trading organizations in Syria are:

- Tafco: General Foreign Trade Organization for foodstuffs and chemicals. Its activities cover the importation of foodstuffs like sugar, rice, coffee, tea and preserves; and chemicals including fertilizer, insecticides and paper.

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[33]United Nations Conference on Trade and Development, Cooperation among State Trading Organisations of Arab Countries, by Mohamed K. Anous, (Geneva,1979), p.18.

- Afto-metal: The General Foreign Trade Organization for Metals. It is responsible for supplying the local market with metals including billets, reinforcing round bars, steel sections, steel sheets and tubes; and building materials such as timber and cement.
- Afto-Tex: The General Foreign Trade Organization for Textile Materials. It specializes in all products of the yarn and textile field.
- Afto-Machine: The General Foreign Trade Organization for Machinery and Tyres. It handles tyres, machinery, transport equipment and spare parts, and typewriters and calculating machines.
- Farmex: The General Foreign Trade Organization for Pharmaceuticals.
- GOTTA: The General Foreign Trade Organization for Trade and Distribution. It is responsible on a monopoly basis for customs-exempt operations.[34]

All above companies are specialized in import activities with the exception of Tafco which has export as well as import activities. In supplying local requirements first priority is given to local producers regardless of comparative cost, the remainder is imported. First priority in imports is given to bilateral trade agreement parties before cash purchases though limited tenders are made.

Other than the above organizations there are three vertically integrated organizations (production, processing, imports, exports, distribution) for petroleum, tobacco and cereals.

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[34] Ibid,pp.37-43.

The first two are export oriented. The third, the General Organization for the Processing and Trade in Cereals (GOPTC) imports in periods of deficits and exports available surpluses. Its activities cover mainly wheat, flour, barley, lentils, chickpeas, and jute bags.

State trading organizations are granted a monopoly in the importation of most items. However, some items are open to private traders such as some ready-made clothes, some food items and some luxury items. State trading organizations importing similar products have to compete with those available on the market.

All imports by Tafco and Afto-metal are distributed locally through state institutions. They are sold to distribution companies at a cost plus a fixed percentage commission. Moreover, the public sector is planning the gradual takeover of all other distribution and wholesale activities with the objective of dealing directly with retailers without intermediaries.[35]

The Government also plans to increase its participation in retail activities by establishing a new extensive network of retail outlets.[36]

Most of the export activities, one estimate is eighty eight percent, are also conducted by State trading enterprises.[37]

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[35] CAEU, General Secretariat, A Study of the Market of the Republic of Syria, Market Studies Series (Jordan, 1983), p.132 (in Arabic).

[36] Ibid.

[37] Ibid, p.8.

There are nine enterprises each specialized with the exportation of one category of goods:-

- The General Organization for the Processing and Trade in Cereals (GOPTC).

- State Organization for the Ginning and Marketing of Cotton.

- The General Foreign Trade Organization for Foodstuffs and Chemicals (Tafcc).

- State Organization for Commerce and Handicrafts.

- State Organization for Food Industries and the Syrian Industrial Company for Vegetable Oils.

- State Organization for Weaving Industries.

- State Organization for Engineering and Chemical Industries.

- State Organization for Fodder.

- Fruits and Vegetables State Company.[38]

Other than state trading Syria practices also foreign trade planning. Based on the forecasted resources for the next year and on the expected needs of each public institution, and on forecasted private consumption, an annual foreign trade plan is drawn up which allocates foreign exchange among government departments (ministries) and public organizations and the private sector.

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[38]CAEU, General Secretariat, A field Survey of the Implementation of Arab Common Market Provisions (Jordan, 1981), Appendix: Documents of the Syrian Arab Republic (in Arabic).

As for imports by the private sector, they are limited to a certain number of products open to private traders, and they are subjected to an import license which is issued taking into consideration the annual foreign trade plan and foreign exchange allocations. All imports, whether conducted by state trading enterprises or by the private sector are priced by the government. Government pricing fixes the sales price to wholesalers, to retailers, and to the final consumer. The government also determines the price for domestically produced goods and services and of agricultural and animal products.[39]

Imports from Arab Common Market countries are free from tariffs and import licenses, however, they still need an import permit. But since most trade is conducted through state trading enterprises and since trade is regulated by the annual plan, tariffs or their removal can play a very limited role in determining the value, composition or source of imports into Syria.

Iraq. In Iraq both foreign trade planning and state trading are practiced. Import activities are conducted mainly through state trading enterprises which are responsible for the importation and local distribution of goods traded domestically.

Other than state trading enterprises, industrial concerns import materials intended for their own use and some government departments are allowed to import goods for their own use.

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[39] CAEU, General Secretariat, A Study of the Market of the Republic of Syria, Market Studies Series (Jordan, 1983), p.139 (in Arabic).

In Iraq there are currently three major state trading organizations for import purposes. Each has a number of specialized public trading companies for conducting actual import activities. State trading organizations are responsible for planning, coordination and control of affiliated public trading companies. The three importing state trading organizations in Iraq are:-

- The State Trading Organization for Capital Goods which has the following affiliated public trading companies:
  - The General Automobile Company
  - The State Machinery Import Company
  - The General Construction Materials Import Company
  - The General Importation Company for Steel & Timber
  - The State Equipment and Handtools for Import and Distribution Company
- The State Trading Organization for Consumer Goods which has the following affiliated public trading companies:
  - The Iraqi Store Company
  - The General Company for Foodstuffs
  - The General Company for Import and Distribution of Precision Instruments
  - The Duty Free Shops General Company
  - The Iraqi Trading Company
- The State Organization for Grain, which has the following affiliates:
  - The Grain Trading Company
  - The General Company for Flour Mills
  - The State Administration for Bakeries Affairs[40]

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[40]CAEU, General Secretariat, A Study of the Market of Iraq (Jordan, 1981),p.75.

All of the above mentioned companies were until recently responsible for both importation and local distribution of goods. However, the current trend is to separate distribution activities from import activities by establishing a specialized agency for importation.

Recently the State Import Organization was established and it is to take over all import activities from the above mentioned state trading organizations which are supposed to specialize in internal trade and distribution. The new State Import Organization will have six establishments affiliated to it, each will specialize in importing one of the following categories of goods: foodstuffs, textiles and clothing, construction material, vehicles and machinery, electrical and electronic goods, and hand tools and pharmaceuticals.[41] All State Trading enterprises are under the jurisdiction of the Department (Ministry) of Commerce. Also most export activities are conducted by the public sector through the State Organization for Exports which exports all Iraqi products except Oil and Fresh Agricultural Crops, and which has six establishments affiliated to it; each of the first five establishments specializes in exporting one of the following categories of goods: dates, foodstuffs, textiles and clothing, engineering products, chemical and construction material; and the sixth is for export services.[42]

The share of the public sector in foreign trade has been steadily increasing, while in 1970 only 58.7 percent of total imports were handled by the public sector, in 1978 this percentage reached 89.4 percent.

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[41] Ibid, p.76

[42] Ibid.

As for exports this percentage increased from 54.5 percent in 1970 to 87.5 percent in 1978.[43]

With very few exceptions, all imports into Iraq are subject to an import license which is issued taking into consideration the foreign exchange allocated to the importing party and the import provisions of the annual plan. Most imports for the public and private sectors are conducted through the specialized state trading enterprises.

However, some government departments are allowed to conduct their own import activities with the permission of the Committee for the Organization of External and Internal Trade.

The private sector plays a rather minor role in import activities. The products to be imported by the private sector are determined by the government, and each importer is limited to the importation of one product. The importer must be registered with the specialized enterprise and the value of his imports per year must range between 10,000-40,000 Iraqi Dinars for consumer goods and between 10,000-50,000 Iraqi Dinars for capital goods.[44]

All distribution activities to retailers in Iraq are handled by the public enterprises; and moreover, those enterprises have their own retail outlets and the trend is to increase those outlets.

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[43] Ibid, p.58

[44] See "Instructions for Imports by the Private and Mixed Industrial Sector and by the Private Commercial Sector." Reproduced in CAEU, General Secretariat, A Field Survey of the Implementation of Arab Common Market Provisions (Jordan, 1981), Appendix: Documents of the Iraqi Republic (in Arabic).

Also, with the exception of essential goods, all products, imported or domestically produced are priced by the Government through its Central Pricing Bureau. Essential goods are priced in consultation with the Committee for the Organization of External and Internal Trade.

Libya. All external trade in Libya is handled by state trading enterprises. Since 1978 the role of the private sector has been completely eliminated as by resolution 68 of the Secretary of Commerce dated October 8, 1978 which restricted all import activities to the public sector.

There are seventy six specialized state trading enterprises. Most of those enterprises have a monopoly in the importation of the products assigned to them. However, in few cases there is an overlap where two or more companies could import the same product.

State trading enterprises are supposed to estimate the market demand for their products and then draw up an import plan which guarantees the protection and distribution of domestic production - if available - and which satisfies the estimated demand. They are also supposed to distribute their products through establishing distribution centres across the country and they are instructed to give priority to co-operative societies for retail distribution. All import and marketing activities are supervised by the Department of Economy which is supposed to implement the approved foreign trade plan.

State Trading and Council Resolutions

The resolution establishing the Arab Common Market did not refer much to state trading in member countries and its effect on trade liberalization.

The closest mention to this is article nine of the resolution which states that "Concessions or monopolies that are in force in the contracting countries shall not be permitted to obstruct the application of Arab common Market Provisions." However, the impact of state trading, foreign trade planning and bilateral agreements with third countries on the flow of trade became more evident and the Council passed several resolutions to deal with those problems.[45] On state trading the Council suggested that state trading enterprises should be instructed by their governments to extend preferential treatment to Arab Common Market products. And on foreign trade planning and foreign exchange allocation, the Council requested member countries to allocate a certain amount to Arab Common Market products and to adjust its development plans accordingly. The Council also tried to deal with the impact of bilateral trade agreements between a member country and a third country, in which a member country pledges to purchase certain goods and in predetermined quantities from the third country. The Council resolved that a member country before concluding such an agreement, should take into consideration, products already liberalized within the Arab Common Market framework.

But still, with or without such resolutions, the fact remains that when state trading and foreign trade planning are practiced, what really matters is the intentions and the genuine committment of governments concerned to the integration process. State trading could be an excellant tool for enhancing trade among countries; actually it could be much more effective than private trading which responds mostly to market forces and which cannot easily be controlled.

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[45]See Council resolutions 255, 253 and 254 of 6 November 1966 in Council of Arab Economic Unity, General Secretariat, Resolutions of the Council of Arab Economic Unity, vol.1: From June 1964 to June 1975; vol.2: From December 1975 to July 1980 (October 1980), 1:142-143 (in Arabic).

On the other hand state trading could rob trade liberalization measures of all of their significance and effect. That all depends on the good faith of the governments. The existence of state trading, links trade expansion more to the political relationship between the governments than to the extent of tariff reductions and trade liberalization.

Conclusion

The Economic Unity Agreement signed among thirteen states of the Arab League was considered to be too ambitious. It called for complete economic unity among those states. The unity was to be achieved gradually and the Council of Arab Economic Unity was formed to draw the steps for and to supervise the process of integration. The Council decided that the first step towards this unity would be to establish an Arab Common Market which guarantees the free exchange of domestic and of foreign goods and products, and which guarantees the mobility and right of employment of both capital and labor in all common market countries. Also, a common tariff was supposed to be worked out and imposed against the outside world.

Up to this point, all that has been achieved can be described as establishing almost a free trade area among three member countries which are Jordan, Iraq and Syria. Egypt's membership was suspended in 1979 because of the Camp David agreements. Libya joined the common market in 1977 but still maintains a rather lengthy exceptions list and it will be maintained until 1985. Mauritania and Democratic Yemen joined in 1980 and 1981 respectively, but they are considered to be less advanced, trade liberalization on their part is not supposed to be achieved before 1988 and 1990 respectively.

As to trade among Jordan, Syria and Iraq, national goods traded among them have been freed from all tariffs and other import fees. They have not started the process of freeing foreign goods traded among them from tariffs, because the prerequisite for this which is establishing a common external tariff is yet to be achieved. Goods among those three countries have also been freed from most administrative non-tariff barriers such as most quotas and prohibitions. There remains however some barriers such as exceptions, foreign exchange allocations and import licensing. The major hurdle towards further trade expansion among those countries seems to stem from the fact that they pursue different economic and political systems and philosophies. While Jordan is more of a market free enterprise economy, Syria and Iraq are closer to being centrally planned economies with a high degree of public ownership over the means of production. Public ownership extends to the field of foreign trade as state trading is extensively being practiced in both countries. This could have either a positive or a negative impact on trade expansion. But, nevertheless, this would undermine the effects of removing traditional trade barriers on the flow of trade. This would make the source of imports more and more dependent on political relationships and alliances in the area and less affected by the pure market considerations of lower prices due to lower or removal of tariffs.

CHAPTER IV

THE ECONOMIES OF ARAB COMMON MARKET COUNTRIES

Arab Common Market countries are not very similar, neither politically nor economically. Some, like Mauritania, are among the poorest in the world, and some, like Libya, are among the richest. Some like Jordan are market economies, while others like Iraq are much closer to central planning.

Some are socialist, like Democratic Yemen and some like Jordan believe in private enterprise. Politically, they are as diverse. Some are ruled by parties, national or socialist and some by monarchies. Some lean towards the West and some towards the East. But, they still all have something in common; they are all members of the Arab League and despite the huge diversity in their economic indicators, they are all developing countries.

This chapter is devoted to an analysis of the economies of all six member countries of the Arab Common Market; Iraq, Syria, Jordan, Libya, Mauritania and Democratic Yemen. One section is devoted to each country. It will discuss the major characteristics of the economy and other political or ideological factors that could have an effect on the integration effort. Particular attention is paid to the mining, manufacturing and agricultural sector of each country because of the impact of their similarity or diversity on the flow of goods among those countries. A final concluding section will provide a brief comparison of the economies of all Arab Common Market countries and will discuss briefly some other development indicators.

Iraq

Iraq is a capital surplus oil exporting country. In 1979, with an oil production of 3.45 million barrels per day, it ranked immediately after Saudi Arabia as the second largest producer of oil in the Middle East.[1] Iraq is almost land locked with a narrow outlet on the Arab/Persian Gulf. It is surrounded by Turkey to the north, Iran to the east, Kuwait and Saudi Arabia to the south, and Syria and Jordan to the west. Iraq has an area of 435 thousand square kilometers (which is about the size of California). It has a population of 12.6 millions (mid-1979) with an extremely high rate of population growth of 3.3 percent.

Iraq has been ruled since 1968 by the Baath Party which is an Arab nationalist and a socialist party. Since the last quarter of 1980, Iraq has been locked in a war with Iran. Its relations with Syria who supports Iran in the current war have not been good for the last thirteen years since a rival branch of Baathists seized power in Syria in 1970.

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[1]Most statistics were obtained from official sources of these countries discussed, such as annual statistical abstracts, foreign trade statistics and bulletins of the central banks. However, when some of those were not available, international sources were consulted, the most valuable of which were: <u>The Europa Year Book 1981: A World Survey</u>, 2 Vols. (London: Europa Publications Limited, 1981); United Nations, Department of International Economic and Social Affairs, <u>Statistical Yearbook</u>, various issues; United Nations, Economic Commission for Western Asia, <u>Statistical Abstract of the Region of the Economic Commission for Western Asia</u> (Beirut, 1981); and United Nations Conference on Trade and Development, <u>Handbook of International Trade and Development Statistics</u>, various issues.

The only improvement in relationships took place in October 1978 as a response to the Camp David agreement. But this political rapprochement between Syria and Iraq did not last for more than a year. Political relationships between Syria and Iraq and also between Libya and Iraq were broken off in October 1980 because of both countries' support to Iran in the current war.

Natural Resources

The number one natural resource of Iraq is oil. Its production in 1980 reached 130.2 million metric tons. Its reserves in 1978 stood at 4702 million metric tons.[2] This represented slightly over 6 percent of world known reserves. The only countries known to have more reserves than Iraq are Saudi Arabia, Kuwait, the Soviet Union and Iran. Oil revenues are the major source of foreign exchange.

The value of oil revenues in 1979 was estimated at 21,200 million US Dollars. Oil revenues also provide the government budget with its main source of revenue. Oil revenues represented in 1977, 83 percent of the revenues of the government ordinary budget and 95 percent of revenues of the government investment budget. However, Iraq's production of oil has dropped significantly in the last two years because of the war with Iran. Whereas production reached a peak of 3.477 million barrels a day in 1979, it dropped to .897 and .956 million barrels a day in 1981 and 1982 respectively.

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[2]Reserves refer to "the aggregate amount of crude petroleum remaining in the ground which geological and engineering information indicates with reasonable certainty, to be recoverable in the future from known oil reservoirs, under existing economic and operating conditions".

The second important mineral available abundantly in Iraq is sulphur. Its production of sulphur in 1976 amounted to 610 thousand metric tons which was the fifth largest production in the world after the United States, Poland, the Soviet Union and Mexico.

Relative to other countries in the area, Iraq is also rich in water resources with several natural lakes and two rivers running across the country from north to south.

Agriculture

Agriculture is one of the two largest sectors in terms of employment. However, it is declining in size and in importance. It employed in 1977 around 30 percent of the labor force. This is a significant drop from 1973 where agriculture employed around 56 percent of the labor force. It is still however the largest sector in terms of employment, equalled only by the service sector which employs another 30 percent of the labor force. The contribution of agriculture to the gross domestic product has also been dropping. Whereas the contribution of agriculture stood at around 17 percent of gross domestic product in 1960, it dropped to 8 percent in 1978.

It is estimated that only 48 percent of total cultivable area is cultivated in Iraq. Important crops include cereals (wheat, barley, maize and millet) with a value of amound 58 million Iraqi Dinars in 1977, and vegetables with a value of around 71 million Iraqi Dinars during the same year. However, the major agricultural product is dates. Iraq has around 21 million palm trees and with an output of 389 thousand tons (1978) it is the worlds largest producer of dates.

The agricultural sector, although still important in terms of employment, is diminishing in size. One major problem that Iraq is facing is the salinity of its soil. This is induced by watering under conditions of sharply seasonal rainfall followed by a hot arid season, resulting in evaporation of soil moisture and accumulation of salts. It is estimated that 1 percent of total cultivated area is abandoned each year because of salinity. Another problem is the emigration of farmers to urban areas. The percentage of people living in the three largest cities increased to 70 percent in 1980 as compared to 35 percent in 1960.

Iraq is also rich in livestock. The result of a livestock survey in 1978 shows that total holdings were 9.7 million heads of sheep, 2 million heads of goats and 1.7 million heads of cows.

Manufacturing

Industrially, Iraq is still less developed. Manufacturing accounted for 8.5 percent of gross domestic product in 1979. Mining production, or specfically the production of crude petroleum, accounted for another 64.5 percent. That is why the contribution of industry to gross domestic product is often quoted as 73 percent.

