

Ministry of Agriculture and Agrarian Reform

**NAPC**

National Agricultural Policy Center

**PROCEEDINGS**

of the  
**Agricultural Policy Forum**  
on

**“THE GREAT ARAB FREE TRADE AREA:  
IMPACT ON ARAB ECONOMIES”**

held in Damascus on 22 October 2003

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Ministry of Agriculture  
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## **Introduction**

A seminar on “Great Arab Free Trade Area: Impact on Arab Economies” was held in Damascus on October 22<sup>nd</sup>, 2003 in the framework of the Agricultural Policy Forum promoted by the National Agricultural Policy Center (NAPC), with the support of Project GCP/SYR/006/ITA-Phase II.

The Agricultural Policy Forum aims at promoting the debate on agricultural policy issues among national and international experts, stakeholders and policy makers in order to provide technical background for the policy making process, and to obtain suggestions for NAPC research and policy advice activities.

Mr Mohammed Bashar Al Abrash, Director of the Fiscal and Monetary Planning Department in the State Planning Commission, described the Great Arab Free Trade Area (GAFTA) Agreement, giving an overview of the situation preceding its establishment, and illustrated the implementation constraints of the agreement. Finally, some recommendations on possible ways to improve the performance of GAFTA were formulated.

## **Synthesis of Presentation**

Mr Al Abrash started with highlighting the importance of economic activities as instruments for promoting social and political convergence: new economic groups are in fact playing a key role in converging Arab economic activities and political perspectives.

He mentioned how, despite the numerous efforts to engage into different forms of regional economic integration, inter-Arab trade has been lagging behind. The formation of a regional trading block, resulting from the effective implementation of trade agreements, is still at an early stage: empirical evidence showed in fact that the impact of formal settlements on Arab regional trade liberalization has been extremely limited. Many factors were presented to explain the weakness of inter-Arab trade and the failure of previous Arab regional agreements to stimulate trade among Arab Countries (ACs). Among these, the main economic constraints can be identified as follows: difference in economic systems, similarity of production structure and traded goods, lack of adequate transportation infrastructure compounded by distance, overprotection, heavy reliance on trade taxes, lack of market information and poor competitiveness of products.

Furthermore, the lecturer explained the situation preceding the establishment of GAFTA, by presenting a historical excursus of the most relevant attempts to achieve Arab economic integration.

### *Agreement on Trade Flow and Transit Rules (1953)*

This agreement, signed by Egypt, Iraq, Jordan, Lebanon, Saudi Arabia and Syria, was adjusted four times in order to establish a well functioning trade system by setting transit rules. It aimed at eliminating tariffs on many agricultural commodities; reducing tariff on some industrial and agricultural products by 25%; ensuring a nondiscriminatory treatment to local and Arab products; simplifying administrative procedures.

### *Agreement on Current Transaction Payment and Capital Movement*

It was conceived as an integration of the previous one with a particular focus on the liberalization of capital movement among ACs. Nevertheless, since many ACs did not offer suitable conditions to invest, most of the capitals flew outside the Arab region.

### *Arab Common Market (1964)*

The ACM, envisaging full exemption from tariff and non-tariff barriers, resulted from the willingness to create a Pan Arab market under the auspices of the Arab League. Its intent was to foster free trade among ACs by eliminating restrictions to all goods with the exception of agricultural and animal products.

The potential benefits of this agreement were limited as many ACs did not sign it.

*Agreement on Trade Flow Facilitation and Development (1981)*

Signed by the member states of the Economic and Social Council of the Arab League, it was a declaration of intent by the signatories to negotiate the full exemption of tariffs and non-tariff measures for manufactured and semi-manufactured goods.

