Globalization and Trade Initiatives in the Arab World

Historical Context, Progress to Date, and Prospects for the Future

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The forces of globalization during the past two decades have been particularly powerful, but for many reasons, countries in the Arab region have not participated in globalization to the extent found in other parts of the world.[1] Whereas most areas worldwide experienced a significant increase in global trade as a percentage of total gross domestic product (GDP) between 1980 and 2004, trade ratios in the Arab region actually declined during that period.[2]

In its *Economic Developments and Prospects* report of 2007, the World Bank found that "a legacy of protectionist trade and exchange rate policies" hindered the Middle East and North Africa (MENA) area's ability to expand trade and that the "region maintained the highest level of tariff protection in the world outside of South Asia."[3] These factors led the World Bank to conclude that countries in the MENA had all fallen behind in terms of "global trade and investment integration."[4]

At the start of the new millennium, many people inside and outside the Arab region began to question whether efforts should be made to better integrate the Arab world into the changing global economy.[5] Notably, Saudi

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oil minister Ali Naimi publicly recognized the benefits and challenges that globalization brings to the Arab world:

> We are transitioning to a global marketplace where traditional national borders are increasingly meaningless for the transfer of capital and ideas. The operative word for the future is interdependence. We are being drawn closer together by expanding global trade and investment. *Those attempting to "go-it-alone" in this new global economy will risk being left behind.*
>
> Globalization holds the promise of a better way of life for the world's people. But realizing this promise will not always be easy. We will be faced with tradeoffs as we try to balance economic growth, quality of life, the environment, culture and tradition.[6] (emphasis added)

In an effort to enhance Arab participation in the world's trading regime, in 2003 President George W. Bush proposed an initiative for a Middle East Free Trade Area (MEFTA) to promote trade, development, and economic growth in the Arab region.[7] The MEFTA initiative called for the United States to take a series of graduated steps with Arab countries ultimately aimed at creating a regionwide free trade area by 2013.[8] The proposed steps included (1) US assistance in acceding to the World Trade Organization (WTO); (2) expanding the Generalized System of Preferences (GSP) program for eligible countries; (3) establishing trade and investment framework agreements (TIFA); (4) establishing bilateral investment treaties (BIT); (5) negotiating comprehensive free trade agreements (FTA); and (6) eventually "melding" all of the FTAs into a MEFTA.[9] The MEFTA initiative also called for the United States to provide financial and technical aid to countries for building trade capacity.[10]

This article discusses (1) whether external trade intervention, such as the proposed MEFTA initiative, will lead to greater economic integration of the Arab world into the multilateral trading regime and (2) whether MEFTA can serve as the catalyst to enhance intraregional trade and investment.[11] Part 1 of the article provides historical background related to trade and globalization in the Arab world and discusses the historically low global and intraregional trade and investment ratios found in the MENA. Part 2 offers a detailed analysis of the United States' MEFTA initiative, including its policy goals and components. Part 3 analyzes the potential economic impact on the MENA region of external trade intervention, such as WTO accession and the MEFTA initiative. It first addresses the possible effect of WTO accession on the MENA and then examines the potential economic impact that the MEFTA initiative might have on Arab trade with the United States. Lastly, part 3 considers whether that initiative could spur an increase in intraregional trade and investment. The article concludes that external trade intervention, such as WTO accession and the MEFTA initiative, offers a dynamic opportunity for the Arab region to better integrate into the world economy. Although the WTO supplies the forum for the multilateral trading regime, the promise of MEFTA comes from its potential to encourage economic and policy reforms within the Arab area that might ultimately result in strengthened trade ties, both internationally and intraregionally.

Historical Context: The Arab Region's Historically Low Trade Ratios

The Forces of Globalization Leave the Middle East Behind

As Renato Ruggiero, former director-general of the WTO, succinctly stated, "A powerful confluence of forces drives globalization."[12] Some of these forces reflect government policies, and others seem to have a life of their own. The forces of globalization since the end of the Cold War have been particularly dramatic, leading many to question why the Arab region has not participated in globalization to the degree found elsewhere.[13]

By the early 2000s, international institutions began to recognize that the Middle East was largely missing out on trade-related growth.[14] According to United Nations statistics at the time, "the [Middle East's] share of world exports peaked at 12% in 1981, but dropped to less than 5% in 2001. Regional trade has been particularly low. In 2001 it accounted for 8% of the region's total trade, compared to nearly 75% for Europe and 50% for Asia. And [United Nations] statistics reveal [that] the Middle East attracted only 0.7% of global foreign direct investment throughout the 1990's."[15]

In its *Economic Developments and Prospects* report of 2007, the World Bank found that the MENA countries had "entered the new millennium at a significant deficit with respect to most other regions of the world in terms of its integration into the world economy."[16] The volume of trade increased in most regions of the world over the prior two decades, but trade in the MENA region declined.[17] The ratio of trade to GDP fell from an average of 100 percent in 1980 to about 60 percent by 2000.[18] Oil dominated regional exports, and "only a few countries had established growing non-oil export sectors."[19]

The MENA also attracted only a negligible share (a mere 0.3 percent) of the world's foreign direct investment.[20] Although many factors affect the level of trade, the World Bank concluded that the MENA region's ability to expand trade was "disadvantaged by a legacy of protectionist trade and exchange rate policies."[21] It further found that "the [MENA] region maintained the highest level of tariff protection in the world outside of South Asia, with simple average tariffs in MENA averaging almost 19 percent."[22]