The major industrial output is food products which represented 26 percent of total industrial output in 1977. This was followed by the textile industry which accounted for 10 percent to total industrial output. Value added in the textile industry has grown at a rate of 23 percent between 1970-1977 which is higher than the 19 percent average rate of growth for the whole sector. Other important manufacturing outputs include construction materials, chemicals, manufactured metal products, oil refining, ready-made clothes, leather tanning and shoes, cigarettes, beer and soap.

In total, the manufacturing sector has grown between 1970 and 1977 at a rate of 23 percent in the value of output, 19 percent in the value added, and 19 percent in paid wages and salaries.

The government is very much concerned with the development of the manufacturing sector. It has been allocating increasing percentages of total expenditures for that purpose. In 1977 it allocated 40.6 percent and actually spent 44.1 percent of total expenditures on manufacturing.

Foreign Trade

Exports of crude petroleum make up around 98.5 percent of total exports. However, if those are excluded, the remaining exports were distributed in 1979 as follows: 30.7 percent were petroleum products, 29 percent were fertilizers, and 15.8 percent were dates.

Iraq's principal export partner in 1979 was India which received 30.7 percent of Iraq's exports. It was followed by China (9.9%), Syria (8.6%), Japan (7.8%) and Pakistan (6.1%).

Major import items in 1979 were non electrical machines (23.8% of total imports), transport equipment (12.2%), steel (11.4%) and electrical machines and equipment (9.5%).

Iraq's principal import partners in 1979 were Japan (which accounted for 19.9% of total imports), West Germany (10.1%), Italy (7.2%), France (6.9%), and Switzerland (5.8%).

Other Characteristics

Iraq is closer to being a socialist than a capitalist country.

Although state owned large industrial establishments are less in number than privately owned ones, 266 large industrial establishments were state owned in 1977 as compared to 1282 privately owned ones; the state owned establishments were much larger in terms of employment, 105730 employees as compared to 44413 employees in private ones, and in terms of salaries paid: 82 million Iraqi Dinars, as compared to 28.8 million Iraqi Dinars paid in private establishments.

In general the "socialist sector" accounted for 78 percent of gross domestic product in 1978 and for 80 percent of gross fixed capital formation in the same year.

State ownership extends to the field of foreign trade where the "socialist sector" accounted for 90.8 percent of imports and 88.2 percent of exports in 1978.

Jordan

Jordan is a constitutional monarchy. A major disruption to the Jordanian economy and political life took place in 1967 when as a result of the war with Israel, Jordan lost possession of all the land west of the Jordan River (West Bank). This damaged the economy, brought an influx of homeless refugees, deprived the country of one half of its agricultural lands, and of significant returns from tourism. The area of Jordan is 95.6 thousand square kilometers (about the size of Indiana). This figure includes around 5.6 thousand square kilometers occupied by Israel. The population of Jordan was estimated at 2.4 million for the East Bank alone. Another 0.8 million are estimated to live in the occupied West Bank.

Natural Resources

Phosphates are the number one mineral in Jordan. Production in 1982 reached 4.39 million tons.

It is also the number one export item earning around 31 percent of foreign exchange in 1982. Potash is also found in the Dead Sea. A new plant to extract the compound by solar evaporation started operations in 1982. Jordan also has large deposits for cement, production for the years 1980-1982 averaged at 0.9 million tons, mainly in limestone and clay.

Agriculture

Agriculture in Jordan has been decreasing in importance. In 1982 its contribution to gross domestic product was around 7 percent and it employed only 10 percent of the labor force in the same year. In 1975, the contribution of agriculture to gross domestic product was 9.2 percent and the sector employed 49 percent of the labor force.

Major field crops are wheat and barley, the production of which fluctuates considerably depending on rainfall. For the years 1978-1982 wheat production was 53.3, 16.5, 133.5, 50.6 and 52.2 thousand tons, and barley production was 15.6, 4.8, 38.1, 19.2, and 19.7 thousand tons respectively. The main vegetable produced is tomatoes with a production of 195.3 thousand tons in 1982. Other important vegetables and fruits include eggplant, melon, cucumber, broad beans, olives, citrus fruits, grapes, figs, and bananas.

Manufacturing

The contribution of manufacturing to gross domestic product has been increasing slowly from a rate of 12.7 percent in 1975 to around 15 percent in 1981. It dropped back to 14 percent in 1982 since it was the sector affected most by the 1982 recession. Mining and quarrying accounted for another 3.8 percent of gross domestic product in 1982, which makes industry's share equal to around 18 percent of gross domestic product.

The manufacturing sector employed 10 percent of the labor force in 1981 as compared to 7.7 percent for 1975. The industrial sector as a whole, including mining and quarrying employed 12 percent of the labor force in 1982.

Principal products manufactured in Jordan other than phosphates and cement are food products, cigarettes and tobacco, beer and alcoholic drinks and soft drinks, chemicals including pharmaceuticals, veneer plastics, and soaps and detergents and paper and paper towels. Other important manufacturing activities include oil refining and power generation.

Service Sector

The most important sector in Jordan is the service sector including activities like wholesale and retail trade, restaurants and hotels (18% of gross domestic product), financing, real estate and business services (14% of gross domestic product in 1982), transport and communication (12% of gross domestic product in 1982) and other community services (2% of gross domestic product). The sector employed 21 percent of the labor force. Construction employed another 14 percent of the labor force and accounted for another 9.6 percent of gross domestic product.

Foreign Trade

The principal export item of Jordan is natural phosphates which accounted for 31 percent of exports in 1982. It was followed by vegetables and citrus fruits each accounting for 9.4 percent and 4.4 percent respectively. Other important exports include human medicaments (4.5%), articles of plastic (2.9%), cigarettes (2.6%), bedding articles (2.6%), doors and windows and other wood structures (2.1%), mens and boys outer garments (2.1%), and articles of asbestos and cement (1.9%).

Sixty six percent of Jordanian exports were destined to Arab countries in 1982. The percentage of exports going to Arab countries has not dropped below sixty percent since 1977. Exports going to Arab Common Market members have increased from 24 percent of total domestic exports in 1978 to 43 percent in 1982.

The principal export partner is Iraq which received 36 percent of Jordanian exports in 1982. It was followed by Saudi Arabia (14.9%), India (8.9%), Rumania (7.5%), Syria (4.5%) and Kuwait (3.6%).

The principal import item for Jordan is crude oil. In 1982 it accounted for 20 percent of total imports. It was followed by transport equipment and spare parts (15%), electrical and non-electrical machinery (13%), some fruits and vegetables (2.7%), and wheat and flour of wheat (2.7%).

Principal import partners for 1982 were Saudi Arabia (20.4%, mainly oil imports), United States (12.6%), West Germany (9.1%), Japan (7.6%), Italy (5%), United Kingdom (4.6%), and France (3.7%). Imports from Arab Common Market countries were only 1.4 percent of total imports in 1982.

Other Characteristics

One characteristic of the Jordanian economy is that a huge number of Jordanians work abroad. One estimate by the Jordanian Ministry of Labor provides that there were 305,400 Jordanians working abroad in 1980, 85 percent of them working in other Arab countries like Saudi Arabia and Kuwait, and the rest in the United States and Western Europe. This is quite a large number knowing that total Jordanian labor force working in Jordan does not exceed 450 thousand people.

Remittances sent to Jordan from Jordanians abroad are the major credit item in the Jordanian balance of payments. The only other item comparable in value is transfer payments from other Arab governments. The other characteristic is that there is an increasing number of foreigners working in Jordan. In 1979, the number was 26,415 foreigners and it increased to 93,402 in 1981. The majority of them come from Egypt but other nationalities include Indians, Pakistanis, Koreans and some Europeans. Most of those work in agriculture as unskilled laborers.

Syria

Syria was notorious in the fifties and sixties for the frequency of coup d'etats and changes in the political regime. The last coup took place in 1970, and brought to power a wing of the Ba'ath party.

Syria has been actively involved in the Lebanese civil war since 1976. Its forces make up the bulk of the Arab Deterrent Force situated in Lebanon. Syria's two major wars with Israel in 1967 and 1973 and in which it lost the Golan Heights, and its current involvement and confrontations in Lebanon have placed severe strains on its economy. Syria is also not on good political terms with its two other neighbors, Iraq and Jordan. Syria supports Iran against Iraq in the current war between the two countries, and blames Jordan for supporting Iraq and accuses it of helping anti-regime moslem fundamentalists.

Syria has a total area of 185 thousand square kilometers (about the size of North Dakota) and had a total population of 9.3 million in 1981.

Natural Resources

The principal natural resource in Syria is crude oil. Syria produced an average of 176 thousand barrels a day in 1980 and exported 100 thousand barrels a day. Although its oil production is not that large to make it a member of OPEC, Syria is a member of the Organization of Arab Petroleum Exporting Countries (OAPEC). Its proven reserves of oil were estimated at 237 million metric tons in 1978. The second important mineral in Syria is phosphates. Production of phosphates increased from 857 thousand tons in 1975 to 1319 thousand tons in 1981. Other minerals contributing to the mining and quarrying industry include salt, natural asphalt, sands and gravel, gypsum, and stone and semi-marble stone.

Agriculture

Agriculture is the largest employer as it employed 34 percent of the working force in 1978. However, it is the third largest sector in terms of contribution to gross domestic product which was 15 percent in 1981. Its contribution to gross domestic product was slightly higher in 1970 (approximately 17%) but its role as the largest employer was much more underlined as it employed 56 percent of the labor force in 1971.

In Syria, around 48 percent of the land is cultivable and 75 percent of cultivable land is actually cultivated and most of it is dependent on rainfall which results in considerable fluctuation in agricultural output.

Principal crops include cereals, in particular wheat and barley, which represented 28 percent of the value of total agricultural output for 1981 and vegetables including tomatoes, watermelons and potatoes (30%).

Industrial crops make up another 17 percent of the value of agricultural output and they include cotton, which is a major export item, tobacco, peanuts and sugarbeet. Fruits make up 18.5 percent of agricultural output and they include olives, grapes, apples and pistachios.

Manufacturing

Both mining and manufacturing combined contributed 28 percent to gross domestic product in 1981. Mining employed 0.7 percent of the labor force in 1978, and manufacturing employed 13 percent in 1978 as compared to 11 percent in 1971.

Manufactured products include cotton yarn and cotton and mixed textiles, cotton undergarments, woolen fabrics, tanned hides, soaps and detergents, medical products, food products, refrigerators (146451 pieces in 1981), liquid and dry batteries, matches, beer, wine, arak, and manufactured tobacco.

Other important sectors in terms of employment are the construction sector which employed 12 percent of the labor force in 1978, wholesale and retail trade and restaurants and hotels (10.3%), and community and social services (20%). In terms of their contribution to gross domestic product it was in 1981 10.6 percent, 17.3 percent, and 15.5 percent respectively.

Foreign Trade

Oil exports accounted for 61 percent of total exports of Syria in 1981. However, if oil exports are ignored then the largest export item would be raw cotton (17.4% of non-oil exports), followed by phosphates (4%), barley (2.4%), woven fabrics of cotton, bed linen, undergarments (2% each), and cotton fibers (1%).

The principal export partner for 1979, 1980 and 1981 was Italy where it accounted for 25, 55, and 42 percent of exports for those years respectively. Other important export partners for 1981 were France which received 13.8 percent of Syria's total exports, Rumania (9.8%), Greece (7.8%), the Soviet Union (5.4%), United States (3.7%), and Libya (2.25%).

Principal import items (other than oil) were antibiotics and medicines, wood, sugar, wheat and wheat flour, butter and ghee, powdered milk, yarns, cement, steel bars, wires and angles, pipes, aluminium wires, television sets, road vehicles and specialized machinery.

In general 15.8 percent of imports in 1980 were for final consumption, 62.1 percent were intermediate goods and 21.6 percent were capital goods.

The principal import partner for 1979, 1980 and 1981 was Iraq which accounted for 14.5, 17.9 and 18.6 percent of total imports respectively (those were mainly oil imports). Other important import partners in 1981 were Italy, which accounted for 9.9 percent of total import, Saudi Arabia (7.6%), West Germany (6.6%), France (5%), Japan (4.3%), and the United States (3.8%).

Other Characteristics

Syria is closer to being a socialist than to a capitalist economy. Most major enterprises are owned by the State. 70.1 percent of gross fixed capital formation in 1981 was owned by the State. State ownership extends to foreign trade where 78 percent of imports and 91 percent of exports in 1981 were conducted through state trading enterprises.

Libya

Libya is a major oil exporting country, and is the richest of Arab Common Market members in terms of gross domestic product per capita which amounted to 8170 US Dollars in 1979.

Since 1969 when Colonel Gaddafi came to power, Libya has assumed a much more active role in the Arab World and in Africa. It has pursued various schemes of Arab unity; with Egypt and Syria in 1972, a merger with Egypt in 1972, a union with Tunisia in 1974 and a union with Syria in 1980. However, none of those attempts was successful. Libya is also involved actively in the strife in Chad.

Libya is thinly populated. It has a total area of 1748.7 thousand square kilometers (which is two and a half times the size of Texas), and in 1979 had a population of 3.127 million, almost 14 percent of them being non-Libyans.

Natural Resources

Since its discovery in 1956, oil has changed Libya from a poor country dependent on foreign aid to one of the richest in the area, offering free medical care and education to all its citizens. The oil sector in Libya expanded rapidly because of the country's nearness to the European markets and due to the quality of its oil which is sulphur-free. In 1970 Libya was producing around two million barrels a day. However, production in the second quarter of 1983 averaged 1.1 million barrels a day which is the production quota given to Libya by OPEC.

Oil is the most important sector in terms of contribution to gross domestic product which was equal to 54.9 percent in 1979. However, oil extraction does not provide much in terms of job opportunities. The sector as a whole employed no more than 1.5 percent of the labor force in 1979.

The government's general policy calls for the conservation of oil wealth. A production-curtailing government legislation issued in March 1980, resulted in a 17 percent reduction in production starting April of that year.

Libya's oil exports became subject of an oil boycott by the United States in 1982. However, the boycott initiated by President Reagan was not effective in curtailing production or exports. One result was that more Libyan oil was sold in the spot market and that imports by OECD countries increased from .669 million barrels a day at the start of 1982 to 1.7 million barrels a day towards the end of that year.[3]

Agriculture

Agriculture was the most important sector until the discovery of oil. However, despite efforts by the government agriculture is losing its importance in terms of both its contribution to gross domestic product and its employment of the labor force. In 1979, its contribution to gross domestic product was only 2.1 percent. And whereas it employed more than half the labor force in the early seventies, in 1979 it provided employment for only 19 percent of the labor force.

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[3]The Economic Intelligence Unit, Quarterly Economic Review of Libya, Tunisia, Malta, No. 3, 1983, pp.14-15.

In Libya, arable land represents no more than 1.4 percent of the total area and irrigated land only 0.1 percent. The major crop is cereals mainly barley, the production of which equalled 150 thousand tons in 1979.

The country has also some olive plantations with an output of 130 thousand tons in 1979. The land also produces some vegetables like tomatoes and potatoes, and fruits particularly dates, citrus fruits and grapes. However, the total value of agricultural output in 1979 which was not a bad year, did not exceed 130 million Libyan Dinars. This was not a very good performance knowing that the planned output for 1980 was set at 280 million Dinars.

Manufacturing

Developing the manufacturing sector has been one of the objectives of planning in Libya since it is considered a means for lessening dependence on oil and hence helping the economy to survive the eventually running out of oil reserves. Between 1970-1979, the non-oil product expanded at a rate of 25 percent whereas the oil extraction sector grew at a rate of 17 percent. Still the manufacturing sector is considered small both in terms of contribution to gross domestic product (2.8% in 1979) and in terms of employment of the labor force (only 6.7 percent in 1979).

Major manufacturing outputs include food products particularly flour and canned fish, textiles and leather tanning and shoes, petrochemicals, cement and products, and manufactured tobacco, and glass and porcelain. The country is currently self-sufficient in cement and various petrochemical derivatives.[4]

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[4]General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries, Arab Economic Report/1982 (Beirut, 1982), p.300.

Other important sectors is the construction sector which is the largest in terms of employment (it employed 21.1 percent of the labor force in 1979) and the second largest in terms of contribution to gross domestic product, which amounted to 11 percent in 1979.

Foreign Trade

Oil is almost the only export item. Oil exports represented 99.9 percent of Libya's total exports between the years 1975 - 1979. The other export item is hides and skins.

In 1978, 41 percent of exports went to the United States, 22 percent to Italy, 11 percent to West Germany, 6 percent to Spain and around 4.6 percent to France. However, after the American boycott of Libyan oil started in 1982, Western Europe's share has significantly increased as their oil purchases from Libya increased by 1 million barrels a day between the beginning and the end of 1982.

The largest import item is machinery and transport equipment which accounted for 41.7 percent of total imports in 1978. This was followed by manufactured commodities (31.4%) and food and live animals (15.1%).

The principal import partner is Italy which accounted for 23.2 percent of Libyan imports in 1978. It was followed by West Germany (12.3%), France (8%), Japan (7.2%), United Kingdom (6.8%), and the United states (6%).

Other Characteristics

State intervention in the Libyan economy has been steadily increasing. In 1979 a large number of private companies were taken over by workers committees.

The foreign trade sector was taken over completely by the state. All import and export activities were to be conducted through state trading enterprises.

In March 1981 it was announced that all licenses for shops selling clothes, shoes, household appliances and spare parts were to be cancelled. This was seen as a first step towards state control of all retail activities in the country.

Mauritania

Mauritania is the poorest of all Arab Common Market countries. Its gross domestic product per capita in 1979 was 320 US Dollars which classifies it also as one of the low income countries of the world. Mauritania covers an area of 1,030 thousand square kilometers (which is about the size of Texas and New Mexico combined). Its total population was estimated at 1.6 million in 1979.

When Spain withdrew from the Sahara (which is located between Morocco and Mauritania), Mauritania established control over the southern part of the Sahara. As a result it became involved in a war with the Polisario, The Western Sahara Liberation Organization. The war was very damaging to the economy and as a result Mauritania renounced, in August 1979, all territorial claims to the Sahara.

Natural Resources

Iron ore is the principal mineral available in Mauritania. Production was equal to around 10 million metric tons in 1973, it dropped to 7.4 million tons in 1978 due to the war and it was estimated at 9.8 million in 1980.

However, currently mined fields are being rapidly depleted and the search is going on for new fields.

Copper is another important mineral in Mauritania. However, copper mines were shut down in 1978 due to an operating deficit of 1 million US Dollars a month, caused by a slump in the world copper prices.

The contribution of mining to gross domestic product was equal to 16.5 percent in 1976 and dropped to 12 percent in 1979.

Agriculture

Agriculture contributed 60 percent to gross domestic product in the 1960's; however, its contribution dropped to 24 percent in 1979. Out of this, livestock accounted for 22 percent of gross domestic product and crops accounted for another 2 percent. Agriculture since the early 1970's has suffered from persistent droughts. The number of cattle has decreased from 2.56 million in 1970 to 1.3 million heads in 1976 because of the drought and disease.

Major crops are millet, yams and maize. Dates and gum arabic are also produced in certain areas. Livestock is mainly sheep, goats and cattle.