*Great Arab Free Trade Area (1997)*

It was signed by the following member countries of the socio – economic council of the Arab League: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian Territories, Saudi Arabia, Syria, Tunisia, United Arab Emirates, in addition to Sudan and Yemen that joined recently. Its main objectives were to:

- “Free trade Exchange among ACs from various charges and restrictions imposed on it in accordance with the following rules:
  1. Full relief for some Arab goods and products traded between Member-States from various charges and restrictions imposed on non-national (non-Country) products.
  2. Gradual reduction of various charges and restrictions imposed on some other traded Arab goods and products.
  3. Provision of gradual protection for Arab goods and products to face competition from similar or alternative non-Arab goods.
- Harmonize matching between production of and trade in Arab goods, using various means, particularly provision of funding facilities required for their production.
- Facilitate the funding of inter-Arab trade and settlement of payments resulting from such trade” (GAFTA, Article II – as reported on the official website of the Arab League).

The agreement of GAFTA, which came into effect in 1998, entailed the elimination of non-tariff barriers and the reduction of tariff rates on goods traded among ACs by an average of 10% a year, over a period of ten years (1998-2007). A recent modification, aiming at accelerating the integration process, set the year 2005 instead of 2007 as the deadline by which all tariffs will be removed; thus, the rate of reduction to be applied in 2004 and 2005 is 20%.

Furthermore, the council agreed to remove administrative, quantitative, and monetary restrictions (non tariff barriers); implement agricultural calendars allowing every country to suspend implementation of tariff reductions on a maximum of 10 agricultural commodities during the months of peak production; and adopt the principle of direct exchange in trade among party-states.

Hence, Mr Al Abrash referred to the main constraints in the implementation of GAFTA as follows: lack of transparent information on trade flows and unclear methods of evaluation of commodities; taxation discrimination between local products and imported commodities; strict specifications such as the atomic lab analysis certificate to be applied to both local and imported commodities; administrative, quantitative, and monetary restrictions; non compliance with the commitments related to the rules of origin.

In order to reduce any shortcoming, ACs have to overcome several challenges. They have to activate arbitration mechanisms, set the rules of competition, and include trade services. The lecturer made a point on the fact that even though most restrictions were removed, trade exchange among ACs has not significantly improved.

Admittedly, there are performance differences among countries; as an example he mentioned that, while export increased in 12 ACs, it decreased in other 7, and while imports increased in 14 of them, it decreased in other 5 (2001 estimates).

Noting that the volume of inter-trade in total Arab trade reaches only 8-9%, he indicated that, bilateral agreements proved to be more effective than GAFTA in trade creation, highlighting that ACs main trade flows are mostly directed toward international markets.

Mr Al Abrash concluded by saying that the performance of GAFTA might be improved by overcoming the constraints, finding suitable mechanisms supporting the least developed ACs in facing the adjustments costs involved in trade liberalization, and taking the needed actions to liberalize trade services which are currently not included in the agreement.

## **Summary of Discussion**

Invited by Mr Hindi, the audience and the lecturer started a debate concentrating on the following main issues.

### ***Dispute Settlement***

The Ministry of Economy in each member country has been establishing committees to report to the Arab League on the implementation of GAFTA. All eventual contrasts should be solved via the Arab League that eventually would set up ad hoc committees to consider the complaints and promote the actions needed to remove the barriers limiting a smooth solution of controversies.

### ***Agricultural Calendar and Import Ban***

The effectiveness and efficiency of GAFTA is limited by the members' lack of compliance with its provisions, among which the implementation of the agricultural calendar. If ACs closely followed the dispositions related to it, agricultural trade would have been more mutually beneficial.

GAFTA did not create an import ban list for agricultural commodities as the agricultural calendar already gives precise disposition on the possibility of maintaining only tariff protections for a limited number of products. Moreover, in 2005 all agricultural products will be free from tariff

### ***GAFTA and WTO***

GAFTA and WTO can coexist as there is no contradiction between these two multilateral agreements.

On the other hand, some concerns were reported about the contrast between the dispositions of some bilateral agreements and GAFTA.

### ***GAFTA and Bilateral Agreements***

As confirmed by the reports of some Arab countries, in the short term bilateral agreements brought about more beneficial trade effects than GAFTA.

In concluding the meeting the Director of the NACP, Mr Hindi, intervened stressing that the benefits coming from the committees responsible for the implementation of GAFTA are limited because there is no specific system to exchange information among the members of the Arab League. Possibilities to properly monitor implementation of the agreement are also restricted by the absence of a standardized style of documentation in member countries. He also indicated that the Arab League lacks the power to solve eventual financial problems and to support its weak members.