The MENA maintained high nontariff barriers, such as price-control measures, import licenses, and quota requirements.[23] In addition, several factors increased the costs to trade, including "technical barriers to trade, customs, and administrative procedures, and costly and inefficient backbone services, such as transport, logistics, ICT [information and communications technology] services, and finance."[24]

Arab Trade with Europe and the United States Is Low

An extensive study of trade in the Arab countries reveals "considerable evidence that these countries trade significantly less than countries with similar incomes and geographic proximity to trading partners in other parts of the world."[25] In a paper presented to the World Bank, Jeffrey Nugent, professor of economics at the University of Southern California, used a gravity-model specification to find that the Middle East traded under its potential in the mid-1990s.[26] Professor Nugent "obtained shortfalls in trade with respect to Europe and the North American Free Trade Agreement (NAFTA), which he ascribes to a variety of causes, including low oil prices, high tariff barriers, poor telecommunications, capital and exchange controls, and . . . trade diversion effects."[27]

Other studies using a gravity-model specification also found that almost all Arab countries were far below their estimated export potential with the European Union.[28] One such study examined 15 Arab countries' exports to Europe and concluded that, on average, they were 33.5 percent lower than they would be, assuming that their export behavior to the European Union market is identical to that of any European Union country.[29]

One reaches the same conclusion with respect to Arab trade with the United States. An economic study of 2005 that examined the bilateral trade of six MENA countries (Algeria, Tunisia, Morocco, Egypt, Jordan, and Syria) with the United States found that they "seriously underexploited their trade potential with the United States."[30] The study concluded that "in particular . . . the United States is a major untapped market for Jordan, Morocco, Syria, and Tunisia, while Algeria and Egypt 'overexport' to the United States."[31]

Intraregional Trade Is Low

Several studies in 2005 found that Arab countries do not trade enough among themselves. One discovered that intraregional trade between Arab countries was nearly four times less than expected.[32] Another used a comprehensive gravity model that included both policy and institutional factors to explain the trade shortfalls of the MENA region.[33] Researchers estimated the model "with panel data techniques based on recently assembled panel data on bilateral trade flows and the relevant explanatory variables for over 150 countries for the years 1970, 1975, 1980, 1985, 1990, 1995, 1997 and 2000."[34] This study verified that MENA trades too little, both intraregionally and with countries outside the region.[35]

The United States' Middle East Free Trade Area Initiative

In 2003 the United States, under the Bush administration, proposed establishing a US MEFTA by 2013.[36] Under the MEFTA initiative, the United States would engage countries in the MENA in a step-by-step process designed to facilitate trade relations with the United States.[37] The initiative envisioned that these steps would lead to the negotiation of comprehensive bilateral FTAs between the United States and all countries in the region.[38] The United States would then combine these into a single overarching arrangement (i.e., MEFTA) between the United States and the area as a whole.[39] The following sections provide background on the reasoning behind the MEFTA initiative and the step-by-step approach under it.

Key Indicators of US Economic Ties to the Middle East

US trade with the Middle East is a small share of its total trade, in 2005 accounting for only 4.1 percent of all US exports and 4.6 percent of all US imports.[40] These low numbers indicate that on the basis of economic size alone, "the Middle East is not a region on which the United States would normally be expected to focus."[41] US interest in MEFTA is not primarily economic; rather, it reflects "geopolitical and security considerations" related to the United States' war on terror and the Middle East's strategic position as a key supplier of oil and gas.[42] The MEFTA initiative also reflects the United States' policy perspective that the Middle East needs an economic component as part of a comprehensive strategy to address the numerous conflicts it faces.[43]

Background on the Middle East Free Trade Area Initiative

Just a year and a half after the terrorist attacks of 11 September 2001 on the World Trade Center, the Bush administration proposed the MEFTA initiative as part of a plan to fight terrorism through the use of trade-policy mechanisms designed to encourage economic growth and democratic reforms in the Middle East.[44] MEFTA incorporated an idea debated in Washington at the time—using trade as a tool to fight terrorism. For example, prior to the announcement of MEFTA, policy analyst Edward Gresser argued that the Arab world had been the "blank spot" on the Bush administration's trade agenda and that this "undermin[ed], rather than support[ed], the war on terrorism."[45] Gresser noted the "economic crisis affecting almost all of the western Muslim states," observing that these states had "seen their share of world trade and investment collapse since 1980."[46] This resulted in "stagnant growth and falling income" as well as "unemployment, political tension, and rising appeal for religious extremists."[47] He further argued that "a strategic initiative for the Muslim world could end, or at least ease, the tilt."[48] Gresser called for an initiative "analogous to programs now available for Central America, the Andean nations, and Africa" in order to promote "growth and creation, and so reduc[e] the attraction of radicalism and religious fundamentalism."[49]

Brink Lindsey of the Cato Institute argued for an initiative that could generate immediate results to supplement the Bush administration's pursuit of FTAs, which take longer to negotiate.[50] He proposed a short-term initiative: legislation that would "grant temporary duty-free, quota-free access to the U.S. market for exports of selected Muslim countries."[51] Lindsey maintained that this shorter-term program would prove the United States' "commitment to the region, thereby providing a jump-start for the longer, arduous process of negotiating FTAs."[52]

The policy objectives suggested by Gresser and Lindsey were later supported by the *9-11 Commission Report*, which included the following recommendation: "A comprehensive U.S. strategy to counter terrorism should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future."[53] In summary, the premise of the United States' MEFTA initiative was that an economic boost to the region could help alleviate the poverty, weak institutions, and corruption believed to make some countries vulnerable to terrorist networks.[54]