Mauritania also has rich fishing grounds. Extending territorial waters to 200 nautical miles could prove to be very beneficial for the country. The fish catch was estimated at 34.2 thousand metric tons in 1978.

Manufacturing

The manufacturing sector is under-developed. It contributed an average between 5 and 6 percent of gross domestic product between 1976 and 1979. A significant industry is the freezing and processing of fish. A new sugar refinery and an oil refinery were built in the late seventies.

Foreign Trade

Major exports are iron ore which represented 85 percent of exports in 1975 and 1976 and fish which represented another 9 to 10 percent of exports in those years. Copper concentrates made up around 17 percent of exports in 1974. However, this percentage diminished in the following years and mining was stopped in 1978. Major export partner is France which received around 31 percent of iron ore exports in 1979. It was followed by Italy (18.4%), Belgium (16.2%), United Kingdom (8.9%), and Spain (7.5%). The major customer for fish was France.

The major import item was foodstuffs which accounted for 33 percent of imports in 1979, it was followed by fuels (18%), construction material (10%), and transport equipment (7%).

France is the major supplier of imports. Its share of total imports was estimated at 32 percent in 1980, Spain accounted for 10 percent of imports and all other EEC countries accounted for 40 percent of imports.

Other Characteristics

Mauritania depends largely on foreign aid to finance its development plans and to adjust deficits in its balance of payments. Chief donors are Saudi Arabia, Kuwait, The United Arab Emirates and Iraq. In 1979 official grants covered 30 percent of the government's total expenditures. Foreign borrowings covered another 37 percent.

The Peoples Democratic Republic of Yemen

Democratic Yemen is considered one of the less-advanced countries of the Arab Common Market. Its per capita gross domestic product was 480 US Dollars in 1979. The United Nations classifies it as one of the least developed countries. The country has a total area of 337 thousand square kilometers and its population was estimated at 1.9 million in 1980.

In 1969 the government adopted a socialist orientation in its economy and social policies. It nationalized major economic and financial entities and started an agrarian reform.

An agreement was signed with North Yemen in 1979 pledging complete union of the two states. However, it was never implemented. Another ineffective draft agreement had been signed between the two states in 1972.

Later in 1979 Democratic Yemen signed a 20 year Treaty of Friendship and Cooperation with the Soviet Union.

Natural Resources

The country is generally poor in natural resources. No significant minerals have been identified.

However, one reason could be that minerals have not been adequately explored. At present, the only mineral extracted is salt. Average salt production has been estimated at 75 thousand metric tons a year for 1972 -1977. Mining as a sector contributed 0.1 percent to gross domestic product in 1979, and it employed 0.6 percent of the labor force in 1976.

Agriculture

The country lacks permanent water streams and is generally dry. Cultivable land is less than 0.7 percent of the country's total surface and land actually cultivated is only 0.17 percent of total land area.

The contribution of agriculture to gross domestic product is low and is decreasing. Whereas its share in gross domestic product was 14.6 percent in 1973 it dropped to 7.9 percent in 1979. In terms of employment of the labor force, it was estimated at 40 percent in 1980 as compared to 49 percent in 1976.

Principal crops include cereals (wheat, maize and animal feed). Local production was equal to 26 thousand tons in 1975, and in 1979. Although this amount represented 34 percent of total consumption in 1975, it represented only 20.7 percent of total consumption in 1979. Other principal crops include tomatoes, red onions, potatoes, and bananas and dates. Industrial crops include cotton, sesame seeds, coffee beans and tobacco.

The country achieved self-sufficiency in high quality potatoes. However, agricultural output for some products has declined between the years 1977 and 1979. Production of dates has dropped by 50 percent and production of sesame seed has dropped by 33 percent. Production of cotton, which has dropped by 55 percent between 1975-1977, has increased by over 40 percent between 1977-1979.

This shows the variability of agricultural output and its great vulnerability to climatic conditions.

Fishing is one of the major resources of Yemen. Fish output has increased from 133.5 to 161.8 thousand tons between the year 1973 and 1977. Its value represented 6.6 percent of gross domestic product in 1977. However, fish output dropped by 68 percent between 1977 and 1979 to a low of 51 thousand tons. This drastic decline was attributed to mismanagement, maintenance and employment problems.[5]

Fish output also represents a large percentage of total exports.

Manufacturing

The sector's product has represented 12.4, 13.5 and 11.5 percent of gross domestic product for the year 1977 to 1979 respectively. However, its employment of labor force was only 4.3 percent in 1979. The major manufacturing concern is the Aden Oil refinery. In 1969, the oil refinery produced almost 90 percent of the total product of the manufacturing sector. All the crude oil input was imported since Yemen does not have oil, and 91 percent of output was exported. The remaining 9 percent were used for supplying ships and for domestic consumption. In 1977 ownership of the refinery was transferred from British Petroleum to the State. The refinery processed 4 million tons of crude in 1979 which is much less than its 8.6 million tons capacity.

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[5]United Nations Conference on the Least Developed Countries, Country Review Meetings, Country Presentation: Democratic Yemen (United Nations, 1981), p.15.

In 1979 the value of the refinery's output was equal to 13 percent of the value of total manufactured output.

Other manufactured items include foodstuffs and cigarettes, textiles, leather products, paints, matches, perfumes, plastic products, liquid batteries, tiles, nails, and soft drinks.

Foreign Trade

The principal export item for Democratic Yemen is petroleum products which accounted for 84 percent of total exports in 1977. However, if mineral fuels are excluded, then fish would be the largest commodity export representing 72 percent of total commodity exports in 1977.[6] It was followed by cotton linters (14.8%), natural honey (2.5%), common salt (2.25%), and tobacco (2.1%). However, the trend for cotton exports is to decline as a result of the increasing consumption of the domestic textile industry.

The principal export partner is Italy which received 32.8 percent of total exports. It was followed by The United Arab Emirates (7.9%), the United States (6.7%), Japan (6%), and China (5.4%). However if oil products are excluded then the major export partner would be Japan which received 22 percent of commodity exports.

Food stuffs are the major import item for Yemen where imports averaged 33 percent in the period 1975-1979. It was followed by machinery which represented 13.4 percent of total imports in 1979, then by petroleum for local use (12%), consumer goods (7.8%), industrial material (5.2%), and electrical appliances (5.2%).

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[6]This includes fish (68.6%), fish waste (1.2%) and flour and fish meal (2.1%).

The principal import partner is Kuwait which supplied 17.5 percent of imports in 1980. It was followed by Japan (10.4%), Saudi Arabia (8.9%), United Kingdom (7.2%), Qatar (5.9%), and Italy (5.6%).

Other Characteristics

Most business in the country is done through public corporations. The private industrial sector contributed in 1980 only 10 percent of total industrial output, the joint sector 23.1 percent and public establishments 66 percent. The agricultural sector comprises mainly state farms and production cooperatives. Fishing is conducted by a large fleet directed by the state and by fishing cooperatives and by some foreign companies as joint ventures or on royalty basis.

Aden port played a vital role in the economy. Until the closure of the Suez Canal it was the fourth largest bunkering port after London, Liverpool and Rotterdam.[7] Since the reopening of the Canal in 1975 it started regaining its importance since bunkering services, including the supply of the free trade zone started supplying the country with some badly needed foreign exchange revenues.

Net remittances from Yemenis abroad are the major credit item on the balance of payments. They represented 94 percent of total services in 1979.

Conclusion

Table 2 presents some other development indicators for Arab Common Market countries. Data for the United States is included for comparison purposes.

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[7]Ibid, p.21.

TABLE 2

SOME DEVELOPMENT INDICATORS FOR ARAB COMMON MARKET COUNTRIES

				Average Annual Growth Rate						
	Area in '000 sq. kms.	1979 population (mns.)	1979 GNP per capita (US$)	GNP/Capita 1960-79	1970-79 of exp.	1970-79 of imp.	population 1970-79	adult literacy rate 1976	population per physician 1977	access to safe water* 1975
Iraq	435	12.6	2410	4.6%	2.5%	18.3%	3.3%	n.a.	2190	62
Jordan	96	3.1	1180	5.6%	19.6%	15.3%	3.4%	70	1960	61
Syria	185	8.6	1030	4.0%	7.4%	13.9%	3.6%	58	2570	75
Libya	1749	2.9	8170	5.8%	-6.5%	16.8%	4.1%	50	900	100
Mauritania	1030	1.6	320	1.9%	-1.1%	5.5%	2.7%	17	15160	n.a.
Democratic Yemen	337	1.9	480	11.8%	n.a.	n.a.	2.3%	27	7760	24
USA	9363	223.6	10630	2.4%	6.9%	5.4%	1.0%	99	570	n.a.

*Proportion of population with reasonable access to safe water, that is treated surface water or untreated but incontaminated water.

Despite some similarities in their economic structures, Arab Common Market countries are by no means homogenous. However, they can be classified into two groups: the more advanced comprising Iraq, Jordan, Syria and Libya and the less advanced comprising Mauritania and Democratic Yemen.

Arab Common Market countries are complementary when it comes to natural resources and main agricultural outputs; oil, sulphur, dates and livestock in Iraq, oil and cotton in Syria, phosphate, potash, vegetables and fruits in Jordan, oil in Libya, iron ore and fish in Mauritania and cotton and fish in Democratic Yemen. Manufactured products are usually linked and determined to a certain extent by natural resources and available agricultural products. Hence in the Arab Common Market, such manufactured items are as diversified as the natural resources that determined them. However, similar industries have been started in Jordan, Syria and Iraq. An analysis of their manufacturing sectors shows that beer, soaps, detergents, matches, tanned hides, cigarettes are common among them. Some of those items are already exported by those countries. This raises the issue of coordination among those countries' plans and calls for finding the means and the formula for allocating industries among them.

CHAPTER V

BENEFITS AND LOSSES IN THE ARAB COMMON MARKET

This chapter intends to give an answer to the question of who is gaining relatively more in the Arab Common Market.

Until mid 1983, only seven out of the thirteen members of the Arab Economic Unity Agreement had ratified the common market resolution. Those are Jordan, Syria, Iraq and Egypt, Libya (1977), Mauritania (1980), and Democratic Yemen (1981). Egypt's membership was suspended in March 1979. Jordan, Syria and Iraq are supposed to be fully implementing all provisions of the common market resolution. Libya liberalized all goods imported from other member countries except a number of items specified in an exceptions list it submitted to the Council of Arab Economic Unity. Mauritania and Democratic Yemen are considered to be less advanced and they are both allowed to maintain an exceptions list. However, the liberalization of items not included in their exceptions lists is to be done gradually and is to be completed by 1988 and 1990 for Mauritania and Democratic Yemen respectively. Meanwhile exports of both countries will immediately be freed from barriers in other member countries.

This chapter will be organized in four parts. The first part will briefly review previous models for measuring trade creation and trade diversion in The Arab Common Market.

The second part will describe the model and data used in this research for measuring trade creation and trade diversion in The Arab Common Market and will analyze the obtained results.

Only Jordan, Syria and Iraq will be included in the analysis since the other three countries' membership is too recent to have a noticeable effect on trade. In 1980 and 1981 Syria had no trade with Mauritania and no exports to Democratic Yemen. Also in 1981 and 1982, Jordan had no imports from both Democratic Yemen and Mauritania. However, Syrian and Jordanian exports to Libya have increased in 1980 and 1981 which could be an effect of the common market, but the period is too short to establish this as a trend.

The third part will discuss the degree of protection that exports of each member country enjoy in the markets of other member countries.

The fourth part will examine the exceptions lists submitted by Libya, Mauritania, and Democratic Yemen in an attempt to evaluate the role they could play in curtailing the expansion of exports from the other member countries of the common market.

Previous Models for Measuring Trade Creation & Trade Diversion

Empirical studies measuring trade creation and trade diversion in customs unions are of two general types: ex-ante measurements which attempt to measure repercussions in advance and ex-post measurements which evaluate repercussions after the union has been established. Models applicable in the case of The Arab Common Market are of the ex-post type.

In ex-post models, most problems are encountered in trying to determine what would have trade been, in the absence of integration. One model was developed by Balassa in which he assumed that income elasticities of import demand in intra-area trade and in extra-area trade would have remained unchanged in the absence of integration.

Hence, an increase in income elasticity of demand for intra-area imports would indicate gross trade creation. An increase in income-elasticity of demand from all sources of supply would give expression to trade creation proper and a fall in income elasticity of demand for extra-area imports would provide evidence for the trade diverting effects on the union.[1] By comparing the relationship of trade to Gross National Product before and after integration, the method is assumed to abstract from changes in the growth rate of national income.

Balassa's method was used by Ms. Zuka al-Khalidi to estimate the trade creation effect of the Arab Common Market. The chosen preintegration period was 1960-1964 and the chosen post integration period was 1965-1971. Countries included in the analysis were Iraq, Jordan, Syria and Egypt.[2] The procedure included calculating the average annual percentage change in imports from the common market and in imports from the rest of the world, and in total imports for the preintegration period 1960-1964 and for the post integration period 1965-1971. Dividing the average annual percentage change in imports by the average annual percentage change in gross national product, yielded the income elasticity of demand for imports. Calculations involved total imports and not individual commodity categories because of the lack of data.

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[1] Bela Balassa, "Trade Creation and Trade Diversion in The European Common Market". The Economic Journal 77 (March 1967): 5.

[2] Egypt was still a member of the Arab Common Market at that time.

Results of the calculations are summarized in the following table:

TABLE 3

AL-KHALIDI ESTIMATES OF ACM TRADE CREATION

	Annual percentage change in			
	imports from ACM	imports from rest of the world	total imports	GNP
1960-61	.06	-.02	-.01	.03
61-62	-.41	.08	.06	.12
62-63	.36	.08	.08	.10
63-64	-.03	.09	.09	.04
Period Average	-.01	.06	.06	.07
65-66	.16	.16	.16	.16
66-67	-.15	-.20	-.20	.05
67-68	.30	-.06	-.05	.04
68-69	.30	-.06	.07	.09
69-70	.21	.22	.21	.08
70-71	.09	.08	.08	.07
Period Average 65-71	.15	.04	.05	.08

SOURCE: Zuka al-Khalidi, "Trade Creation and Trade Diversion in Customs Unions Theory and in the Arab Common Market", in Works of the Sixth Conference of Arab Economists, ed. The General Secretariat of Arab Economists Union (1976), p. 457-459.

Based on the previous table, and dividing the average percentage changes in imports by that of gross national product for both periods yields an income elasticity of demand for imports from the common market of -.14 for the preintegration period and 1.88 for the post integration period which indicates gross trade creation. Also the income elasticity of demand for total imports dropped from .86 for the preintegration period to .63 for the post integration period which indicates the occurance of trade diversion.

The model is important in that it was the first attempt to measure trade creation and trade diversion in The Arab Common Market. However, it suffered from the lack of data on imports by the various categories, the analysis of which could yield important insights into the structural changes in imports that could take place as a result of integration. It also had to deal with a period of time that was full of structural changes and non-recurring factors which will definitely violate the ceteris paribus assumptions. The period includes the war of 1967 with Israel in which the four Arab countries were involved. Jordan lost half of its agricultural land, a significant portion of its industries, and a large number of its skilled labor. Also the structure of its population and the pattern of consumption were significantly affected by the influx of refugees. Syria lost The Golan Heights and Egypt lost all of Sinai. The war and its effects will have definitely affected consumption, production and import patterns. Therefore not all changes, if any, could be attributed to the establishment of the common market.

Also political relationships among countries ran through extremes during this period. Relationships were extremely tense in the pre-war period while a mood of solidarity and cooperation in all fields including economic fields, dominated after the war for almost two years. Under such circumstances, where the percentage change in imports from the Arab Common Market is -.41 for one year and +.36 for the following year, it is extremely difficult to determine what is "normal",and an average of -.01 ceases to convey reliable information on the trend during that period.

The Impact of the Common Market on Trade

Evolution of Intra-Common Market Trade

The main feature of trade between 1960 and 1980 among common market members is the high degree of fluctuations in the absolute value of trade and in the percentage of trade with common market members to total trade. Most of those fluctuations can be explained by looking at the political relationships among countries during that period. Table 4 represents an export matrix for Arab Common Market countries. Jordanian exports to Syria were around 16 percent of total Jordanian exports in 1970. This percentage dropped to less than 6 percent in 1974 reflecting the hostilities between the two countries that prevailed ever since the Jordanian civil war in September 1970. However, in the mid seventies, the United States started what became known as America's "step by step" diplomacy in the Middle East and which aimed at reaching separate agreements to be concluded in succession between Israel on the one hand and Egypt, Syria and Jordan on the other. Both Syria and Jordan looked with distrust at this policy and they felt abandoned by Egypt whom they considered to be seeking a political settlement with Israel. This resulted in a marked improvement in the relationship between Jordan and Syria in 1975. There was an exchange of visits between King Hussein of Jordan and President Assad of Syria. Their cooperation was further institutionalized with the formation of a joint high commission for the coordination of military, political, economic and cultural policies. Trade between the two countries increased significantly. Jordanian exports to Syria more than tripled between 1974 and 1978 and their percentage of total exports increased from 5.8 percent to 16.2 percent. Similarly, Syrian exports to Jordan increased from 1.4 percent of total Syrian exports in 1974 to 2.76 percent of total exports in 1978.

TABLE 4

INTRA-COMMON MARKET EXPORT MATRIX
(as a percentage of each country's total exports)

FROM/TO	YEAR	JORDAN	SYRIA	IRAQ
Jordan	1966		14.9%	14.6%
	1970		15.9%	14.1%
	1974		5.8%	3.2%
	1978		16.2%	5.4%
	1979		14.9%	15.4%
	1980		11.3%	23.6%
	1981		6.0%	37.6%
	1982		4.5%	35.9%
Syria	1964	3.87%		3.87%
	1968	4.02%		3.33%
	1974	1.43%		1.65%
	1976	1.86%		0.12%
	1978	2.76%		0.03%
	1979	1.69%		3.54%
	1980	1.36%		1.40%
Iraq	1966	6.5%	3.4%	
	1970	1.5%	6.3%	
	1974	2.4%	9.9%	
	1976	1.4%	4.8%	
	1978	3.4%	1.5%	

However, relationships dropped back to another low, and by 1982 Jordanian exports to Syria dropped from 16.2 percent of total exports in 1978 to 4.5 percent of total exports in 1982. Syrian exports to Jordan also dropped from 2.76 percent of total exports in 1978 to 1.36 percent of total exports in 1980. Meanwhile, political relationships between Jordan and Iraq were rapidly improving, and so were the trade magnitudes between the two countries. The Iranian revolution and the perceived threats from it, brought the two countries even closer together. Jordan's exports to Iraq which made up only 3.2 percent of its total exports in 1974 increased to 23.6 percent of total Jordanian exports in 1980, and to 37.6 percent of total exports in 1981 after the Iran-Iraq war started.

As to political relationships between Syria and Iraq, they started deteriorating since 1970 when a rival faction of the Baath party seized power in Syria.