As for the agricultural calendar, the NACP Director mentioned that its applicability was reduced from 10 to a maximum of 7 products per country and the total protection period from 45 to 35 months; he also highlighted that the protection periods established for some crops do not prevent the entrance of the crops themselves, but only allow for a higher tariff protection.

Finally, Mr Hindi thanked Mr Al Abrash for his very interesting presentation and the audience for its active participation.

## **Annex 1: List of Participants**

### **Italian Embassy**

Cascone, Andrea, Counselor for Economic Affairs

### **French Embassy**

Kaadan, Waél, Attaché Sectoriel

### **Syrian-European Business Center**

Mazzanti, Daniele, Administrator

Gadegaard, Paul, Acting Director

### **Teshreen Daily**

Al Hamdan, Hany, Editor

Harba, Annis, Journalist

### **Al Thawra Daily**

Maa'louf, Fawzi, Journalist

### **Syrian Television**

Al Zibi, Mohammad, Photographer

Al Zibi, Samer, Photographer

Selman, Habib, Editor

Soubeh, Gassan, News Editor

### **Ministry of Agriculture and Agrarian Reform**

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Hazim, Moukles, Al Badia Development Project

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Mohammed, Hassan, Agricultural Affairs Dept.

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### **Ministry of Trade**

Kanan, Mohammad, Head of the Economic Studies Department

### **Ministry of Local Administration and Environment**

Hwejai, Faeze, Directorate of Planning

Al Atrash, Sawsan, Directorate of Planning

## **General Commission for Agriculture Scientific Research (GCASR)**

Amatoury, Moumen  
Mansour, Fayez  
Talab, Tauny

## **State Planning Commission**

Al Zehely, Mounir, Director of Agriculture and Irrigation Planning  
Rihawy, Daaed, Deputy Director of Agriculture and Irrigation Planning

## **Rural Damascus Agriculture Department**

Saadat, Ali

## **University of Damascus, Faculty of Agriculture**

Atwan, Saman, Professor

## **Agricultural Chambers' Federation**

Salloum, Najdat, Director

## **General Peasant Federation**

Kouzam, Rajaa

## **National Agricultural Policy Center (NAPC)**

Al Saadi, Usama  
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Al Ashkar, Haitham  
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Haj Shareef, Mahmoud  
Karkout, Me'dad  
Melli, Nadia  
Nehme, Nawal  
Shehadeh, Widad  
Soubh, Samira  
Shwaiekh, Raghad

## **FAO**

Fiorillo, Ciro, Chief Technical Advisor  
Grillone, Carmela, International Consultant  
Pirro-Tomaso Perri, International Consultant

## Introduction

- Importance of Economy as a tool for political positions unification
- new economic groups and their role in converging Arab economic activities
- Reasons of previous experiences failure:
  - Different economic and social changes
  - Different income levels in Arab countries

## Situation before the establishment of AFTA

- Agreement on trade flow and transit rules
- Agreement on current transaction payment and capital movement
- Arab Common Market
- Agreement on trade flow facilitation and development
- Agreement of Arab Free Trade Area (AFTA)

## Application Constraints

- Lack of transparent information on trade flows
- Taxation discrimination
- Strict specifications
- Administrative, quantitative, and monetary restrictions
- Non compliance with the commitments related to rules of origin

## The development of AFTA : its challenges

- 1- acceleration of the process of setting the detailed rules of origin;
- 2- restriction of concession;
- 3- activate arbitration mechanisms;
- 4- setting the rules of competition;
- 5- inclusion of services trade into the activities of the free trade area;
- 6- adoption of benefits and burdens exchange principle;
- 7- enhancing the awareness of Arab importers

## Economic Influence of AFTA

- Different levels of trade flow
- Restriction of trade flow to one or two partners
- Stable bilateral trade flow in comparison to total Arab trade

## Conclusion

- Improving the performance of AFTA
- Overcoming the constraints
- taking the actions required to ensure the success of AFTA such as
  - Setting the proper mechanism for compensating the less Arab Developed countries; and
  - Starting serious actions to liberalize services trade.