On 23 June 2003, at the World Economic Forum in Jordan, US trade representative Robert Zoellick offered further details on the initiative.[55] In terms of eligibility, the Bush administration's MEFTA initiative is open to "'peaceful' countries that seek an increased trade relationship with the United States and . . . 'all those countries that are prepared to participate in economic reform and liberalization.'"[56]

Ambassador Zoellick outlined a six-step process or "roadmap to MEFTA" for Middle East countries to become part of MEFTA.[57] These steps included (1) the United States assisting countries in joining the WTO; (2) participating in the GSP; (3) entering into TIFAs; (4) entering into BITs; (5) entering into FTAs with the United States; and (6) eventually "melding . . . subregional FTAs into an historic regional [MEFTA]."[58] The ambassador also indicated that "the final element" of the MEFTA initiative included the United States providing financial and technical aid to fund the building of trade capacity in the region.[59] As envisioned, MEFTA would ultimately cover 20 countries in the MENA.[60]

The Step-by-Step Middle East Free Trade Area Initiative

World Trade Organization accession. It is the United States' position that Arab countries that join the rules-based system of global trade by accession to the WTO will be better able to take advantage of the benefits of open markets and globalization.[61] At the beginning of the new millennium, nine countries in the MEFTA were members of the WTO: Bahrain, Cyprus, Egypt, Israel, Kuwait, Morocco, Qatar, Tunisia, and the United Arab Emirates (UAE). Over the past seven years, three additional MEFTA countries have joined the WTO: Jordan, Oman, and Saudi Arabia (see table).

Table. Entities covered by the MEFTA initiative: Progress toward a bilateral free trade agreement with the United States

MEFTA Entity	*WTO Membership*	*GSP*	*TIFA*	*BIT*	*FTA*
Middle East					
Bahrain	1995	—	2002	2001	2006
Cyprus	1995	—	—	—	—
Egypt	1995	Yes	1999	1992	—[a]
Gaza Strip/ West Bank	—	—	—	—	—[a]
Iran	Negotiating	—	—	—	—
Iraq	Negotiating	Yes	2005	—	—
Israel	1995	—	Yes	Yes	1985
Jordan	2000	Yes	Yes	2003	2001
Kuwait	1995	—	2004	—	—
Lebanon	Negotiating	Yes	2006	—	—
Oman	2000	Yes	2004	—	2006
Qatar	1996	—	2004	—	—
Saudi Arabia	2005	—	2003	—	—
Syria	—	—	—	—	—
UAE	1996	—	2004	—	Negotiating
Yemen	Negotiating[b]	Yes	2004	—	—
North Africa					
Algeria	Negotiating	Yes	2001	—	—
Libya	Observer	—	—	—	—
Morocco	1995	—	Yes	1991	2006
Tunisia	1995	Yes	2002	1993	—

Source: Data from WTO/Office of the US Trade Representative; adopted from Mary Jane Bolle, *Middle East Free Trade Area: Progress Report*, CRS Report for Congress, RL32638 (Washington, DC: Congressional Research Service, 2006), 14, table 2, http://www.hsdl.org/?view&did=464705.

[a]Goods are eligible for US free-trade benefits under a 1996 amendment to the United States–Israel Free Trade Area Implementation Act of 1985, Public Law 104-234, 110 Statute 3058 (1996) (codified as amended at 19 *United States Code* ‘ 2112 note [2000]), if coproduced with Israel, Jordan, or Egypt in a qualifying industrial zone in compliance with rules of origin requirements, or wholly produced in the Gaza Strip / West Bank.

[b]The WTO General Council established a working party to examine Yemen's request for accession in July 2000. The fourth meeting of the working party took place in November 2007, at which time the government of Yemen highlighted its determination to address the WTO accession requirements in 2008 in order to become a member in 2009.

In April 2000, Jordan became the 136th member of the WTO six years after establishing a working party under the General Agreement on Tariffs and Trade (GATT) and with significant assistance from the United States.[62] Jordan's accession was hailed as a "historical moment" and "a turning point in the continued development of the Jordanian economy."[63] In November 2000, the Sultanate of Oman became the 139th member of the WTO after concluding negotiations that began in 1996.[64] In December 2005, Saudi Arabia became the 149th member of the WTO after almost 12 years of negotiation.[65] Saudi Arabia's accession was a historic day for the WTO and brought to the "multilateral table" the 13th-largest merchandise exporter and the 23rd-largest importer.[66] Given its position as the "swing" energy producer and its historical lack of transparency, Saudi Arabia is perhaps the most significant Arab state to join the WTO. All but one of the remaining MEFTA countries (Algeria, Iran, Iraq, Lebanon, and Yemen) are in the process of negotiating their accession to the WTO.[67] The only exception, Libya, has been granted observer status but has not yet started the accession process.[68]

As a practical matter, however, WTO accession takes years, and the United States has recognized that it is not an immediate answer to US security concerns related to the Arab region.[69] As former US trade representative Charlene Barshefsky acknowledged, "Programs of a more immediate nature" are "critical to bring economic and job growth to [the MENA] region to provide hope and a counterweight to a large growing, relatively well educated but unemployed population."[70] Barshefsky also recognized the need for greater economic integration in the region by stating that "we need the kind of relief that may help these countries integrate one with the other."[71]