The relationship between the two countries has been characterised ever since by hostilities and mutual accusations. Relationships worsened ever more in the mid seventies when Syria built a major dam on the Euphrates River and which significantly depleted the water resources in Iraq. The only improvement in relationships took place in 1979 as a response to the Camp David Agreements between Egypt and Israel. But this rapprochement was short lived and relationships dropped back to a historic low between the two countries with Syria supporting Iran in the war and shutting down the pipeline linking Iraqi oilfields with the Mediterranean sea. Trade magnitudes were a true reflector of fluctuations in political relationships. Syrian exports to Iraq which stood at 3.3 percent of its total exports in 1968 dropped to less than half a percent of total exports between 1976 and 1978.

TABLE 5

INTRA-COMMON MARKET IMPORT MATRIX
(as a percentage of each country's total imports)

TO/FROM	YEAR	JORDAN	SYRIA	IRAQ
	1966		5.06%	2.5%
	1970		4.8%	0.56%
	1974		3.7%	0.56%
Jordan	1978		2.6%	0.24%
	1979		1.95%	0.32%
	1980		1.5%	0.30%
	1981		1.2%	0.07%
	1982		0.9%	0.09%
	1964	0.99%		7.35%
	1968	0.89%		6.36%
	1974	0.83%		3.38%
Syria	1978	1.3%		7.03%
	1979	1.2%		14.56%
	1980	1.2%		17.88%
	1981	0.71%		18.57%
	1966	0.89%	0.22%	
	1970	0.54%	1.2%	
Iraq	1974	0.24%	0.48%	
	1976	0.18%	0.05%	
	1978	0.19%	0.005%	

During the rapprochement year of 1979, Syrian exports to Iraq increased sharply to 3.54 percent of total exports, only to start declining again to 1.4 percent in 1980 and to .07 percent of total exports in 1981.

The fact that political relationships have a significant impact on trade magnitudes is not surprising. But that this effect is achieveable most of the times without resorting to overt measures such as embargoes or prohibitions is explained by the extensive practice of state trading in two of the three countries of the Arab Common Market; by Syria and Iraq in specific. When the state takes over the foreign trade sector then it is possible to purchase goods from the most expensive supplier if good political relationships or a bilateral trade agreement dictates that, and it is possible to avoid the least expensive or the most efficient supplier if political relationships necessitate that. It could explain how Syrian exports to Iraq can drop from 229 million Syrian pounds in 1979 to 116 million pounds in 1980, then to less than 6 million Syrian pounds in 1981 or less than 3 percent of their 1978 level. State trading could also explain why Syrian and Iraqi imports tend to fluctuate a lot while Jordanian imports don't. Actually Jordanian imports from other Arab Common Market members has been decreasing in relation to total imports but not fluctuating (see Table 5).

Another invisible means of affecting trade flows is related to import "unofficial" procedures such as the speed in which documents are handled and how "picky" can the customs officer be in scrutinizing the certificate of origin, and extra red tape, etc.

Trade Creation and Diversion

With the political background and its impact on trade kept in mind, this section will attempt to measure the trade creation and trade diversion effects of the common market on Syria, Iraq, and Jordan. However, one should be careful in interpreting those effects and in attributing them wholly or partly to the establishment of the common market.

The establishment of a common market affects prices, and in market economies the change in prices will trigger changes in production, consumption and import patterns. In economies like Syria and Iraq, market prices are taken into consideration but are not the determining factors concerning the source of imports. Foreign trade in several items is determined by bilateral agreements and the fact that the price of a third supplier has dropped much below the current purchasing price may not have an immediate impact on the source of imports. However, for items which are not involved in bilateral agreements and for which state trading enterprises are free to shop for the least expensive source, a reduction in the price of one supplier because of a reduction or removal of tariffs may shift purchases to that supplier only if relationships are normal. But if political relationships are tense, most probably purchases will not be shifted to that supplier.

It is in the light of the above analysis that the effect of the common market should be interpreted. Establishing The Arab Common Market only created the potentialities and opportunities for trade creation and trade diversion. The actual magnitude of trade creation and trade diversion is a function of both the creation of the common market and the political relationships between countries during that period.

Good political relationships have increased trade beyond what is justified by prices alone and worsened relationships have suppressed trade beyond what is explainable by inefficiencies alone.

More accurately said, this section will measure trade creation and trade diversion between Iraq, Jordan and Syria after the establishment of The Arab Common Market rather than as a result of the establishment of The Arab Common Market.

Model Used. In measuring trade creation and trade diversion in The Arab Common Market, the model used by Cline for the Central American Common Market will be used.[3] A pre-integration year will be chosen as a determinant of the trade pattern that would prevail in the absence of integration. It would be assumed that import propensities would not have changed if integration did not take place.

Trade diversion refers to the switch in imports from the rest of the world to imports from other member countries. It will be measured as the shortfall of imports from the rest of the world from the level estimated had the pre-integration propensity still applied to the post-integration level of consumption. In other words:

- the value of imports from the rest of the world will be divided by the value of consumption in the base year to give the average propensity to import that good from the rest of the world in the base year (m_0^r);

[3]Cline's model is discussed on pages 35 - 39.

- m_0^r will be multiplied by the level of consumption in the terminal year to determine what the imports would be, had the integration not taken place;

- The difference is trade diversion (TD).
  $TD = (m_0^r - m_1^r).\ C_1$
  where

- m_1^r is the average propensity to import the good from the rest of the world in the terminal year.

- C_1 is the consumption in terminal year. (Consumption will be measured as domestic production + imports - domestic exports - reexports).

Trade creation and the consumption effect refers to the increase in total imports which results if the price of the good which is now imported from a member country is less than the world price plus the tariff. This reduction in the price at which the good is sold in the domestic market will reduce domestic production and increase consumption; both factors would tend to increase total imports.

Trade creation and consumption will be measured as the increase in total imports above what they would have been expected to reach if the preintegration propensity had not changed.

- Total imports will be divided by total consumption for the base year to obtain total average propensity to import in the base year (m_0^t).

- m_0^t will be multiplied by consumption in the terminal year to obtain expected imports if integration did not take place.

- The difference is trade creation and consumption effect (TCCE)
- TCCE = $(m_1^t - m_0^t) \cdot C_1$
  where m_1^t is the total average propensity to import in the terminal year.

Trade creation and diversion will be measured for each sector and the total effect will be added for all the sectors.

Data Used. Problems were encountered in trying to choose a base year which is "normal", representative and for which data are available. The common market resolution was passed in August 1964 and its application was supposed to start in January 1965 and to be completed by January 1974. Ideally, 1964 should be chosen as the base year. However, any year before 1967 is not representative, since the 1967 war resulted in structural and non recurrent changes for at least Jordan and Syria. The year 1967 itself was not a "normal" year because of the war. Therefore, 1968 had to be chosen as the base year. Although, during 1968 the common market was in the process of being formed, it could be considered as more representative of the non-common market stage than of the common market stage for several reasons. First, by 1968 only four out of ten stages of reductions in barriers had passed and second, and more important is the fact that member countries had exercised their right to exclude certain items from tariff restrictions and naturally items excluded were the ones that would have been, if protection on them were lifted, subject to competition from similar items produced by other member countries. Also, at the beginning of each stage, each country was supposed to submit a list of items to be freed from tariffs and restrictions during the next stage. Similarly, items that would be more affected by liberalization were saved for the later stages of the common market.

Hence by 1968 the effect of the common market was minimal as liberalized items were the least effective in stimulating trade among members. Therefore using 1968 as a base year was considered to yield much less bias in the results than using any of the previous years.

As to the terminal year, it was chosen as 1978. For although in 1968 the Council decided to reduce the stages for implementing the common market provisions in order to achieve a free trade area by 1971, only tariffs, were abolished by that date and the Council had to keep negotiating with member countries for the removal of other barriers particularly licensing and quantitative restrictions which are somewhat practiced until now. The year 1979 was not chosen because it was not "normal" in the sense that it was the only year during that period in which relationships between Iraq and Syria were good, and the years 1980 to 1982 were not chosen because starting 1980 Iraq got involved in a war with Iran.

Data for foreign trade was obtained from the foreign trade statistics yearbooks for the three countries. All traded manufactured items were classified in one of the twenty-eight major manufacturing categories defined by the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Industrial domestic output of each category was obtained from industrial surveys and from the United Nations' Yearbook of Industrial Statistics. For Syria and Jordan, foreign trade statistics and values of industrial output were available for both the base year and the terminal year. For Iraq, foreign trade statistics were not available for the base year of 1968; however trade statistics were available for 1967 and therefore propensities to import in 1967 were used as the preintegration propensities that would have been maintained had the integration not taken place.

For Iraq also, industrial production for both the base year of 1967 and the terminal year of 1978 were not available. However, annual production values for the period 1968 to 1977 were available. Therefore, production values for the base and terminal years were estimated by calculating the growth rate for each manufacturing category during the period 1968 to 1977 and by applying those growth rates to the 1977 and 1968 data. Another problem with Iraqi data is that national classification of manufactured items is not strictly comparable with the International Standard Industrial Classification and therefore some minor regrouping of categories had to be done. Yet another problem with Iraqi data was that Iraq used The Brussels Tariff Nomenclature (BTN) for classifying its foreign trade statistics in 1967 and it used the Standard International Trade Classification (SITC,Rev.2) for its trade statistics in 1978. For the various conversions from one classification system to another, three tables proved to be useful. The first is a conversion table from SITC to BTN annexed to the Nomenclature of the Customs Cooperation Council. The second is a conversion table from BTN to SITC appended to the Thesaurus of International Trade Terms produced by the International Trade Centre UNCTAD/GATT. The third is a conversion table from the International Standard Industrial Classification to SITC available in UNIDO publications on industrial statistics. However, since there is no one-to-one correspondence between the three systems, it is acknowledged that the accuracy of results is slightly reduced with each conversion. Based on this, results pertaining to Iraq are viewed with less certainty than those of Syria and Jordan because of the various approximations, estimations and conversions that took place in order to arrive at those results.

Results for Iraq. The results of trade creation and diversion for Iraq are shown in Table 6 . Column 10 shows that between the years 1967 and 1978 there has been trade creation in four categories of industries: in wood products, in chemical and plastic products, in non metallic mineral products and in basic metal industries. The total value of trade created amounts to 30 million Iraqi Dinars. The Table also shows a negative amount of trade creation in the other four categories which are: food and beverages and tobacco; textiles, wearing apparel and leather; paper and paper products and fabricated metal products. A negative amount of trade creation means that total imports from partners and non partners, have decreased. Negative trade creation is termed trade suppression and could be caused by integration only if tariffs on the rest of the world are increased. However, since in the Arab Common Market, a common external tariff has not been established yet, and therefore there was no increase in the tariffs of any particular member country caused by integration, then this trade suppression is seen as non-germane to the integration process. Those same four sectors, however, are the ones in which trade diversion actually took place as column 11 shows.

The total value of trade diversion is 128 million Iraqi Dinars which is more than four times the value of trade created. However, column 11 also shows negative trade diversion in some sectors, which means that imports from the rest of the world which are expected to drop in relation to consumption have actually increased. This usually would happen if as a result of establishing a common external tariff, the member country ends up with tariff rates lower than its preintegration tariff rate. But since no common external tariff was established in The Arab Common Market, therefore negative trade diversion, or trade augmentation, is seen as non-germane to the integration process.

TABLE 6

TRADE CREATION AND TRADE DIVERSION IN IMPORTS TO IRAQ
(in thousand Iraqi Dinars)

Manufacturing Category	1. C_{78}	2. m_{67}^{r}	3. m_{67}^{t}	4. m_{78}^{r}	5. m_{78}^{t}	6. M_{78}^{R}	7. M_{78}^{T}	8. PM_{78}^{R}	9. PM_{78}^{T}	10. TCCE	11. TD
Food, Beverages & Tobacco	319405	.278	.278	.106	.108	33931	34363	88795	88795	(54299)	54938
Textile, Wearing Apparel and Leather Ind.	203988	.468	.473	.406	.410	82868	83722	95466	96486	(12851)	12647
Wood and Wood Products	22304	.624	.635	.858	.858	19146	19147	13918	14163	4974	(5219)
Paper, newspaper Products, Printing & Publishing	41539	.652	.652	.323	.329	13422	13657	27083	27083	(13417)	13666
Chemicals & Plastic Prod.	163745	.503	.503	.577	.581	94527	95100	82364	82364	12772	(12117)
Non Metallic Mineral Prod.	93442	.281	.282	.292	.292	27277	27283	26257	26351	934	(1028)
Basic Metal Industries	190101	.923	.923	.983	.984	186906	186906	175463	175463	11596	(11406)
Fabricated Metal Products	906882	.900	.900	.848	.848	769313	769353	816194	816194	(47158)	47158

NOTES:

C_{78} is apparent consumption in 1978.

m_{x}^{r} is average propensity to import from the rest of the world in year x.

m_{x}^{t} is total average propensity to import in year x.

M_{x}^{T}, M_{x}^{R} is total imports and imports from the rest of the world in year x.

PM_{x}^{T}, PM_{x}^{R} is projected total imports and imports from the rest of the world in year x.

TCCE is Trade Creation and Consumption Effect measured as (col.5–col.3)x col. 1; or as col.7–col.9.
(There could be a minor difference in the results of both calculations because of rounding)
TD is Trade Diversion effect measured as (col.2–col.4)x col. 1; or as col. 8–col. 6.
(There could be a minor difference in the results of both calculations because of rounding)

Looking at the average propensity to import from the rest of the world in 1967 and 1978 (columns 2 and 4) shows that there has been a change in dependence on imports in three manufacturing sectors. In food, beverages and tobacco, and in paper products dependence on imports from the rest of the world has dropped as the average propensity to import declined from .278 to .106 for the first between 1967 and 1978 and from .652 to .323 for the second during the same period. The third sector undergoing a change is the wood and wood products sector where imports from the rest of the world increased from 62.4 percent of total consumption in 1967 to 85.8 percent of total consumption in 1978.

Jordan. In Jordan, and as Table 7 shows, there has been positive trade creation in almost all sectors except leather products and paper products. Both sectors show a positive amount of trade diversion. Trade diversion and trade suppression particularly in the paper product industries has been mainly caused by the high rate of growth of domestic industries. Total output has increased from 1.2 million Jordanian Dinars in 1975 to 2.1 in 1977 and 2.9 million Jordanian Dinars in 1979. By 1979 the paper product industries had developed export markets and 31 percent of its output was exported. The industry is not heavily protected from foreign competition; tariffs on foreign final products average 14 percent. There is no tariff on imports of paper pulp. However, various foreign brands are available in the market and allowed to compete with domestic production.

As to the leather industry, it has not been growing as rapidly as the paper industry, but Jordanian imports from the common market showed considerable increase between 1968 and 1978. Actually imports from Syria of leather products increased from zero in 1968 to around 9 percent of total imports in 1978.

TABLE 7

TRADE CREATION AND TRADE DIVERSION IN IMPORTS TO JORDAN
(in thousand Jordanian Dinars)

Manufacturing Category	1. C_{78}	2. m_{68}^{r}	3. m_{68}^{t}	4. m_{78}^{r}	5. m_{78}^{t}	6. M_{78}^{R}	7. M_{78}^{T}	8. PM_{78}^{R}	9. PM_{78}^{T}	10. TCCE	11. TD
Food Products	66143	0.265	0.278	0.555	0.578	36680	38204	17528	18387	19843	(19181)
Beverages	6579	0.182	0.182	0.175	0.241	1152	1584	1197	1197	388	46
Textiles	22050	0.753	0.818	0.847	0.887	18667	19552	16604	18037	1521	(2072)
Wearing Apparel	13940	0.502	0.567	0.604	0.697	8423	9712	6998	7904	1812	(1422)
Leather Products	5915	0.430	0.430	0.098	0.107	579	634	2543	2543	(1911)	1964
Footwear	3732	0.167	0.167	0.481	0.507	1794	1891	623	623	1269	(1172)
Furniture	10339	0.024	0.055	0.693	0.700	7165	7232	248	569	6669	(6917)
Paper Products	7458	0.821	0.821	0.803	0.805	5986	6001	6123	6123	(119)	134
Printing, Publishing	3645	0.168	0.179	0.412	0.426	1503	1554	612	652	900	(889)
Chemicals	24328	0.683	0.690	1.036	1.076	25208	26178	16616	16786	9391	(8588)
Manu. of nonmet-allic Minerals	35917	0.495	0.534	0.560	0.561	20096	20142	17779	19180	970	(2335)
Basic metal Indust.	116043	0.677	0.677	0.894	0.899	103795	104354	78561	78561	25761	(25181)

NOTES:

C_{78} is apparent consumption in 1978.

m_x^r is average propensity to import from the rest of the world in year x.

m_x^t is total average propensity to import in year x.

M_x^T, M_x^R is total imports and imports from the rest of the world in year x.

PM_x^T, PM_x^R is projected total imports and imports from the rest of the world in year x.

TCCE is Trade Creation and Consumption Effect measured as (col. 5- col.3) x col. 1; or as col.7- col. 9. (There could be a minor difference in the results of both calculations because of rounding).
TD is Trade Diversion effect measured as (col. 2- col. 4) x col. 1; or as col. 8- col. 6. (There could be a minor difference in the results of both calculations because of rounding).

A third sector which showed trade diversion during the period under study is the beverages sector. This sector showed both trade creation and trade diversion in the sense that total imports relative to consumption have increased and in that imports from the rest of the world relative to consumption have dropped. Imports from the common market, from Syria in particular increased from nothing in 1968 to around 5 percent of total imports of beverages in 1978. The tariff rate on beverages and particularly mineral water in which imports from the common market have increased is 14 percent. Other than increased imports from the common market, domestic output of beverages have increased from 1.8 million Dinars in 1974 to 4.5 million Dinars in 1977.

In brief trade creation in Jordan during the period under study by far exceeded trade diversion. Whereas the value of the former reached 68 million Dinars, the value of the latter stood at around 2 million Dinars. However, looking at it from another perspective, this means that Jordan has grown more dependent on imports to satisfy domestic consumption in almost all manufacturing sectors. Comparing columns 3 and 5 of Table 7 shows that the average propensity to import has increased for all except two manufacturing sectors (leather and paper products) during the period 1968 to 1978.

Syria. Table 8 shows that Syria has experienced trade creation in all sectors except textiles, paper and basic metal industries. Actually those three sectors experienced trade diversion as represented by a reduction in the percentage of total imports from the rest of the world to domestic consumption. The textile industry in particular has been receiving increasing attention in Syrian development plans.

In the third five year plan, 1971-1975, the textile industry received about one fourth of total investment in manufacturing industry trying to achieve both import substitution and expansion of exports. The objective was to use more of the Syrian ginned cotton and wool to be converted to fibers. This will substitute for imports of fibers and will increase the degree of local processing, and the value of exports as compared to exporting the surplus of cotton and wool in raw form.[4]

The value of gross output in the Syrian textile industry has increased from 1547 million Syrian Pounds in 1973 to 3234 million Syrian Pounds in 1977. The value added in the textile industry has also increased from 663 to 1337 million Syrian Pounds during the same period. Textile imports from the common market have also increased considerably from a negligible amount in 1968 to around 15 percent of total textile imports in 1978. Both factors, increased domestic output and increased imports from the common market, resulted in trade diversion in this sector.

Chemical industries also experienced trade creation resulting from the increased imports of pharmaceuticals from Jordan.

In general, Syria's dependence on imports have dropped significantly in the basic metals industry where domestic output increased from 315 to 817 million Syrian Pounds between the years 1973 and 1977, and slightly in both the paper industry and the textiles clothing and leather industry.

In total, trade creation in Syria for the period under examination was much higher than trade diversion.

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[4]Economic Commission for Western Asia and United Nations Industrial Development Organization, Industrial Development in Syria, Prospects and Problems, 1979, p. 97.

TABLE 8

TRADE CREATION AND TRADE DIVERSION IN IMPORTS TO SYRIA
(in million Syrian Pounds)

Manufacturing Category	1. C_{78}	2. m_{68}^{r}	3. m_{68}^{t}	4. m_{78}^{r}	5. m_{78}^{t}	6. M_{78}^{R}	7. M_{78}^{T}	8. PM_{78}^{R}	9. PM_{78}^{T}	10. TCCE	11. TD
Food, Beverages, Tobacco	2965	.042	.045	.122	.124	362	368	125	133	234	(237)
Textiles, Clothing, Leather	3406	.117	.118	.103	.108	352	369	399	402	(34)	47
Wood and Furniture Industries	627	.019	.019	.047	.049	29	31	12	12	19	(17)
Paper, Printing, Publishing	163	.533	.540	.477	.502	78	82	87	88	(6)	9
Chemical Industries	1012	.694	.700	.722	.743	730	751	702	708	44	(28)
Nonmetallic Industries	704	.165	.167	.393	.393	276	277	116	118	159	(160)
Basic Metals Industries	1012	.902	.902	.791	.792	800	801	913	913	(111)	112
Metal Products Industries	2819	.822	.824	1.023	1.029	2884	2900	2317	2323	578	(566)

NOTES:

C_{78} is apparent consumption in 1978.

m_x^r is average propensity to import from the rest of the world in year x.

m_x^t is total average propensity to import in year x.

M_x^T, M_x^R is total imports and imports from the rest of the world in year x.

PM_x^T, PM_x^R is projected total imports and imports from the rest of the world in year x.

TCCE is Trade Creation and Consumption Effect measured as (col. 5- col.3) x col. 1; or as col. 7- col.9. (There could be a minor difference in the results of both calculations because of rounding).
TD is Trade Diversion effect measured as (col. 2- col. 4) x col. 1; or as col. 8- col.6. (There could be a minor difference in the results of both calculations because of rounding).

Whereas the value of trade creation reached 1 billion Syrian Pounds, that of trade diversion was only 168 million Syrian Pounds for the period.

Degree of Protection

One measure of the gains derived by each country from the common market is given by the degree of protection enjoyed by its exports in other common market countries.

If one country's exports are duty free in the markets of other member countries - that is if similar products from third countries are not subject to tariffs - then that country will not be deriving any special benefit from the common market. Also the absolute value of exports can be considered as an index for that gain, the higher the exports the larger the gain.

Methodology

The degree of protection received by the exports of a member country in the common market refers to the level of tariffs imposed on common market imports from third parties. Usually when there is a common external tariff against the outside world, then the degree of protection received by the exports of a member country could be obtained by calculating the weighted average of the common external tariff. The weights used for this purpose are exports of that country to the common market.

In other words:

$$DP_{im} = \sum_{j=1}^{n} t_j \left(x_{imj}/x_{imt}\right)$$

where DP_{im} = is the degree of protection received by the exports of country i in the common market.

t_j = is tariff category j, where j could be .10 (10 percent), .20, etc..; or a mid point for an interval such as .15 as a mid point for (.1-.2), for all tariff categories.

x_{imj} = is the value of exports of country i to the common market of all products which are subject to a tariff equal to t_j if imported from a non member country.

x_{imt} = total exports of country i to the common market.

In the case of The Arab Common Market, there is no common external tariff, and hence there is no one figure representing the degree of protection awarded to the exports of every country in the common market. However, such a measure can be obtained for the exports of each member country in the markets of every other member country, where:

$$DP_{ik} = \sum_{j=1}^{n} t_j \, (x_{ikj}/x_{ikt})$$

where DP_{ik} = is the degree of protection received by the exports of country i in the market of country k.

t_j = is the tariff category where j=.10,.20, etc.

x_{ik} = is the value of exports of country i to country k, of all products which are subject to a tariff equal to t_j if imported from a non member country.

x_{ikt} = total exports of country i to country k.

Hence there will be two degrees of protection measured for each countrys' exports. For Syrian exports there will be one measure of protection in the Jordanian market (DP_{SJ}) and one in the Iraqi market (DP_{SI}). Similarly for Iraq there will be two measures of protection DP_{IS} and DP_{IJ}, and for Jordan both DP_{JS} and DP_{JI} will be calculated.

Data Used

The ideal situation would be when all export and import data are available, and when items in foreign trade statistics correspond exactly to items in tariff schedules and when the tariff is of the ad-valorem type. In that case, all what one needs to do in order to get the degree of protection of the exports of country i in the market of country k is:

1. Collect imports of country k from country i by trade item.

2. Look in the tariff schedules of country k and determine for each import item from country i the tariff imposed on imports from non member countries.

3. Add up total imports from country i for each tariff category and divide them by total imports from country i by country k.

4. Use the figures obtained in Step 3. to get the weighted average or the degree of protection.

However, when it comes to the Arab Common Market, things are far from ideal. The exception is the degree of protection awarded to Iraqi and Syrian exports in the Jordanian market which could be calculated rather accurately. This is because foreign trade statistics are available for as late as 1982 and an updated version of the tariff schedules could also be worked out. Also, except for two items, tariff rates are expressed as a percentage of value or are of the ad-valorem type.

On the other hand, calculating the degree of protection of Jordanian and Iraqi goods in the Syrian market involved several approximations. The main problem resulted from the fact that Syria uses extensively specific tariffs rather than ad-valorem tariffs. Actually Syria uses three types of tariffs, a specific tariff, an ad-valorem tariff, and a combination tariff which specifies a specific tariff and a minimum percentage which should be collected in case the specific tariff does not add up to that percentage. An example on the third type is oranges where the specific tariff is 12.5 Syrian Piasters for every kilogram imported, however, the minimum rate collected should be 30 percent of value.

In order to get the degree of protection, specific and combination tariffs needed to be converted into percentages. The methodology used was as follows:

- If the specific tariff was quoted as a certain amount of Syrian Pounds (t_s) per net kilogram of weight, then to get the percentage equivalent (t_i) the following equation was used:

$$t_i = \frac{(t_s)(W)}{(V)} (100\%) = \frac{\text{amount of tariff collected}}{\text{value of imported product}}$$

where W = net weight of imported item in kilograms quoted in foreign trade statistics.

v = Value of imported item in Syrian Pounds also quoted in foreign trade statistics.

- If the specific tariff was quoted as a certain value per gross kilogram which is the case for most Syrian imports of agricultural products, then the net weight supplied in foreign trade statistic needed to be converted to gross weight to determine the actual tariff collected. This required determining type and weight of containers in which those products are exported to Syria. This information was obtained from interviews with exporters of agricultural products. Once this information was obtained, the gross weight and actual tariff collected could be calculated and by dividing it by the total value of the item, the percentage tariff could be calculated.

- For combination tariffs, the percentage equivalent of the specific tariff was calculated as in the above two paragraphs. Then the result was compared with the minimum percentage to be collected, and the larger of both figures was taken to represent the degree of protection for that item.

- In certain cases, the specific tariff was quoted, neither by gross nor by net weight, but by semi-gross weight. This is the case with Syrian imports of canned vegetables, soap, detergents and furniture. The semi-gross weight includes the net weight of the product plus the weight of the immediate container.

For canned vegetables, this would include the net weight of vegetables plus the weight of the liquid in which it is preserved plus the can, for soap and detergents it includes the weight of the paper wrapping or the carton box. So for the above three items the semi-gross weight could be obtained by weighing products on the market. For the fourth item, furniture, it was very difficult to estimate the semi-gross from the net weight, since the wrapping could be wood, paper or cellophane and each will yield a completely different weight. But since the tariff on this item is a combination tariff the minimum percentage was taken to represent the degree of protection on this item. This is considered an acceptable approximation and is not seen to significantly affect the accuracy of the final figure for the degree of protection particularly since this item represents less than half a percent of total imports.

Calculating the degree of protection in the Iraqi market for both Syrian and Jordanian goods involved several problems. The major difficulty resulted from the fact that Iraq uses two different systems for classifying foreign trade statistics and for its tariff schedules. Iraq uses the Standard International Trade Classification, (SITC), revision 2, for classifying its foreign trade transactions, but when it comes to its tariff schedules, Iraq uses the Customs Cooperation Council Nomenclature (CCCN) formerly known as the Brussels Tariff Nomenclature (BTN), which was adopted by the Arab League in 1956 as the Unified Tariff Nomenclature for Arab countries.

The problem is that there is no one-to-one correspondence between the two systems.

For some items it is a many-to-one, and for others it is a one-to-many correspondence. The first case where several trade items correspond to one tariff item, poses no problem since the one tariff rate could be applied to all corresponding trade items. But the second case is rather difficult to deal with, since one trade item corresponds to several tariff items and choosing the tariff rate to be applied entails some value judgements.

A solution was found in using Syrian and Jordanian exports to Iraq as an equivalent for Iraqi imports from Syria and Jordan. This is less problematic because both Syria and Jordan use the CCCN for classifying foreign trade transactions which is the same system used by Iraq for its tariff schedules. Another advantage for this method is that Syrian and Jordanian statistics are more recent than the Iraqi ones, as they are available for 1981 and 1982 respectively while the most recent available for Iraq is 1979. It should also be mentioned that the fact that exports in absolute value are less than the value of imports by the amount of insurance and freight will not significantly affect the calculated degree of protection, since what matters is the structure of trade and not the value.

Iraq uses both ad-valorem and specific tariffs. However, since the specific tariff on almost all items involved in trade between the three countries is expressed as a certain value per net weight, and since the quantity traded quoted in foreign trade statistics is also expressed in net weight, very few weight approximations were made.[5]

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[5]The only approximations made involved eggs, where the quantity traded is quoted in number but the tariff is applied per kilogram, shoes which are quoted in weight but the tariff is applied per pair, and alcoholic drinks which required a conversion from litres to kilograms.

One consequence of using Syrian and Jordanian exports instead of Iraqi imports is that the value of trade is not expressed in Iraqi Dinars and hence in order to determine the percentage equivalent of the specific tariff, the value of the specific tariff had to be converted into Syrian Pounds and Jordanian Dinars. The exchange rate used was the average for the year.[6]

For some traded items, the tariff item was broken down into further sub items. Since there is no way to determine which of those sub items was actually traded so that the tariff rate for that sub item will be chosen to represent the degree of protection for that item, a simple average of the tariff rates on all sub items was taken to represent the degree of protection for that item.

<u>Years Chosen.</u> In general trade figures for the most recent year available were chosen to determine the trade structure for each country, unless there was reason to believe that those figures were not representative because of certain events that occurred during that year. For Jordan and Syria, the most recent foreign trade statistics available are for 1982 and 1981 respectively. For Iraq, the most recent trade statistics available are for 1979, however, those could have been obtained from Jordanian and Syrian statistics for as late as 1982 and 1981 respectively. But since both years were war years for Iraq, trade figures for 1980 were chosen to represent the structure of Iraqi exports and imports.

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[6]Exchange rates used were 1 Iraqi Dinar = 1.0115 Jordan Dinar, and 1 Iraqi Dinar = 13.2908 Syrian Pounds. Those were derived from the currencies exchange rate against the US Dollar for 1980. Those were obtained from International Monetary Fund, <u>International Financial Statistics: Yearbook 1981</u> (Washington, D.C. 1981), pp. 235,259,409.

Results of Calculations

In the Arab Common Market, Jordan exports enjoy the highest degree of protection in the markets of other member countries, and the value of Jordan's exports to the common market are the highest among the three member countries (see Table 9). Although Jordan is the smallest of the three countries in terms of national product and in terms of the total value of exports, its total exports to the common market are the largest. Or in other words Jordan's dependence on the common market is the highest among the three countries and so it stands to lose most if the tariff preference is cancelled.

Jordan's exports enjoy a relatively high degree of protection in the markets of both Syria and Iraq. The average is 28.6 percent for Syria and 65.9 percent for Iraq.[7] Jordan seems to benefit a lot from the fact that the tariff structure in both Syria and Iraq is relatively high so its products are given a significant competitive edge in both markets since they are exempt from all tariffs and import fees. Some Jordanian export items to Iraq have a very high specific tariff that the non-exempt products cannot easily compete on the basis of price alone. Beer for example, is subject to a specific tariff of 350 Iraqi fils (approximately one US Dollar) per one liter. This is equivalent to more than a 100 percent ad-valorem tariff. Arak, another alcoholic drink, is subject to a 4.0 Iraqi Dinar per liter tariff which is more than five times the cost of a liter.

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[7]The effective degree of protection is even higher than the above mentioned figures, since non common market imports in Syria, pay over and above the customs duties several import fees such as national defense fees, port fees, school fees, consumption fees, etc. The value of those fees depend on the value of imports and the value of customs duties. However, an import item whose tariff rate is 29% could pay an additional 17% of its value in other import fees. This could raise the degree of protection of Jordanian goods in Syria to approximately 46%.

TABLE 9

INTER-COMMON MARKET EXPORTS:
ACCORDING TO TARIFFS ON IMPORTS FROM NON-MEMBER COUNTRIES

Duty on foreign competing goods	(% of total) Jordanian exports to		(% of total) Syrian exports to		non oil Iraqi exports to	
	Syria	Iraq	Jordan	Iraq	Jordan	Syria
free	5%	4%	53%	60%	47%	0%
1-10%	23%	13%	4%	10%	2%	44%
11-20%	14%	8%	15%	7%	45%	10%
21-30%	45%	15%	5%	13%	0%	14%
31-40%	1%	23%	23%	4%	6%	17%
41-50%	*	15%	1%	4%	0%	0%
51-100%	13%	6%	0%	1%	0%	16%
greater than 100%	0%	17%	0%	0%	0%	0%
Total	101%	101%	101%	99%	100%	101%
Degree of protection (weighted average)	28.61%	65.88%	12.52%	10.23%	8.89%	22.36%
Value of Exports in millions of US$ (1980)	45.6	94.9	28.9	29.8	7.3	10.3

NOTES: Because the degree of protection or the weighted average, was calculated on an item by item basis, it is not always possible to derive the same number by calculating it through using interval midpoints.
Totals do not always add up to 100% because of rounding to the nearest whole number.

* Less than half a percent.

Cigarettes are subject to a 4.5 Iraqi Dinar specific tariff per kilogram which is almost equivalent to twice the cost. Other products subject to high specific tariffs in Iraq and exported by Jordan are matches and salt. Those products, among others, are the major source of the high degree of protection enjoyed by Jordanian exports to Iraq and hence a source for its gain from participating in the common market arrangement.

On the other hand, Syria does not seem to benefit as much in terms of the protection of its exports. Actually 60 percent of its exports to Iraq are duty free when imported from third countries, and therefore derive no special benefit from the common market arrangement. On average, the degree of protection enjoyed by Syrian goods in Iraq and Jordan equals 10.2 and 12.5 percent respectively.[8] In Jordan, the tariff structure as a whole is relatively lower particularly since it does not include lots of specific tariffs which are often used to hide a very high equivalent of an ad-valorem tariff. Also the few imports which are highly taxed in Jordan such as passenger cars are not an export item for Syria. As to the Iraqi market, the major item exported to Iraq which is raw cotton is duty free when imported to Iraq from third countries. Another Syrian export item, lentils, is also duty free in Iraq.

As to Iraqi exports, 98.6 percent of them going to Syria are crude oil. Since the Syrian tariff on crude oil is 7 percent, the degree of protection enjoyed by Iraqi exports in the Syrian market is 7.17 percent.

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[8]The effective rate is actually higher due to non customs import fees. For example Jordan imposes an 11% unified import fee on all imports and other fees such as production fees on ten items which are domestically produced. This would raise the effective degree of protection of Syrian goods in the Jordanian market to at least 23 percent.

However, if crude oil is excluded, the degree of protection would rise to 22.4 percent.[9] This is still not very high since important export items for Iraq like fertilizers and dates are subject to very low tariffs in Syria which is 1 percent and a specific tariff of .0225 Syrian Pounds (around 6 cents) per kilogram respectively. Iraqi goods are also not that much protected in the Jordanian market. Dried dates (not packaged in less than 1 kilogram boxes) and fertilizers, the two major export items to Jordan are duty free in Jordan. In total 47 percent of Iraqi exports to Jordan are duty free when imported from third countries. On average the degree of protection of Iraqi goods in Jordan does not reach 9 percent.[10] The majority of them are either free or fall into the (11-20%) fee category. The volume of non-oil Iraqi exports is also not that significant where Iraqi exports in 1980 for both Syria and Jordan did not exceed 18 million US Dollars.

Effects of Exceptions Lists

Libya's Exceptions List

When Libya joined the Arab Common Market in 1977, it resolved to free all imports from other member countries from all tariff and non tariff barriers. However, it also made use of an escape clause in the common market resolution and applied for the exclusion of certain products form the removal of tariffs and other barriers.

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[9] The effective rate is actually higher due to other import fees. It could reach around 37% of value if the other fees are added.

[10] The effective rate could be higher due to other import fees which amount to an additional eleven percent.

On the other hand, other member countries, Jordan, Syria and Iraq were to immediately free all imports from Libya from all barriers to trade. This section will attempt to evaluate the impact of maintaining an exceptions list by Libya on the trade with Jordan, Syria and Iraq. This impact is seen to depend largely on the type of items included in the exceptions list. If those items are not exported by either Jordan, Syria or Iraq, then the exceptions list would be ineffective. The degree of effectiveness of the exceptions list or the trade constraining role it can play is directly related to the value of exports of items on the exceptions list by Jordan, Syria and Iraq. More specifically, it is related to the percentage of exports of excluded items to total exports of each country. This percentage shows how much of the exports of each country will not be receiving preferential treatment in the Libyan market despite the fact that Libya joined the common market. Of course the remaining percentage represents how much of each country's exports started receiving preferential treatment as soon as Libya joined the Arab Common Market in 1977.

A detailed study of items on the Libyan list shows that it is most biased against Iraqi products. It includes sulphur which is a major commodity produced and exported by Iraq. In 1976, Iraq ranked fifth in the world in the production of sulphur. With an output of 610 thousand metric tons, its production was only exceeded by that of the United States, Poland, Soviet Union and Mexico.[11]

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[11]United Nations, 1978 Statistical Yearbook (New York, 1979), p. 188.