Continuation of the Generalized System of Preferences. The short-term plan under MEFTA includes continuation of the GSP, which allows duty-free entry into the US market for at least 3,500 products from 140 developing countries.[72] As of 2006, only eight of the 20 countries covered under MEFTA were eligible for GSP benefits: Algeria, Egypt, Iraq, Jordan, Lebanon, Oman, Tunisia, and Yemen.[73]

The GSP provisions of the United States' Trade Act of 1974 also limit product preferences on the basis of import sensitivity.[74] GSP provisions specifically exclude from tariff preferences certain textiles and apparel, watches, footwear, handbags, luggage, wallets and briefcases, work gloves and other leather wearing apparel, steel, glass, and electronics.[75] Because these are important export categories for MEFTA countries, imports under GSP represent only a small fraction (0.2 percent for 2005) of all imports from the MEFTA region.[76]

Trade and investment framework agreements. TIFAs "establish a framework for expanding trade and for resolving outstanding disputes."[77] Since the MEFTA initiative was announced in 2003, the United States has negotiated new TIFAs with eight countries: Iraq, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, the UAE, and Yemen (see table above).[78] Nearly three-quarters of the MEFTA entities now have TIFAs with the United States.[79] The MEFTA entities that do not include Cyprus, the Gaza Strip and the West Bank, Iran, Libya, and Syria (see table above).[80]

Bilateral investment treaties. "Bilateral investment treaties (BITs) oblige governments to treat foreign investors fairly and to offer them legal protections equal to those afforded domestic investors. BITs make the business climate more attractive to U.S. companies."[81] Since the announcement of the MEFTA initiative, the United States and Jordan have approved a BIT.[82] Subsequently, the United States now has BITs with more than one-quarter of the MEFTA entities: Bahrain, Egypt, Israel, Jordan, Morocco, and Tunisia (see table above).[83] The following MEFTA entities do not have BITs with the United States: Algeria, Cyprus, the Gaza Strip and the West Bank, Iran, Iraq, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, the UAE, and Yemen.

Free trade agreements. Since implementation of the MEFTA, the United States has completed FTAs with Bahrain, Morocco, and Oman, and an FTA with the UAE is under negotiation.[84] FTAs were already in effect for Israel and Jordan.[85] Some people have questioned the effectiveness of these FTAs, and in light of the MENA region's historical reluctance "to engage in . . . fundamental systemic changes," some skepticism is probably warranted.[86] Some have also questioned the benefits of FTAs in light of the relatively modest trade and investment links between the Arab countries and the United States.[87]

Although some skepticism might be warranted, it is important to note that the FTAs with Bahrain, Morocco, and Oman are particularly striking because of their "comprehensive and deep character."[88] Unlike other FTAs, these new ones require liberalization for trade in all goods, including agriculture, and for many services and foreign direct investment.[89] The requirements of the FTAs are enforced by dispute-settlement agreements backed by the possibility of the suspension of trade concessions or preferences, payment of monetary assessments by violators of FTAs, or both.[90]

The "deep character" of these FTAs is significant because, with the exception of the Gulf Cooperation Council, most previous agreements signed by Arab countries—both with the European Union and among themselves—generally dealt only with tariffs and quotas.[91] Although tariffs in the region have been reduced, Arab countries "have failed . . . to deal effectively with non-tariff barriers and the liberalization of services and investment."[92]

One can make a strong argument that the deep nature of the United States' FTAs in the MENA presents a unique opportunity for the Arab states to implement additional policy measures, both individually and collectively.[93] Thus, "the promise of the [FTAs] comes from the ability to use them as a catalyst for increased economic benefits by improving regulatory rules and systems at home and facilitating integration with the rest of the region and the world."[94]

Creation of a Middle East free trade area. As Ambassador Zoellick outlined, the MEFTA initiative envisions the "eventual melding of [the] subregional FTAs into an historic regional Middle East Free Trade Area."[95] The difficulty of ultimately establishing one MEFTA has been recognized.[96] Furthermore, the ambassador noted, at the time, that a MEFTA "will not be created in a month, a year, or even five years. But America is committed for the long haul, through a step-by-step strategy for progress that will help nations build free, dynamic economies and rising standards of living for all."[97]

The final element that Ambassador Zoellick observed in the MEFTA initiative is "the [United States'] provision of financial and technical aid to help countries develop the capacity to take part in negotiations, implement trade agreements, and build the legal and entrepreneurial infrastructure to partake in the benefits of open markets."[98] To fund trade-capacity building under the MEFTA, "the Middle East Partnership Initiative [MEPI] will help target more than $1 billion of annual funding from various U.S. Government agencies and encourage partnerships with private organizations and businesses that support development."[99] The MEPI "is also aimed at increasing educational opportunities, strengthening civil society and rule of law, and supporting small business."[100] The MEPI received an estimated $294 million in funding between fiscal years 2002 and 2005.[101] For 2005, total funding for US trade-capacity building was $1.3 billion, of which Middle East countries received $236 million or 18 percent.[102]

The Economic Impact of External Trade Intervention

As the World Bank's *Economic Developments and Prospects* report for the MENA region notes, "The relationship between openness to international trade and income growth is almost axiomatic. . . . Economies with greater openness to international trade experience higher rates of economic growth, as a result of both higher investment levels and sustained gains in productivity."[103] Perhaps of greater significance to the Arab region is the ancillary benefit that "greater openness also can motivate the overall reform agenda."[104] Over the past several years, countries in the MEFTA have "embarked on [a variety of trade] reforms [designed] to liberalize their trade regimes and remove the many existing impediments to greater trade."[105]