But even if sulphur is excluded, items included in Libya's exceptions list represent 49 percent of the non-oil and non-sulphur exports of Iraq. The list includes dates and fertilizers which are the two major export items of Iraq other than petroleum products. Dates accounted for 22.7 percent of total non-oil and non-sulphur exports of the country in 1978 and fertilizers accounted for 15.9 percent of above exports. The list also includes fresh or chilled vegetables and some fruits which add up to around 8.5 percent of Iraqi's exports. Those three items, dates, fertilizer and vegetables make up around 47 percent of Iraqi exports and all other items on the list make up another 2 percent of exports.[12] In total 49 percent of Iraqi non-oil and non-sulphur exports are excluded from trade liberalization and therefore will enjoy no special benefits or preferential treatment when exported to Libya.

The Libyan exceptions list does not include any of the major Syrian export items. The major export item for Syria raw cotton which accounted for around 18 percent of its total non-oil exports in 1981, is not included in Libya's list, nor is the second largest export item, calcium phosphates which accounted for around 4 percent of Syria's exports in 1981. Other important export items for Syria are barley, lentils, cotton yarns and woven fabrics of cotton and bed linens and cotton undergarments. None of those is on Libya's exceptions list. In total, all the items on the list do not make up more than 1.3 percent of Syria's total exports or more than 3.4 percent of its non-oil exports.

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[12]For export structure, 1978 was taken as a sample year for Iraq and 1981 for Syria and Jordan.

As to Jordanian exports, items on the Libyan exceptions list make up around 23 percent of total domestic exports of Jordan. The major export item for Jordan, natural phosphates which accounted for around 31 percent of its total exports in 1982, is not on the Libyan exception list. However, the second major export item which is fresh or chilled vegetables, and which accounted for around ten percent of Jordan's exports in 1982, is included on the list and hence will not be subject to trade liberalization until 1985.

Other important export items for Jordan such as citrus fruits, human medicaments, cigarettes, articles of plastic, bedding articles, wood structures such as doors and windows, and mens and boys outer garments, where each accounts for more than two percent of exports, are not on the Libyan exceptions list. However, the list includes, other than vegetables, five items which are of moderate importance as export items from Jordan. They are structures of iron or steel, furniture of wood, soap, matches, and eggs. Those five items together made up around 6.5 percent of total domestic exports in 1981.

Democratic Yemen's Exception List

Democratic Yemen's exception list does not significantly constrain the expansion of Iraqi exports to Yemen. It does not actually include any of the major three export items of Iraq (petroleum products, dates and fertilizers) which account for almost three fourths of its total non-oil and non-sulphur exports. The only item included in the list and which can be of moderate importance for Iraq, as an export item is melons and watermelons which represent slightly over two percent of exports. However, all the items included in the list do not make up more than seven percent of Iraq's non-oil and non-sulphur exports.

The effect of Democratic Yemen's exceptions list on Syrian exports to the country could be a little bit more significant as the value of Syrian exports of items on the exceptions list amounts to sixteen percent of its total non-oil export. This is mainly due to the fact that the list includes all knitted and crocheted goods and all clothing accessories; it also includes all cotton yarns and fabrics and fabrics of man-made fibers. Those articles together made up around twelve percent of Syrian exports in 1981.

As to Jordanian products, all items on the list, represented around thirteen percent of Jordanian exports in 1981. The most important export items for Jordan that will not be subject to trade liberalization by Democratic Yemen are cigarettes and clothing accessories each representing slightly over three percent of exports; woven fabrics of man made fibers; some furniture items and matches each representing one percent, 0.9 percent and 0.7 percent respectively.

Mauritania's Exception List

The list of goods submitted by Mauritania, is not a long one and does not include any of the major export items for Jordan, Syria or Iraq except for sulphur which is a major commodity produced by Iraq. All the items included on Mauritania's exceptions list amount to 2.2 percent of Jordan's exports, 5.2 percent of Syria's non-oil exports (or two percent of its total exports), and 6.3 percent of Iraq's exports.

TABLE 10
EFFECTIVENESS OF THE EXCEPTIONS LIST OF
LIBYA, YEMEN AND MAURITANIA

country B / country A	Exports by country B of items on country A's exceptions list as a percentage of total (non-oil) exports of country B[1]		
	Jordan	Syria	Iraq
Libya	23.2%	3.4%	49.0%
Mauritania	2.2%	5.2%	6.3%
Democratic Yemen	12.7%	16.0%	6.7%

[1]The percentage is of total 1981 domestic exports for Jordan, 1981 non-oil exports for Syria and of total 1978 non-oil, non-sulphur exports for Iraq.

Table 10 summarises the trade constraining role that the exceptions list submitted by Mauritania, Libya and Democratic Yemen could play. As to the effect of Mauritania's and Democratic Yemen's exceptions lists on Libyan exports, it is negligible since oil represents 99.9 percent of Libya's exports and raw hides and skins is the only other item exported and it is not on the exceptions list of either country. Mauritania's exports are more affected by Democratic Yemen's exception list since the list includes fish which represented between 8 to 9 percent of Mauritanian exports in 1975 and 1976. The Mauritanian exceptions list, does not include however, any of the major export items for Democratic Yemen which are fish, cotton linters, honey, salt and tobacco. The Libyan list includes tobacco, salt and honey which are three major export items for Democratic Yemen, however, it does not include any of the major export items for Mauritania.

Conclusion

This chapter presented two methods for estimating the distribution of benefits among common market members. Based on both criteria, Jordan seems to benefit most from The Arab Common Market. Trade creation by far exceeded trade diversion, and its exports to the common market are much higher than the exports of Iraq and of Syria although both countries are larger than Jordan in terms of both domestic output and total exports. Also, Jordan's exports to the other common market members enjoy a much higher degree of protection than the exports of Syria and Iraq. However, it should be mentioned that Jordan's exports to the common market could be more vulnerable and are susceptible to more fluctuations since the other two countries, Syria and Iraq, are characterized by a high degree of control of the state on the foreign trade sector. This subjects their source of imports more to political relationships than to market forces.

Syria enjoyed a large amount of trade creation during the post integration era. Although this according to the traditional theory is supposed to yield welfare gains, however from the perspective of a government pursuing import substitution and trying to achieve self sufficiency in manufacturing sectors, trade creation is not looked at very favorably. Syria's exports to The Arab Common Market are also not as protected as Jordanian exports particularly since its exports to Iraq are limited by the tense political relationship and since the Jordanian market is not generally characterized by high tariff rates.

Iraqi exports to Syria are mainly crude oil (98.6%), and Iraqi exports to Jordan are not highly protected in the Jordanian market.

Actually almost half of them are duty free when imported from other countries. Also trade diversion in the Iraqi market was greater than trade creation which would lead to the conclusion that Iraq on both counts benefits less from the common market than Jordan and Syria.

Libya's exceptions list is most constraining among the three exceptions lists since it excludes 23 percent of Jordan's exports and 49 percent of Iraqi exports from trade liberalization. It is also constraining when it comes to the exports of the less advanced country of Democratic Yemen since it includes three of the major export items for that country.

Although Syria, Jordan and Iraq freed all imports from Mauritania and Democratic Yemen from all barriers to trade, the period since the latter two countries joined the common market has been too short to reach conclusive results about the impact of integration on the flow of trade

CHAPTER VI

SUMMARY AND CONCLUSION

It has been more than nineteen years since the Council of Arab Economic Unity passed its famous Resolution Number 17 establishing an Arab common Market. However, one of the recurring questions often asked, when the intention of evaluating the impact of the Arab common Market was expressed, was "Is there really such a thing as an Arab Common Market". Actually this research showed that regardless of public skepticism there is more of an Arab Common Market than most people tend to think. The economic arrangement is not a common market in the technical sense of the word which implies the free movement of capital and labor among member countries, nor is it a customs union which implies the existence of a common external tariff, but at least it is almost a free trade area when the three countries of Iraq, Jordan and Syria are concerned.

Still, regardless of apparent achievements, accomplishments in the Arab Common Market fall short of all the ambitious provisions of successive Council resolutions. Chapter three of this research discussed in detail the resolution itself and evaluated the level of implementation of its provisions in each of the participating countries.

In brief, Jordan, Syria and Iraq have freed trade among them and from the other members including Libya, Democratic Yemen and Mauritania. Yet still each one of them still maintains some administrative barriers that the Council is trying to deal with.

Jordan still prohibits the importation of a very limited number of items, mainly cigarettes and some specific agricultural products during certain periods of the year. Syria uses import licensing and foreign exchange permits. Imports from common market countries are exempt from licensing but must obtain instead an import permit. Iraq subjects all imports including those from the Arab Common Market to the prior issuance of an import license which is issued in accordance with the annual plan. Libya also practices import licensing and also maintains a list of goods which will be excluded from trade liberalization until 1985. Mauritania and Democratic Yemen are still in the very early stages of implementation; they are supposed to liberate all goods, except those important for revenue purposes and for the purpose of protecting domestic industry and which are listed in the exceptions list submitted to the Council, gradually and in annual stages that will end by 1988 and 1990 for Mauritania and Democratic Yemen respectively.

One of the things to be taken into consideration when evaluating the Arab Common Market is the practice of state trading by Syria, Iraq and Libya. State trading could be a blessing and it could be detrimental to the expansion of trade among member countries. The definite effect of state trading is that it undermines the role played by market forces and by the price system in particular.

This could be in favor of increased trade or could result in suppressing trade even in cases when the partner is the most efficient producer of a good. It is still acknowledged, that state trading, if properly used and if the commitments to the integration process are genuine, could be an excellent vehicle for expanding trade among the member countries.(An example on trade expansion due to state trading is the enormous increase in trade volumes between Syria and Iraq in 1979, and Jordan and Iraq in 1979 to 1982). State trading could bring certainty to trade flows and effectively implement bilateral trade agreements and they could overcome one of the major hurdles to fostering trade relationships which is the lack of knowledge of other products and other markets.

Chapter Four then surveyed the economic structure of the six countries of the common market. They were diverse in their natural resources and in their level of development. Their Gross National Product per capita ranged from as low as US$ 320 for Mauritania to as high as US$ 8170 for Libya, in the year 1979. Those countries however, could be grouped in three major clusters. Jordan, Iraq, and Syria form a cohesive group, with comparable Gross National Product per capita (for 1979, Gross National Product per capita was US$ 2410, 1180, 1030 for Iraq, Jordan, and Syria respectively), and with geographical affinity (they all have common borders with each other), and comparable other welfare indicators like population per physician, literacy rate, etc. Still they are different when it comes to the main contributing sector to Gross National Product. Iraq is largely dependent on oil in terms of contribution to Gross National Product and in terms of supplying the treasury with revenues and with foreign exchange. Iraq is a capital surplus oil exporting ocuntry. Syria is also an oil country but with a much lower production than Iraq and a more diversified economy, it is less dependent on oil for revenues, and export earnings. Jordan has no oil and the service sector is the major contributor to Gross National Product and the major employing sector in the economy. The three countries have been trying to develop their manufacturing sector, Iraq and Syria through direct government intervention in the investment process and Jordan through giving incentives to the private sector.

They all however ended up sustaining industries with a significant overlap such as soaps, detergents, matches, and chemical industries, textiles, leather products, etc.

The second group is represented by Mauritania and Democratic Yemen which are poorer in natural resources and are less advanced industrially.

Libya stands as a group in itself, it is significantly dependent on oil and it is the richest and the least diversified.

Chapter five attempted to measure the distribution of benefits among Jordan, Syria, and Iraq on two bases. The first is the traditional concepts of trade creation and trade diversion. For both Jordan and Syria trade creation exceeded by far trade diversion. But it was also noted that despite the welfare gains implicit in trade creation, it involves an increase in imports which is not looked favorably at, particularly if it occurs in consumer goods like food and beverages and furniture. For Iraq, trade diversion exceeded trade creation, and most of the trade creation was in the basic metals industries and not in final consumer goods.

The second measure for the distribution of benefits was the degree of protection that the exports of each country enjoy in the markets of the other two countries, and the value of exports was considered to be an index of this gain. Jordan on both counts is the one benefiting most from the common market arrangement. Its exports enjoy a minimum degree of protection of 66 percent in Iraq and 29 percent in Syria, and this percentage could increase significantly if other import non tariff fees are included.

Iraqi exports to Jordan are less protected than Syrian exports with an average degree of protection of around 9 percent for the former and 13 percent for the latter. Iraqi exports are more protected in Syria than Syrian exports to Iraq. However, the total value of trade between Iraq and Syria is low when compared to Jordanian exports to any of them.

Chapter Five also analysed the exceptions lists of Libya, Democratic Yemen and Mauritania. Although for Libya items not on the list are completely freed from all tariffs and other import fees, for Democratic Yemen and Mauritania, items not on their lists are still to be freed in a gradual process which is expected to extend until 1990 for Democratic Yemen and 1988 for Mauritania. Also although Libya is maintaining the list mainly to protect its infant industries the other two are maintaining exceptions mainly for revenue purposes. The Libyan exceptions list has the most trade constraining role as it involves 49 percent of Iraqi exports and 23 percent of Jordanian exports.

Suggestions for Further Research

This study has been a limited attempt in measuring the impact of the Arab Common Market in two formal ways. However, there are many aspects of the Arab Common Market that have not been touched upon. The field for further research is wide and full of potentialities.

One interesting aspect that could be looked at is what does Libya stand to gain economically from joining the Arab Common Market. Libya is currently exporting oil and a limited amount of unprocessed animal skins and hides.

In opening up its market to products from the other common market countries, trade diversion is expected to be much higher than trade creation particularly since the current level of imports from Arab Common Market countries is very low and since the current level of imports from the rest of the world represents a high percentage of total consumption for most products.

Syria is a country greatly concerned with the availability of foreign exchange. A research measuring savings in foreign exchange for Syria due to the establishment of the common market could help in giving a clearer picture of net benefits for the country.

Mauritania is a country which suffers from a high degree of underemployment. Measuring the possible impact of the common market in employing the currently under employed resources if Mauritania's exports to the common market increase, is a possible field of research.

Currently work is being done on finalising a formula for the Compensation Fund and on a common external tariff. Determining the impact of both, when they are finalised and published, on each participating country could be an interesting and useful exercise.

One other aspect of Arab economic integration that needs to be assessed is the impact of allocating industries among Arab countries on the economies of the country in which the industry is established and on the economies of other member countries who will be importing the output of this industry. Some industries have already been allocated and started in some member countries. An evaluation at this point could be helpful in continuing the process of joint projects to be established fairly among all members.

The analysis could involve defining a worksheet of all possible benefits and losses to all countries involved and determining the methodology for measuring those benefits and losses. Then this worksheet could be used by looking at the relevent items when each project is evaluated.

Some *ex-ante* measurements for possible gains from the common market for other countries who have signed the economic unity agreement but have not ratified the common market resolution, has also been long due. For some members like Kuwait, they have it already settled that they don't have much to gain from joining the common market. Their tariff rates are very low and they have very little to export other than oil. So products of other members are already getting into Kuwait with negligible tariffs, and joining the common market could only get them involved in applying a common external tariff which will definitely be higher than their present tariff structure. But for other countries, like Somalia and Sudan, it is not quite certain whether they will gain or lose if they joined the common market, and some *ex-ante* measurements could be very helpful for their decision making.

This research tried to measure some benefits of the Arab Common Market and suggested some further areas for research in order to achieve a better evaluation of the integration experience. However, it is still maintained that although economic factors are an important stimulus to economic behavior and results, yet one should never underestimate the impact of political factors. Maybe what is needed is more of a multi-perspective approach than a pure rational approach in dealing with such problems.

APPENDIX 1

RESOLUTION NO. 17
ESTABLISHING THE ARAB COMMON MARKET
PASSED BY
THE COUNCIL OF ARAB ECONOMIC UNITY
ON 13.8.1964

RESOLUTION NO. 17

ESTABLISHING THE ARAB COMMON MARKET

PASSED BY

THE COUNCIL OF ARAB ECONOMIC UNITY

ON 13.8.1964

For implementing the provisions of the Economic Unity Agreement among the States of the Arab League, and desirous to achieve social progress and economic prosperity for the contracting countries, and to establish economic unity on sound bases of coordinated and continuous economic development consistent with the natural and historical links among Arab Countries, and desirous to achieve economic integration of the contracting parties, and the efforts for the achievement of the best possible conditions for developing their resources, raising the standard of living, and improving the work conditions.

The Council of Arab Economic Unity decided to establish an Arab Common Market which aims at achieving the following bases:

1- Freedom of personal and capital mobility.
2- Freedom of exchange of national and foreign goods and products.
3- Freedom of residence, work, employment and practice of economic activity.
4- Freedom of transport, transit, use of means of transport, ports and civil airports.

In accordance with the following provisions:-

Chapter One

Definitions and Terminology

Article I

For the purpose of this resolution, the following terms, wherever mentioned, shall mean the following:-

1- Contracting parties
These are the member states of the Council of Arab Economic Unity.

2- Restrictions
These are the administrative restrictions that are applied by any of the contracting countries to its imports and exports including import and export embargos, quotas, licenses, and all other similar trade restrictions.

3- Customs duties and other duties
Customs duties are those included in the custom tariff schedule; while other duties are all duties and taxes imposed on imported goods, whatever their nomenclature. The following shall not be considered as duties or taxes:-

a- All duties or taxes or payments imposed in return for services.

b- All duties or taxes imposed on products or their raw materials that are imported from contracting countries where similar domestic products or their raw materials are subjected to the same duties and taxes.

4- Agricultural and animal products and natural resources
These are agricultural and animal products and natural resources that originate from one of the contracting countries and are imported in natural form.

5- Industrial products
These are the products that are manufactured in one of the contracting countries, where the domestic cost of production that is generated locally, constitutes not less than 40% of the total cost of production. Imported materials that originate from any of the contracting countries are considered part of the domestic cost of production when used as inputs in a local industry.

Chapter Two

General Principles

Article II

The exchange of agricultural and animal products, natural resources and industrial products among contracting parties shall be freed in accordance with the principles and provisions of the following Articles.

Article III

Restrictions, duties and taxes on imports and exports that are presently in force in each of the contracting countries shall remain unchanged such that none of these countries impose new duties, taxes and restrictions on the exchange of agricultural or animal products or natural resources or industrial products among the contracting countries.

Article IV

The governments of the contracting parties shall apply among them the principle of the "most favoured nation" in relation to their trade transactions with non-member countries of the Economic Unity Agreement, provided that the provisions of this article shall not apply to agreements presently in force.

Article V

Governments of the contracting countries are not allowed to impose duties or excise taxes on agricultural and animal products, natural resources and industrial products that are exchanged among them, exceeding duties or excise taxes imposed on similar domestic products or their raw materials.

Article VI

No export duties shall be levied on agricultural and animal products, natural resources and industrial products that are exchanged among the contracting countries.

Article VII

1. Agricultural and animal products, natural resources and industrial products which have been exchanged among the contracting countries may not be re-exported to non-member countries of the market without the permission of the country of origin, unless the said items undergo industrialization processes giving them the status of locally manufactured goods in the importing country.

2. Agricultural and animal products, natural resources and locally produced industrial products that are exchanged among market countries, may not be re-exported to any other member of the market, if the exporting country has previously granted subsidies on these items, and if similar local production exists in the country to which the products are to be re-exported.