The Impact of Accession to the World Trade Organization

Since the beginning of the new millennium, three MENA countries have joined the WTO: Jordan, Oman, and Saudi Arabia.[106] As a result of WTO accession, MENA countries as a whole have made significant progress in tariff reduction since the start of the decade.[107] In particular, Jordan made substantial commitments in trade reform as a condition of its accession to the WTO in 2000 and implementation of the US FTA in 2001.[108] Tariffs decreased by about half from an average of 23 percent in 2000 to less than 12 percent by 2005.[109]

The most recent Arab member of the WTO, Saudi Arabia, was admitted in 2005.[110] To meet WTO requirements, that country revised many of its protective trade policies, particularly with respect to import licensing, customs valuation and fees, standards and technical regulations, and legislation for intellectual property rights and patent registration.[111]

Relative to the world, tariff reform by MENA countries since 2000 has been higher than that in any other region but Europe and Central Asia, ranking in the top 62nd percentile of countries worldwide.[112] Despite the progress made by MENA countries in the WTO, that organization's recent reports indicate that more structural reforms need to occur.[113] For example, in 2006 the WTO conducted its first-ever trade-policy review of the UAE.[114] That review found that the UAE's generally liberal economy had grown by an average of 6 percent per year over the past decade and 9 percent between 2003 and 2005.[115] Despite some diversification, however, the UAE remains dependent on crude oil and gas exports for a significant share of its national income.[116] The WTO secretariat noted that "internal barriers to trade, resulting largely from the absence of a competition policy, institutional weaknesses, and restrictions on foreign participation in the economy, are impediments to doing business in the UAE and are hindering the diversification into services, a sector that is rapidly becoming a strategic priority."[117]

The Middle East Free Trade Area Initiative's Potential Impact on Arab Trade with the United States

The relatively small value of bilateral trade between Arab countries and the United States implies that the economic impact of MEFTA will be marginal. Since the United States has historically charged very low duties on imports from Arab countries (just over 0.5 percent in 2003), it is unlikely that MEFTA will significantly increase exports from Arab countries to the United States.[118] Rather, the more probable result of tariff reductions under MEFTA is that imports from the United States will increase.[119]

Focusing exclusively on the effects of eliminating tariffs on goods, however, runs the risk of seriously understating the impact of the MEFTA agreements, especially the FTAs. Some argue that "the additional effects of reducing non-tariff barriers and the liberalization of services trade and foreign investment should not be ignored" and that "simulations of these additional effects suggest they could be large."[120] For example, estimates using Tunisia and Egypt indicate that "liberalization of foreign investment in services that is generalized to all trading partners could boost welfare by almost ten percent of GDP."[121]

Simulation models often assume that the structure of trade will remain unchanged, which can lead to misleading results.[122] For example, the International Trade Commission's analysis of the US-Jordan FTA completely missed the explosion in Jordan's exports of clothing to the United States as a result of special trade concessions that the latter granted Jordan.[123] Indeed, this FTA offers valuable insight into the effect that stronger trade and investment relations can have on economic development. As a result of the various trade agreements between the United States and Jordan, the latter's exports to America "grew from $13 million in 1999 to $412 million in 2002, created over 30,000 direct new jobs, and attracted over $200 million in new investment from 11 different countries."[124] Recent data is even more impressive: "Jordanian exports to the US increased from $72.8 million in 2000 to a stunning $1.267 billion in 2005."[125]

General trade data also suggests that the United States' exports to and imports from the MENA region have increased since the announcement of MEFTA: "Between the end of 2002 and the end of 2005 . . . U.S. exports to [the MENA] countries grew by 56% while U.S. imports from these entities nearly doubled."[126] The greatest growth in US imports from the MENA occurred in petroleum and natural gas.[127] Imports of nonmetallic mineral manufactures, medicinal and pharmaceutical products, and organic chemicals also increased.[128] Goods making large contributions to the growth in US exports to the MENA region included transport equipment, road vehicles, electrical and nonelectrical machinery, nonmetallic mineral manufactures, telecommunications, and scientific instruments.[129]

The Middle East Free Trade Area Initiative May Lead to Increased Intraregional Trade

According to the Bush administration, the six-step MEFTA initiative seeks to address political, economic, and humanitarian objectives to help Middle East countries become "'sustainable trading partners.' The hope is that each of the successive steps involved in negotiating TIFAs, BITs, and FTAs might help induce internal changes in the laws and regulations of the various countries."[130] Further, one of the stated goals of MEFTA was to encourage intraregional trade.[131] Prior to the announcement of the initiative, such trade accounted for only 8 percent of the total trade in the region.[132] The United States intended to "focus efforts on improving this number," noting that "strong regional ties often lead to rapid expansion in trade flows and economic growth."[133] Thus, the United States hoped and expected that, "as [its] bilateral trade ties expand in the region, . . . trade *among* the countries of the region [would] also grow and expand" (emphasis in original).[134]

The Arab countries that have signed agreements with the United States should use them as an opportunity to enhance regional integration by extending the MEFTA provisions and coverage to each other. They should also use the agreements to leverage trade and investments liberalization with other trading partners. Extension of the MEFTA provisions throughout the region will probably produce a measurable increase in intraregional trade. At this point, it is unclear whether the Arab countries will apply the MEFTA provisions intraregionally and whether the potential for increased intraregional trade under MEFTA will emerge.

Conclusion

The Arab world has enjoyed spectacular rates of growth for the past four years. High oil prices have spurred this growth, but intensified global trade linkages have undoubtedly also contributed. When President Bush announced the MEFTA initiative in 2003, the stated goal called for concluding the plan in a decade—by 2013. This was ambitious at the time, and the United States has recently indicated that the overall objective of MEFTA "was not to meet the deadline but to push the reform process in the region along."[135] Scholars generally agree that the MEFTA initiative is a step in the right direction and that its deep nature presents a dynamic opportunity for Arab countries to implement economic reforms that will allow the region to better integrate into the multilateral trading regime. It remains to be seen whether countries in the MENA region will continue to move the reform process along, but Arab countries that do not embrace the changes necessary to compete in the new global economy will "risk being left behind."

Notes

1. See Robert Z. Lawrence, *A US–Middle East Trade Agreement: A Circle of Opportunity?* (Washington, DC: Peterson Institute for International Economics, 2006), 28–29.

2. Ibid., 29, 30, table 2.2. "Between 1980 and 2004, global trade in goods and services as a percentage of GDP increased by 32%." Ibid., 29. However, trade ratios in the Arab region in 2004 were the same as those in 1980; in some cases, they had even decreased. Ibid., 30, table 2.2.

3. World Bank, Middle East and North Africa Region, *2007 Economic Developments and Prospects: Job Creation in an Era of High Growth* (Washington, DC: World Bank, 2007), 74, http://siteresources.worldbank.org/INTMENA/Resources/EDP_2007_REPORT_Aug7.pdf.

4. World Bank, *MENA Development Report: Trade, Investment, and Development in the Middle East and North Africa; Engaging with the World* (Washington, DC: World Bank, 2003), 92, http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2003/10/03/000094946_03092504152661/Rendered/PDF/multi0page.pdf.

5. Ibid., xv (describing "why engaging with the world is so vital for the [Arab] region"); Lawrence, *US–Middle East Trade Agreement*, 1; and Ali Naimi, Saudi oil minister, "Globalization and the Future of the Oil Market" (address to the World Affairs Council of Northern California and Council on Foreign Relations at the Bankers Club of San Francisco, 23 May 2005), in *Middle East Economic Survey* 48, no. 22 (30 May 2005).

6. Naimi, "Globalization."

7. See Mary Jane Bolle, *Middle East Free Trade Area: Progress Report*, CRS Report for Congress, RL32638 (Washington, DC: Congressional Research Service, 2006), 1, http://www.hsdl.org/?view&did=464705; and "Middle East Free Trade Area Initiative: U.S. Regional Plan to Spur Economic Growth," Office of the United States Trade Representative, March 2004, http://www.ustr.gov/about-us/press-office/fact-sheets/archives/2004/march/middle-east-free-trade-initiative-us-regional-.

8. Bolle, *Middle East Free Trade Area*; and "Plan to Spur Economic Growth."

9. Robert B. Zoellick, "Global Trade and the Middle East" (speech at the World Economic Forum, Dead Sea, Jordan, 23 June 2003), http://www.ustr.gov/archive/Document_Library/USTR_Speeches/2003/Global_Trade_the_Middle_East.html.

10. Ibid. The United States would "help countries develop the capacity to take part in negotiations, implement trade agreements, and build the legal and entrepreneurial infrastructure to partake in the benefits of open markets." Ibid. See also Bolle, *Middle East Free Trade Area*, 9 (indicating that "the final step in the Bush Administration's plan is trade-capacity building to help countries realize more fully the benefits of open markets").

11. This article was originally presented at an economic conference entitled the International Conference on Globalization, Economic Reforms, Aid and Democracy in the Arab World, held at the Arab Thought Forum in Amman, Jordan, on 3–4 February 2008.

12. Tim Kennedy, "Experts Assess Saudi Arabia's Effort to Join the World Trade Organization," *Washington Times* (special international report), 22 September 2000, http://www.internationalspecialreports.com/middleeast/00/saudiarabia/6.html.

13. Lawrence, *US–Middle East Trade Agreement*, 27–28.

14. E. Anthony Wayne, assistant secretary for economic and business affairs, "Creating Free and Dynamic Economies in the Arab World" (remarks to the International Arab Banking Summit, Montreal, Canada, 25 June 2003), http://2001-2009.state.gov/e/eeb/rls/rm/2003/21945.htm.