Article VIII

Subsidization
Contracting countries shall not grant any subsidy, whatsoever, on domestic products that are exported to other contracting parties, where similar production exists in the importing country.

Article IX

Concessions or monopolies that are in force in the contracting countries shall not be permitted to obstruct the application of Arab Common Market provisions.

Chapter Three

Exchange of Agricultural and Animal Products, and Natural Resources

Article X

The following provisions shall be applied until a technical committee, formed by the Council of Arab Economic Unity, prepares more detailed schedules particular for the Arab Common Market:-

1- Agricultural and animal products, and natural resources that are listed in Table A annexed to the Agreement "Facilitating Trade Exchange and Organizing Transit Trade among Arab League States and its first three amendments", and which originate from one of the contracting countries, shall be exempted from custom and other duties and taxes when exchanged among these countries.
   Agricultural and animal products and natural resources which are not included in the aforementioned Table, shall be subject to gradual reduction of 20% per annum of all duties and taxes starting the beginning of 1965.

2- Each of the contracting countries shall undertake to remove restrictions on these products in five annual stages, of 20% each year starting the beginning of 1965.

Chapter Four

Exchange of Industrial Products

Article XI[1]

The following provisions shall be applied until a technical committee, formed by the Council of Arab Economic Unity, shall prepare detailed tables particular to the Arab Common Market:-

1- Customs and all other duties on industrial products that originate from one of the contracting countries, shall be reduced by 10% per annum, starting from the beginning of 1965.

With regard to industrial products listed in Table B annexed to the Agreement "Facilitating Trade Exchange and Organizing Transit Trade and its first three amendments," and which presently enjoy a 25% reduction in custom duties, these shall be subject to the following percentage reductions:

[1]This article has been amended according to the CAEU Resolution No. 372, 12th Session of May 19, 1968, See Annex 2 to the resolution.

Date of Reduction	% reductions in custom and all other duties on industrial products listed in Table B	% reductions in custom and all other duties on products listed in Table C
1.1.1965	35%	60%
1.1.1966	45%	70%
1.1.1967	55%	80%
1.1.1968	65%	90%
1.1.1969	75%	100%
1.1.1970	85%	
1.1.1971	95%	
1.7.1971	100%	

2- The contracting parties shall undertake to exempt from all restrictions the industrial products that are exchanged among them in yearly stages starting the beginning of 1965 at a rate of 10% of these products.

Chapter Five

Common Provisions

Article XII[2]

Each of the contracting countries shall submit to the Council of Arab Economic Unity, two months prior to the commencement of every annual stage of the Arab Common Market the following:

1. A list of agricultural and animal products and natural resources which it shall actually liberate during the next stage and which represents 20% of these products.

2. A list of industrial products which it shall actually liberate during the next stage and which represents 10% of these products.

Article XIII

Each contracting party shall submit to the Council of Economic Unity, not later than the first of November, 1964, the following lists:-

1. A complete list of all restrictions imposed on imports or exports of:
   - Agricultural and animal products and natural resources.
   - Industrial products.

[2]Paragraph 2 of this article has been amended according to the last paragraph of the CAEU Resolution No. 372 of May 19, 1968, See Annex 2 to the resolution.

2. A complete list of custom duties and other taxes and duties imposed on imports and exports.

3. A complete list of all excise taxes and duties levied on industrial, agricultural and animal porducts.

4. A complete list of all duties charged for services.

A complete list of all domestic products that are subsidized in any form, and the amount of subsidy. The Council of Economic Unity shall be informed of all changes that will be made on this list.

Article XIV

Each contracting party is entitled to apply to the Council of Economic Unity for the exclusion of certain products from the duty and tax exemptions or the reductions in duties and taxes that are applied to them and their exclusion from removal of restrictions for serious and justifiable reasons. The Council of Economic Unity shall have the power to approve such exclusion and to limit its duration to a specific period of time not to exceed the period of exemption stages.

Article XV[3]

Certificate of Origin
All goods which enjoy exemption or customs preference must be accompanied by a Certificate of Origin issued by a competent governmental authority.

The Certificate of Origin for industrial products shall be drawn as follows:

"I certify that the goods hereinmentioned are of...origin and that the domestic cost of production thereof, including materials originated from one of the contracting countries of the Arab Common Market, constitutes at least 40% of the total cost of production".

Custom authorities in each of the contracting countries shall have the power to take all the necessary measures to ensure the conformity of the products with the Certificate of Origin.

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[3]This article has been amended according to paragraph 1 of the Council of Arab Economic Unity Resolution No. 319 of May 19, 1968, see Annex 3 to the resolution.

Chapter Six

Settlement of Current Transactions Among Contracting States

Article XVI

Until the contracting parties establish an Arab Payment Union and an Arab Monetary Fund to achieve mutual convertibility of their currencies, the following provisions shall be applied:

1. Payments for goods and services exchanged among the contracting countries shall be settled in compliance with the bilateral payment agreements that are presently in force among them.

2. Where no bilateral payment agreement exists between any two of the contracting parties, settlement of current transactions shall be made in U.S. dollars, sterling pound, or in any other convertible currency that is acceptable by both parties concerned. Under such circumstances, each of the countries undertakes to permit the transfer, without delay, of all amounts due to the exporting country.

Chapter Seven

Executive Provisions

Article XVII

In fulfilment of the provisions of article XII of the Economic Unity Agreement among Arab League countries, the contracting parties shall implement the provisions of this resolution in accordance with the constitutional principles in their respective countries.

Issued in Cairo, Thursday, the fifth day of Rabi'i Al-Thani, the year 1384 of Hijra, which coincides with the thirteenth day of August, the year 1964 A.D.,, in the Second Ordinary Session of the Council of Arab Economic Unity.

New Chapter[1]

The Unified Customs Tariff

1- Customs legislation and regulations shall be unified during a five-years period starting the beginning of 1965.

[1]This new chapter has been added by the Council's Resolution No. 411 of February 2, 1970, See Annex 1 to the resolution.

2- Customs and other duties imposed by the contracting states on imports from other states shall be unified during a five-years period starting the beginning of 1970, in successive stages and according to the steps drawn by the Council of Arab Economic Unity in this respect.

3- The implementation of tariff unification shall start on January 1, 1972.

RESOLUTION PASSED BY THE COUNCIL OF ARAB ECONOMIC UNITY FOR THE AMENDMENT OF THE PROVISIONS OF THE ARAB COMMON MARKET RESOLUTION NO. 17, 1964

Annex (1)

<u>The Unified Customs Tariff</u>
Resolution No. 411, paragraph 3, dated February 2, 1970.

The Text

"Adding a new chapter to the Resolution of the Arab Common Market to which the provisions of the Council's Resolution No. 19 shall be transferred. The new chapter shall be titled (The Unified Customs Tariff) and shall state that the implementation of tariff unification shall begin on January 1,1972".

Annex (2)

<u>Reducing the Stages of the Arab Common Market</u>
<u>Resolution No. 372 dated May 19, 1968.</u>

The Text

"The Council,
Upon reviewing the proposal of the Republic of Iraq concerning the reduction of the stages of the Arab Common Market, the opinions of member states in this respect and the memorandum of the General Secretariat on this subject, and since it has become clear to the Council that according to the programme drawn in compliance with Articles X and XI of Resolution No. 17 concerning the stages of reducing custom duties and other duties, and also administrative restrictions on agricultural and industrial goods produced in member countries and exchanged among them, it has become apparent that:-

a- The agricultural and animal products, and natural resources listed in Table A annexed to the Agreement on "Facilitating Trade Exchange and Organizing Transit Trade and its amendments" have already reached the stage of complete exemption. Products that are not listed in the aforementioned table shall reach complete exemption according to the drawn programme on January 1, 1969.

b- The industrial goods listed in Table B annexed to the Agreement "Facilitating Trade Exchange and Organizing Transit Trade and its amendments" have reached the stage of 65% exemption and shall reach the stage of complete exemption according to the drawn programme on July 1, 1971.

The industrial goods listed in Table C have reached the stage of 90% exemption and shall reach the stage of complete exemption according to the drawn programme on January 1, 1969.

Other industrial goods not listed in the two aforementioned tables have reached the stage of 40% exemption and shall reach complete exemption on January 1, 1974 according to the drawn programme.

And believing in the advancement of the Arab Common Market and the liberation of trade exchange among member countries at the highest possible speed, the Council decides:

One:- To reduce the stages of trade liberation of industrial products whose origin is the member states and to increase the percentage of this liberation as follows:-

1- On industrial products listed in Table B, the percentage of custom exemption to administrative restrictions shall be increased from 10% to 20% on January 1,1969 and to 15% on January 1,1970 instead of January 1,1971.

2- On other industrial products, the percentage of customs exemption to administrative restrictions shall be increased from 10% to 20% annually starting January 1,1969 so that complete exemption is attained on January 1, 1971 instead of January 1, 1974.

Two:- On agricultural and animal products, and natural resources not listed in Table A annexed to the Agreement on "Facilitating Trade Exchange and Organizing Transit Trade" and also on industrial products listed in Table C, the percentage of exemption shall be left unchanged, since according to the present programme, they shall reach the limit of complete exemption on January 1,1969.

Three:-Article XI of Resolution No. 17 shall be amended in the aforementioned manner (the amendment of articles XI and XII is annexed).

Four:- The implementation of reducing the stages of trade liberation shall be carried out provided the Member States remove all restrictions that obstruct trade in the paragraphs referred to. States that have a monetary budget system undertake to allocate sufficient monetary quotas for importation from other countries.

Amendment of Articles XI and XII

of Resolution No. 17

The following text shall replace the text of article XI of Resolution No. 17 establishing the Arab Common Market.

Exchange of Industrial Products

Article XI

Until tables especially made for the Arab Common Market are prepared by a technical committee to be formed by the Council of Arab Economic Unity, the following provisions shall be applied:-

1- Customs and all other duties on industrial products whose origin is from one of the contracting countries, shall be reduced by 10% per annum, starting the beginning of 1965, and shall be increased to 20% per annum starting the beginning of 1969.

Industrial products listed in Table B annexed to the Agreement "Facilitating Trade Exchange and Organizing Transit Trade and its first three amendments", and which presently enjoy 25% reduction in custom duties, shall be subject to the following percentage reductions:-

Date of Reduction	Reductions in customs and all other duties on industrial products listed in Table B (%)	Reductions in custom and all other duties on products listed in Table C (%)
1.1.1965	35%	60%
1.1.1966	45%	70%
1.1.1967	55%	80%
1.1.1968	65%	90%
1.1.1969	85%	100%
1.1.1970	100%	

2- The contracting parties shall undertake to exempt from all restrictions the industrial products exchanged among them in yearly stages starting the beginning of 1965 at a rate of 10% of these products to be increased to 20% starting the beginning of 1969.

Also the following text shall replace the text of paragraph 2 of article XII of Resolution No. 17 establishing the Arab Common Market.

3- A list of industrial products which they shall actually liberate during the next stage which represent 10% of these products, and represent 20% of these products starting the beginning of 1969.

Annex (3)

The Certificate of Origin
Resolution No. 319 paragraph 1, dated May 19,1968.

The Text

"The following statement shall replace the statement that was written in the previous Certificate of Origin (and that the percentage of domestic raw materials and labour constitutes at least 40% of the total cost of production)".

APPENDIX 2

THE ECONOMIC UNITY AGREEMENT AMONG STATES OF THE ARAB LEAGUE

THE ECONOMIC UNITY AGREEMENT AMONG STATES OF THE ARAB LEAGUE

The Governments of:

The Hashemite Kingdom of Jordan
The Republic of Tunisia
The Republic of Sudan
The Republic of Iraq
The Kingdom of Saudi Arabia
The Syrian Arab Republic
The United Arab Republic
The Lebanese Republic
The United Libyan Kingdom
The Motawakilite Kingdom of Yemen
The Kingdom of Morocco
and The State of Kuwait

Desiring to organize and consolidate economic relations among the States of the Arab League on bases that are consistent with the natural and historical links among them; and to provide the best conditions for flourishing their economies, developing their resources and ensuring the prosperity of their countries,

Have agreed on the establishment of a complete economic unity among themselves, and on the achievement of such unity in a gradual way and as fast as possible such that the transfer of their countries from the status quo to the future status is accomplished without rendering any damage to their basic interests, in accordance with the following provisions:-

Chapter I

OBJECTIVES AND METHODS

Article 1

A complete economic unity shall be established among the States of the Arab League. It shall guarantee for these states and their nationals in particular the following freedoms and rights on equal footing:

1. Freedom of personal and capital mobility.
2. Freedom of exchange of national and foreign goods and products.
3. Freedom of residence, work, employment and exercise of economic activities.
4. Freedom of transport, transit and use of means of transport, ports and civil airports.
5. Rights of possession, bequeath and inheritance.

Article 2

For attaining the unity mentioned in Article (1) the contracting parties shall endeavour to accomplish the following:

1. Merging their countries into a single customs area subject to a unified administration, and unification of customs' tariffs, legislation and regulations that are applied in each of them.
2. Unification of import-export policies and regulations.
3. Unification of transport and transit regulations.
4. Concluding jointly trade and payments agreements with other countries.
5. Co-ordination of policies related to agriculture, industry and internal trade; and unification of economic legislation in a manner that would guarantee equivalent conditions for all nationals of the contracting countries working in agriculture, industry and other professions.
6. Co-ordination of labour and social security legislation.
7. a. Co-ordination of legislation concerning government and municipal taxes and duties and all taxes pertaining to agriculture, industry, trade, real estate, and capital investments in a manner ensuring equivalent opportunities.
   b. Avoidance of double taxation of nationals of the contracting parties.
8. Co-ordination of monetary and fiscal policies and regulations in preparation for the unification of currencies of the contracting parties.
9. Unification of statistical methods of classification and tabulations.
10. Adoption of any other measures that are necessary for the achievement of the goals specified in Articles (1) and (2).

It is, however, possible to make some exceptions to the principle of unification in special cases and countries subject to the approval of the Council of Arab Economic Unity as mentioned in Article (3) of this Agreement.

Chapter II

THE ADMINISTRATION

Article 3

An organization to be called the Council of Arab Economic Unity shall be established. Its functions and terms of reference shall be specified in accordance with the provisions of this Agreement.

Article 4

1. The Council shall be composed of one full-time representative or more for each of the contracting parties.
2. The permanent headquarters of the Council of Arab Economic Unity shall be located in Cairo*, but the Council may convene in any other place it shall specify.
3. The presidency of the Council shall be assigned alternately to each of the contracting parties for a period of one year.
4. the Council shall take its resolutions by a majority of two-thirds of the votes of the contracting parties and each state shall have one vote.

Article 5

1. The Council shall be assisted in carrying out its responsibilities by economic and administrative committees that work under its supervision on permanent or temporary basis. The functions of these committees shall be specified by the Council.
2. Initially the following permanent committees shall be established:
   a. The Customs Committee, for considering technical and adminstrative customs affairs.
   b. The Monetary and Financial Committee, for considering the handling of affairs pertaining to monetary and banking matters, taxes, duties and other financial affairs.
   c. The Economic Committee, for considering the affairs pertaining to agriculture, industry, trade, transport, communications, labour and social insurance. The Council may set up other committees whenever necessary.
3. Each of the contracting parties shall appoint its representative to the above-mentioned permanent committees, and each party shall have one vote.

Article 6

1. A Permanent Technical Advisory Bureau shall be established under the auspices of the Council of Arab Economic Unity. It shall be formed of technicians and experts appointed by the Council and shall function under its supervision.
2. The Permanent Technical Bureau shall undertake the study and investigation of the matters that are referred to it by either the Council or any of its committees. The Bureau shall submit studies and proposals that ensure harmony and co-ordination in matters within the Council's jurisdiction.

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*In its Eighth Special Session held on 31/3/1979, the Council of Arab Economic Unity passed a resolution transferring the permanent headquarters of the Council to Amman, the Hashemite Kingdom of Jordan.

3. The Council shall establish a Central Bureau of Statistics to collect statistics, analyse them, and publish them when deemed necessary.

Article 7

1. The Council of Arab Economic Unity and its affiliated bodies shall constitute one entity that enjoys financial and administrative autonomy, and it shall have a special budget.
2. The Council shall draft its own regulations and those for its affiliated bodies.

Article 8

In the course of a period not exceeding one month from the date of putting this Agreement into force, the contracting parties shall nominate their representatives to the Council and the committees specified in Article (5) paragraph (2) of this Agreement. The Council shall exercise its functions and form its affiliated bodies immediately after it is formed.

Article 9

The Council of Arab Economic Unity shall exercise, in general, all the functions and powers that are specified in this Agreement and its annexes or that are deemed necessary for ensuring its implementation. The Council shall particularly exercise the following:

1. In the Field of Administration:
   a. To work towards the implementation of the provisions of this Agreement and its annexes and all the regulations and decisions that are issued in implementation of the Agreement or its annexes.
   b. To supervise the administration of its committees and affiliated bodies.
   c. To appoint Council staff members and experts in accordance with the provisions of this Agreement.

2. In the Fields of Organization and Legislation:
   a. To formulate regulations, legislations, and tariffs aiming at the creation of a unified Arab customs area and introducing the necessary amendments whenever they are needed.
   b. To co-ordinate foreign trade policies with a view to ensuring the co-ordination of the region's economy vis-a-vis world economy and the attainment of the objectives of economic unity specified in this Agreement. The conclusion of trade and payments agreements with other countries shall be subject to the approval of the Council of Arab Economic Unity.

c. To co-ordinate economic development and to formulate programmes for the attainment of joint Arab development projects.
d. To co-ordinate policies related to agriculture, industry and internal trade.
e. To co-ordinate financial and monetary policies with the aim of achieving monetary unity.
f. To formulate unified regulations for transport and transit in the contracting countries and co-ordinating the relevant policies.
g. To draft common legislations on labour and social security, and amendments hereto.
h. To co-ordinate legislations for taxes and duties.
i. To formulate all other legislation pertaining to matters stipulated in the Agreement and its annexes deemed necessary for its realization and implementation.
j. To prepare a budget for the Council and its affiliated bodies and obtain approval thereof.

Article 10

Expenditures of the Council and its affiliated bodies shall be covered by appropriations from joint revenues. For the period preceding the realization of such revenues the governments shall cover these expenditures according to percentages to be fixed by the Council.

Article 11

The Council's joint revenues shall be apportioned among the governments of the contracting parties by mutual agreement on the basis of a study to be conducted by the Council prior to the implementation of the Customs unity.

Article 12

The Council shall exercise these powers and all other powers granted to it according to this Agreement and its annexes through resolutions that are passed by it. The member states shall execute these resolutions in accordance with their constitutional procedures.

Article 13

The governments of the contracting parties shall pledge not to promulgate any laws, regulations or administrative decisions contradictory to this Agreement or its annexes.

Chapter III

TRANSITIONAL PROVISIONS

Article 14

1. The implementation of this Agreement shall be carried out in stages and in the shortest possible time.
2. The Council of Arab Economic Unity, upon its formation, shall draw up a practical plan for the stages of implementation and shall specify the legislative, administrative and technical procedures for each stage, taking into consideration the annex concerning the steps that are necessary for the achievement of Arab Economic Unity, which is attached to this Agreement and which constitutes an integral part thereof.
3. The Council, upon exercising its functions that are specified in this Agreement, shall take into consideration special circumstances in some of the contracting countries without prejudice to the objectives of the Arab Economic Unity.
4. The Council, together with the contracting parties, shall carry out the procedures that are specified in paragraph (2) of this article according to the provisions of this Agreement.

Article 15

Any two or more of the contracting parties may conclude economic agreements that aim at realizing broader unity than that provided for under this agreement.

Chapter IV

RATIFICATION, ACCESSION, AND WITHDRAWAL

Article 16

This Agreement shall be ratified by states signatory thereto in conformity with their respective constitutional regulations as soon as possible. The instruments of ratification shall be deposited with the General Secretariat of the Arab League which shall in turn prepare the minutes thereof and notify the other contracting parties.

Article 17

The Arab League member states nonsignatory to this Agreement may accede therto by a declaration sent by them to the Secretary General of the Arab League who shall give notice thereof to the other states signatory to the Agreement.

Article 18

Arab States non-members of the Arab League may accede to this Agreement subject to the approval of the contracting parties by a declaration sent to the Secretary General of the Arab League and a notice thereof shall consequently be transmitted to the contracting states for approval.

Article 19

Any of the contracting parties may withdraw from this Agreement five years after the expiry of the transitional period. The withdrawal shall come into effect one year from the date of declaring the desire for withdrawal to the General Secretariat of the League of Arab States.

Article 20

This Agreement shall enter into force three months after the deposit of the ratification instruments by three of the signatories and shall be operative in each of the other countries one month after its instrument of ratification or accession is deposited.

In witness thereof the accredited representatives mentioned below have signed this agreement on behalf and in the name of their governments.

This Agreement is made in Arabic in Cairo on Monday the fifth day of Thil Quea'da, the year 1376 of the Hijra (3rd June 1957) in a single original to be deposited with the General Secretariat of the Arab League and an authentic copy shall be transmitted to each state signatory to this Agreement or acceding thereto:

For the Hashemite Kingdom of Jordan
For the Republic of Tunisia
For the Republic of Sudan
For the Republic of Iraq
For the Kingdom of Saudi Arabia
For the Syrian Arab Republic
For the United Arab Republic
For the Lebanese Republic
For the United Libyan Kingdom
For the Motawakilite Kingdom of Yemen
For the Kingdom of Morocco
For the State of Kuwait

SPECIAL ANNEX CONCERNING BILATERAL ECONOMIC AGREEMENTS WITH A NON-CONTRACTING PARTY OF THIS AGREEMENT

Reference to Paragraph (4) of Article (2) and to Paragraph (2b) of Article (9) (In the Fields of Organization and Legislation) of the Economic Unity Agreement Among States of the Arab League signed in Cairo on Wednesday the 3rd day of Moharam, the year 1382 of the Hijra (6th June 1962), the contracting parties have agreed that the provisions of this agreement shall not prejudice the right of any contracting party to conclude individually bilateral economic agreements for special political or defense purposes with a non-contracting party of this agreement, providing that the objectives of this agreement shall not be obstructed.

SPECIAL ANNEX CONCERNING THE NECESSARY STEPS FOR THE ACHIEVEMENT OF ARAB ECONOMIC UNITY

In accordance with Paragraph (1) of Article (14) of the Economic Unity Agreement Among States of the Arab League which provides for the implementation of this agreement in successive stages and in the shortest possible time, the contracting parties have agreed on the following:-

One: The Council of Arab Economic Unity which is mentioned in Article (3) of the agreement shall be established within the period specified in Article (8) of that agreement.

Two: This Council shall undertake, during a preliminary period not exceeding five years, a study of the steps that are necessary for the co-ordination of economic, political and social policies and for the achievement of the following objectives:-

a. Freedom of personal mobility, work, employment, residence, possession, bequeath and inheritance.
b. The complete freedom of transport of goods in transit without any restriction or condition on or prejudice against the transport vehicle because of its kind or nationality.
c. Facilitation of exchange of Arab goods and products.
d. Freedom of exercising economic activities with the consideration that no damage is done to the interests of some contracting countries at this stage.
e. Freedom of use of civil ports and airports that would guarantee greater activity and utilization of these ports and airports.

At the end of this stage, the Council may recommend to the governments of the contracting parties, if necessary, an extension of this stage for a period not exceeding another five years.

Three: The Council shall study the steps that are necessary for the achievement of all economic unity objectives according to the stages it shall specify and shall transmit its proposals in this respect to the governments of the contracting parties for approval in accordance with the constitutional procedures prevailing in each of them.

Four: Any two or more of the contracting parties may agree to terminate the preliminary stage or any other stage and move directly to complete economic unity.

Signatories and Ratification Dates:

a. The Agreement was approved by the Economic Council of the Arab League in its 4th Ordinary Session, 3rd meeting, on June 3, 1957.

b. The Agreement was signed by the delegates of the Governments of:

The Hashemite Kingdom of Jordan	On	6/6/1962
The Syrian Arab Republic	On	6/6/1962
The United Arab Republic	On	6/6/1962
The State of Kuwait	On	6/6/1962
The Kingdom of Morocco	On	6/6/1962
The Republic of Iraq	On	9/12/1963
The Arab Republic of Yemen	On	17/12/1963

c. The instruments of ratification were deposited by the Governments of:

The State of Kuwait	On	9/9/1962
The United Arab Republic	On	25/5/1963
The Republic of Iraq	On	30/1/1964
The Syrian Arab Republic	On	22/2/1964
The Hashemite Kingdom of Jordan	On	1/6/1964
The Arab Republic of Yemen	On	16/5/1967
The Democratic Republic of Sudan	On	19/11/1969
The Democratic Republic of Yemen (Accession)	On	2/6/1974
The United Arab Emirates	On	4/6/1974
The Democratic Republic of Somalia	On	6/1/1975
The Libyan Arab Republic	On	2/3/1975
The Islamic Republic of Mauritania	On	20/12/1975
Palestine (Accession)	On	30/12/1975

APPENDIX 3

THE PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN
LIST OF GOODS TO BE EXCLUDED FROM TRADE
LIBERALIZATION UNTIL 1990

THE PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN
LIST OF GOODS TO BE EXCLUDED FROM TRADE
LIBERALIZATION UNTIL 1990[1]

Item Code Number[2]	Description
3.01-3.03	Fish, crustaceans and mollusks
5.08	Bones and horn-cores
5.09	Horns, hooves, nails, claws, beaks, etc.
5.10	Unworked ivory or simply prepared, and its powder
5.11	Tortoise shell unworked or simply prepared
5.12	Coral and similar substances
5.13	Natural sponges
5.14	Ambergris, castoreum, civet and musk,etc.
6.03	Cut flowers and flower buds, etc.
6.04	Branches, foliage and other parts of plants
8.01-b	Bananas fresh
8.09	Other Fruits fresh: melons, watermelons, pomegranates, etc.
12.07-a	Qatt
15.07	Fixed Vegetable oils (cotton seed oil)
22.01-A	Spa water and aerated waters
22.03-22.09	Spirits and alcoholic drinks
24.02	Manufactured tobacco, tobacco extracts and essences
25.01	Common salt
33.01-33.05	Essential oils and resinoids
33.06-c,d	Skin softener lotions and others
36.06	Matches
39.07	Household atricles, kitchen and table utensils
41.06	Chamois- dressed leather
42.02	Travel goods
43.01	Raw fur skins

Item Code Number	Description
43.03	Articles of fur skin
43.04	Artificial fur and articles made thereof
44.24	Household utensils of wood
48.10	Cigarette paper
48.11	Wall paper
51.04	Woven fabric of man made fibers (contin.)
53.11-53.13	Woven fabrics of animal hair or wool
55.05-55.09	Cotton yarn and fabrics
56.07	Woven fabrics of man made fibers (discontinuous or waste)
Chapter 58	Carpets, mats, matting and tapestries, etc.
59.13	Elastic fabrics and trimmings
Chapter 60	Knitted and crocheted goods
Chapter 61	Articles of apparel and clothing accessories
64.01	Footwear with outer soles and uppers of rubber or plastic
64.02	Footwear with outer soles of leather
67.01-67.04	Prepared feathers and down
69.13	Statuettes and other ornaments
70.09	Glass mirrors
71.01	Pearls
71.02	Precious and semi-precious stones
71.03	Synthetic or reconstructed precious or semi-precious stones
71.15	Articles consisting of or incorporating precious or semi-precious stones
82.01	Hand tools
85.06-b	Vacuum cleaners
85.06-c	Other electro-mechanical domestic appliances
85.12	Electric water heaters and electric space heaters
87.02	Motor vehicles for transport of persons, goods, or materials

Item Code Number	Description
87.04	Chassis
87.05	Bodies for vehicles
87.06	Parts and accessories of the motor vehicles
90.15	Balances of a sensitivity of 5 cg. or better
92.01	Pianos
92.11	Gramophones and other sound recorders,etc.
92.12	Gramophone records
92.13	Other parts and accessories of 92.11
94.01	Chairs and other seats
94.03	Other furniture and parts
Chapter 95	Articles and manufacturers of carving or moulding material
96.05	Powder puffs and pads for applying cosmetics
98.10-98.13	Lighter, smoking pipes and parts, cigar and cigarette holders, combs, hairslides
99.01-99.04	Works of art, paintings, sculptures, etc.

SOURCE: Council of Arab Economic Unity, General Secretariat, Resolutions of the Thirty Eighth Regular Session (Jordan, 1981), Appendix 5 (in Arabic).

[1]After that date the list is to be renegotiated with the Council of Arab Economic Unity.

[2]Item code numbers are based on the Customs Cooperation Council Nomenclature (CCCN), formerly known as the Brussels Tariff Nomenclature (BTN).

APPENDIX 4

ISLAMIC REPUBLIC OF MAURITANIA
LIST OF GOODS TO BE EXCLUDED
FROM TRADE LIBERALIZATION

ISLAMIC REPUBLIC OF MAURITANIA
LIST OF GOODS TO BE EXCLUDED
FROM TRADE LIBERALIZATION[1]

Item Code Number[2]	Description
Chapter 22	Beverages, spirits and vinegar
33.06	Perfumery, cosmetics and toilet preparations
40.11	Rubber tires and tubes
48.01	Paper and paperboard
53.6-10	All types of yarn
55.09	(other) woven fabrics of cotton
56.07	Woven fabrics of man-made fibers
Chapter 62	(other) made up textile articles
87.2	Motor vehicles for transport of persons, goods or materials
12.7	Plants used in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes
25	Sulphur (25.03)

SOURCE: Council of Arab Economic Unity, General Secretariat, Resolutions of the Council of Arab Economic Unity, vol.1: From June 1964 to June 1975; vol.2: From December 1975 to July 1980; (October, 1980), 2:358 (in Arabic).

[1]The list will be renegotiated with the Council of Arab Economic Unity at intervals to be agreed upon by both parties.

[2]Item code numbers are based on the Custom's Cooperation Council Nomenclature (CCCN), formerly known as the Brussels Tariff Nomenclature (BTN).

APPENDIX 5

SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYAH LIST OF GOODS TO BE EXCLUDED FROM TRADE LIBERALIZATION UNTIL 1985

SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYAH
LIST OF GOODS TO BE EXCLUDED FROM TRADE
LIBERALIZATION UNTIL 1985

Item Code Number[1]	Description
4.01-b	Milk cream, fresh
4.02-c	Milk and cream, preserved concentrated or sweetened
4.03-1	Butter
4.03-2	Cheese
11.01	Cereal flours
19.08	Pastry, biscuits and cakes
22.01	Spa and aerated waters
23.02	Bran
23.07	Sweetened porridge
24.01	Unmanufactured tobacco
25.01	Common salt
25.03	Sulphur
25.23	Cement
31.01	Fertilizers
34.01	Soap
36.06	Matches
41.02 (1,2,3)	Bovine leather
42.01	Saddlery and harness
44.27	Articles of furniture of woods
48.18	Stationery of paper and of paperboard
53.07	Yarn of combed sheep or lamb's wool
64.01	Footwear with outer soles and uppers of rubber or plastic
64.02	Footwear with outer soles of leather
68.11	Articles of cement, of concrete or of artificial stone
69.01-69.14	Ceramic products
70.04-70.06	Unworked or polished glass
73.21	Structures or parts of structures of iron or steel

Item Code Number	Description
73.22	Reservoirs, tanks, vats or similar containers
85.04	Electric accumulators
94.01-94.03	All furniture of wood, and of steel
1.04	Live goats
1.05	Live poultry
1.06-b	Bees
2.02	Dead poultry and edible offals
4.01-a	Fresh milk
4.05-a	Eggs
4.06	Natural honey
6.01	Bulbs, tubers, roots, corms, crowns,etc.
6.02	Other live plants
7.01	Vegetables, fresh or chilled
7.04-a	Dried onions
-b	Dried garlic
8.01-a	Dates
-b	Bananas
-c	Mangoes
8.02-a	Fresh citrus fruits
8.03	Figs
8.04-a	Grapes, fresh
8.05-a	Almonds
8.06-a	Apples
-b	Peas
-c	Quinces
8.07	Stone fruit-fresh
8.08	Berries, fresh
8.09	Other fruit, fresh
9.04	Pepper and pimento
10.01	Wheat and muslin
10.02	Rye

Item Code Number	Description
12.09	Cereal straw and husks
12.10	Forage products
13.01	Henna
44.02	Wood, charcoal

SOURCE: Council of Arab Economic Unity, General Secretariat, A Field Survey of the Implementation of Arab Common Market Provisions (Jordan, 1981), Appendix: Documents of the Libyan Arab Republic (in Arabic).

[1]Item code numbers are based on the Customs Cooperation Council Nomenclature (CCCN), formerly known as the Brussels Tariff Nomenclature (BTN).

APPENDIX 6

CLASSIFICATION OF FOREIGN TRADE
MANUFACTURED ITEMS
ACCORDING TO MANUFACTURING CATEGORY

TABLE 11

CLASSIFICATION OF FOREIGN TRADE

MANUFACTURED ITEMS

ACCORDING TO MANUFACTURING CATEGORY

	Manufacturing Category	CCCN Chapter	items	Title of Chapter	except items
M1	Food Products	4	All*	Dairy produce, eggs and honey	4:05 eggs
		11	1-7	Products of the Milling industry	
		12	9-10	Cereal, straw and fodder roots	
		15	1,7, 13	Lard, veg. oils, margarine	
		16-21,23	All	Prepared foodstuffs	
M2	Beverages	22	All*	Beverages, spirits & Vinegar	22:08 Ethyl Alcohol
M3	Tobacco	24	2	Manufactured tobacco	
M4	Textiles	50-59	All*	Textile yarns and fabrics	Ch. 50:1-2, 53:1-5, 54:1-2, 55:1-4, 57:1-4
		60	1	Knitted or crocheted fabrics	
		62	All	Other made up textile articles	
		63	All	Rags	
M5	Wearing Apparel	60	All*	Knitted or crocheted goods	60.1
		61	All	Articles of Apparel and clothing accessories	
		65	3-7	Hats and other head gears	

	Manufacturing Category	CCCN Chapter	items	Title of Chapter	except items
M6	Leather and Products	41	All*	Leather	41.01
		42	All	Articles of leather	
		43	All*	Fur skin and articles	43.1
M7	Footwear	64	All	Footwear, gaiter	
M8	Wood Products	44	7-28	Articles of wood	
M9	Furniture and Fixtures	94	All	Furniture and parts	
M10	Paper and products	48	All	Paper and paperboard and articles	
M11	Printing, Publishing	49	All	Printed books, newspaper	
M12	Industrial Chemicals	28	All	Inorganic chemicals	
		29	All*	Organic chemicals	29:38, 39, 44
		31-39	All*	Products of the chemical and allied industry	31:01; 39:06, 07
M13	Drugs and Medicines	29	38, 39, 44	Vitamins, hormones and antibiotics	
		30	All	Pharmaceuticals	
M14	Rubber Products	40	5-16	Rubber products	
M15	Plastic Products	39	6-7	Articles of plastic	
M16	Pottery, china	69	11-13	Tablewear and ornament of porcelain, china or pottery	

	Manufacturing Category	CCCN Chapter	items	Title of Chapter	except items
M17	Glass and Products	70	All	Glass and Glassware	
M18	Non- Metal Products	11	8,9	Starches and wheat gluten	
		15	10,11	Fatty acids and glycerol	
		22	8	Ethyl alcohol	
		25	22,23	Cement	
		45	3,4	Articles of cork	
		46	All	Plants and articles of straw	
		47	All		
		65	1,2	Hat forms and shapes	
		68	All	Articles of stone, plaster	
		69	1-9, 14	Heat insulating products	
M19	Iron and Steel	73	1-20	Iron and steel	
M20	Non- Ferrous Metals	71	5-11	Precious metals, unworked	
		74	1-8	Copper	
		75	1-4	Nickel	
		76	1-7	Aluminium	
		77	1-2	Magnesium and beryllium	
		78	1-5	Lead	
		79	1-4	Zinc	
		80	1-5	Tin	
M21	Metal Products	69	10	Sinks	
		73	21-40	Articles of iron and steel	
		74	10-19	Articles of copper	
		75	5-6	Articles of nickel	
		76	8-16	Articles of aluminium	
		77	4	Articles of magnesium beryllium	
		78	6	Articles of lead	

	Manufacturing Category	CCCN Chapter	items	Title of Chapter	except items
M21	Metal Products (Cont'd)	79	6	Articles of zinc	
		80	6	Articles of tin	
		81	All	other base metals and articles	
		82	All	Tools and implements of base metal	
		83	All	Miscellaneous articles of base metal	
M22	Machinery	84	All	Machinery and mechanical appliances	
		87	1	Tractors	
M23	Electrical Goods	85	All	Electrical machinery and equipment	
M24	Transport equipment	86-89	All*	Vehicles, aircraft, vessels and associated transport equipment	87:01, 04
M25	Other manufacturers	66,67	All	Optical, photographic eg. clocks, musical instruments	
		71	1-4, 12-16	Arms, ammunition, carving manuf. toys, broom, etc. jewelry, coins	
		72	All		
		88	4		
		90-93, 95-98	All		

NOTES: This table establishes a correspondence between manufacturing categories and foreign trade items in the Customs Cooperation Council Nomenclature (CCCN)
- If all the chapter is included in the category then "all" appears under "items".
- If only a limited number of items of a chapter are included in the category, then those items are specified under "items".

LIST OF ABBREVIATIONS

1.	ACM	Arab Common Market
2.	BTN	Brussels Tariff Nomenclature
3.	CAEU	Council of Arab Economic Unity
4.	CCCN	Customs Cooperation Council Nomenclature
5.	ECWA	United Nations Economic Commission for Western Asia
6.	EEC	European Economic Community
7.	ISIC	International Standard Industrial Classification
8.	OECD	Organization for Economic Cooperation and Development
9.	OPEC	Organization of Petroleum Exporting Countries
10.	SITC	Standard International Trade Classification
11.	UNIDO	United Nations Industrial Development Organization

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