15. Ibid.

16. World Bank, Middle East and North Africa Region, *2007 Economic Developments and Prospects*, 73.

17. Ibid.

18. Ibid.

19. Ibid.

20. Ibid., 74.
21. Ibid.
22. Ibid.
23. Ibid.
24. Ibid., 74–75.
25. Lawrence, *US–Middle East Trade Agreement*, 29.
26. Ibid. Although a detailed discussion of international economics lies beyond the scope of this article, "the gravity model of trade predicts that the volume of trade between any two countries will be positively related to the size of their economies (usually measured by GDP) and inversely related to the trade costs between them." Roberta Piermartini and Robert Teh, *Demystifying Modelling Methods for Trade Policy*, WTO Discussion Papers no. 10 (Geneva, Switzerland: World Trade Organization, 2005), 37, http://www.wto.org/english/res_e/booksp_e/discussion_papers10_e.pdf.
27. Lawrence, *US–Middle East Trade Agreement*, 29.
28. Ibid., 31.
29. Ibid.
30. Ibid., 31–33.
31. Ibid., 33.
32. Ibid.
33. Rania S. Miniesy and Jeffrey B. Nugent, "Explaining the Trade Shortfalls of the MENA Region" (unpublished paper presented at the MEEA-ECOMOD Conference: Middle Eastern and North African Economies: Past Perspectives and Future Challenges, Free University of Brussels, 2–4 June 2005), http://www.ecomod.net/sites/default/files/document-conference/ecomod2005-mena/Nugent.doc.
34. Ibid., [1]. A "panel . . . data set is one that follows a given sample of individuals over time, and thus provides multiple observations on each individual in the sample." Cheng Hsiao, *Analysis of Panel Data*, 2nd ed. (Cambridge: Cambridge University Press, 2003), 1. See generally Manuel Arellano, *Panel Data Econometrics* (Oxford: Oxford University Press, 2003) (indicating that panel-data econometrics uses both time series and cross-sectional data sets that have repeated observations over time for the same individuals, such as workers, households, firms, industries, regions, or countries). The numerous variables included, among many others, GDP, bilateral trade between countries, distance between countries, and physical size of the country. See Jeffrey B. Nugent, "Why Does MENA Trade So Little?" (unpublished paper presented to the Middle East Region Group at the World Bank, 30 August 2002), 14–15, http://siteresources.worldbank.org/INTMNAREGTOPTRADE/Resources/Nugent.pdf.
35. Miniesy and Nugent, "Explaining the Trade Shortfalls."
36. Bolle, *Middle East Free Trade Area*.
37. Lawrence, *US–Middle East Trade Agreement*, 2.
38. Ibid.
39. Ibid.
40. Bolle, *Middle East Free Trade Area*, 4.
41. Lawrence, *US–Middle East Trade Agreement*, 4.
42. Ibid., 5; and Bolle, *Middle East Free Trade Area*, 4.
43. Bolle, *Middle East Free Trade Area*, 1–2; and Lawrence, *US–Middle East Trade Agreement*, 2–3.

44. Bolle, *Middle East Free Trade Area*.

45. Edward Gresser, *Blank Spot on the Map: How Trade Policy Is Working against the War on Terror*, policy report (Washington, DC: Progressive Policy Institute, February 2003), [1], http://www.dlc.org/documents/Muslim_Trade_0203.pdf.

46. Ibid.

47. Ibid.

48. Ibid.

49. Ibid.

50. Brink Lindsey, *The Trade Front: Combating Terrorism with Open Markets*, Trade Policy Analysis no. 24 (Washington, DC: Cato Institute, 5 August 2003), 3, http://www.cato.org/sites/cato.org/files/pubs/pdf/tpa-024.pdf. The CATO Institute is a nonprofit public-policy research foundation.

51. Ibid.

52. Ibid.

53. National Commission on Terrorist Attacks upon the United States, *The 9-11 Commission Report: Final Report of the National Commission on Terrorist Attacks upon the United States* (New York: Norton, 2004), 379.

54. Lindsey, *Trade Front*, 2.

55. Zoellick, "Global Trade and the Middle East."

56. Bolle, *Middle East Free Trade Area*, 9.

57. Zoellick, "Global Trade and the Middle East."

58. The GSP is "a program designed to promote economic growth in the developing world by providing preferential duty-free entry for up to 5,000 products when imported from one of 127 designated beneficiary countries and territories." "Generalized System of Preferences (GSP)," Office of the United States Trade Representative, accessed 3 April 2013, http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp. See also Zoellick, "Global Trade and the Middle East."

59. Zoellick, "Global Trade and the Middle East."

60. Countries in the Middle East include Bahrain, Cyprus, Egypt, the Gaza Strip / West Bank, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, and Yemen. North African countries include Algeria, Libya, Morocco, and Tunisia. Bolle, *Middle East Free Trade Area*, 14, table 2.

61. Bureau of Public Affairs, US Department of State, *Middle East Free Trade Area Initiative*, 2006, http://www.state.gov/documents/organization/68344.pdf.

62. "Jordan Becomes 136th Member of the WTO," press release, World Trade Organization, 11 April 2000, http://www.wto.org/english/news_e/pres00_e/pr174_e.htm (reporting that Jordan became a member of the WTO in 2000 after first establishing a working party under the GATT in January 1994). "The working party on Jordan's accession to the GATT/WTO was established under the GATT in 1994 and was transformed into a WTO working party in 1995." Ibid. See also US Agency for International Development (USAID), USAID in Jordan, accessed 23 April 2008, http://www.usaidjordan.org/aboutus_subsub.cfm?id=71&section=history. ("USAID cooperated closely with Jordanian counterparts to help facilitate Jordan's accession into the World Trade Organization [WTO] and implement needed policy reforms.")

63. "Jordan Becomes 136th Member of the WTO" (quoting Dr. M. Halaiqah, chief negotiator and secretary-general of the Ministry of Industry and Trade of Jordan at the General Council Meeting).

64. "WTO's General Council Approves Accession of Oman," press release, World Trade Organization, 10 October 2000, http://www.wto.org/english/news_e/pres00_e/pr194_e.htm (reporting that the Sultanate of Oman will become the 139th member of the WTO on 9 November 2000).

65. "WTO General Council Successfully Adopts Saudi Arabia's Terms of Accession," press release, World Trade Organization, 11 November 2005, http://www.wto.org/english/news_e/pres05_e/pr420_e.htm (indicating that Saudi Arabia had been negotiating its membership in the WTO since 1993).

66. "Welcoming Address by the Director-General to the Kingdom of Saudi Arabia," news item, World Trade Organization, 11 November 2005, http://www.wto.org/english/news_e/news05_e/stat_lamy_11nov05_e.htm.

67. "Members and Observers," World Trade Organization, 27 July 2007, http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (listing the member countries of the WTO and the dates of membership).

68. "Libya Given Green Light to Negotiate WTO Membership," news item, World Trade Organization, 28 July 2004, http://www.wto.org/english/news_e/news04_e/libya_stat_27july04_e.htm. Libya applied to become a WTO member in December 2001, and the WTO General Council agreed to set up a working party to examine its application on 27 July 2004. Ibid. "As an applicant country, Libya [is also] an observer to the WTO during the membership negotiation." Ibid.

69. The Arab region includes Bahrain, Cyprus, Egypt, the Gaza Strip / West Bank, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the UAE, and Yemen. Bolle, *Middle East Free Trade Area*, 14, table 2.

70. "Analysis: US–Middle East Free Trade Zone," National Public Radio broadcast, 3 June 2003, http://www.npr.org/programs/totn/transcripts/2003/jun/030603.barsh.html (explaining that the United States created a duty-free program for Jordanian-Israeli goods to enter the United States and negotiated an FTA with Jordan to assist with WTO accession).

71. Ibid.

72. Bolle, *Middle East Free Trade Area*, 7.

73. Ibid. "GSP limits country participation on the basis of: (a) per-capita income, and (b) participation in the Organization of Petroleum Exporting Countries (OPEC)." Ibid.

74. See 19 *United States Code*, secs. 2101–495 (2000). See sec. 2461 (giving the president the authority to "provide duty-free treatment for any eligible article from any beneficiary developing country," taking into account various factors). Import sensitivity refers to the "vulnerability of a domestic industry to *injury* from foreign competition" (emphasis in original). "Glossary," Institute for Trade and Commercial Diplomacy, 2004, http://www.itcdonline.com/introduction/glossary1_ghij.html.

75. Bolle, *Middle East Free Trade Area*, 7n12.

76. Ibid.

77. Robert B. Zoellick, "A Return to the Cradle of Free Trade," Office of the United States Trade Representative, 23 June 2003, http://www.ustr.gov/archive/Document_Library/Op-eds/2003/A_Return_to_the_Cradle_of_Free_Trade.html.

78. "Trade & Investment Framework Agreements," Office of the United States Trade Representative, accessed 6 April 2008, http://www.ustr.gov/Trade_Agreements/TIFA/Section_Index.html. This list erroneously omits Oman, which signed a TIFA with the United States on 7 July 2004. See "United States and Oman Sign Trade and Investment Framework Agreement," press release, Office of the United States Trade Representative, 7 July 2004, http://www.ustr.gov/about-us/press-office/press-releases/archives/2004/july/united-states-and-oman-sign-trade-and-invest.

79. Bolle, *Middle East Free Trade Area*, 10. TIFAs were already in place (prior to 2003) with Bahrain, Egypt, Jordan, Israel, Algeria, Morocco, and Tunisia. Ibid., 10, 14, table 2.

80. Ibid., 14, table 2.

81. Ibid., 8.

82. Ibid., 10.

83. Ibid.

84. Ibid. The United States and the UAE launched negotiations in March 2005. See "Plan to Spur Economic Growth."

85. Bolle, *Middle East Free Trade Area*, 10.

86. Robert Z. Lawrence, *Recent US Free Trade Initiatives in the Middle East: Opportunities but No Guarantees*, Faculty Research Working Paper Series no. RWP06-050 (Cambridge, MA: John F. Kennedy School of Government, Harvard University, December 2006), 3, http://www.iie.com/publications/papers/lawrence1206.pdf.

87. Ibid.

88. Ibid., 4.

89. Ibid.

90. Ibid., 4, 19.

91. Ibid., 4–5.

92. Ibid., 5.

93. Ibid. Some policy measures that Lawrence suggested include domestic reforms to improve the regulatory environment for businesses, greater regulatory transparency, improvements in customs procedures, and better intellectual property protection. Ibid., 23.

94. Ibid., 5.

95. Zoellick, "Global Trade and the Middle East."

96. Lawrence, *US–Middle East Trade Agreement*, 19 (noting that "even aside from the obvious political problems of achieving a single MEFTA that includes Israel and all the Arab countries, there are numerous institutional barriers to its full realization"). See also ibid., 55–77, for a more detailed discussion of the issues related to creating a single MEFTA.

97. Zoellick, "Global Trade and the Middle East."

98. Ibid. One should note that for some reason both Bolle and Lawrence treat trade capacity as step six, whereas Ambassador Zoellick's speech identified trade-capacity building as an "element" and not a step. See Bolle, *Middle East Free Trade Area*, 9; and Lawrence, *US–Middle East Trade Agreement*, 2.

99. Zoellick, "Global Trade and the Middle East." MEPI is the program for building trade capacity used by MEFTA. See ibid.

100. Bolle, *Middle East Free Trade Area*, 9.

101. Ibid.

102. Ibid.

103. World Bank, Middle East and North Africa Region, *2007 Economic Developments and Prospects*, 73.

104. Ibid.

105. Ibid., 75. For example, additional countries from the MENA region (Jordan, Oman, and Saudi Arabia) have acceded to the WTO, and numerous bilateral and regional trade agreements have entered into force in the region. Ibid. As a result of the various trade agreements, MENA countries made significant progress in reducing tariffs. Ibid.

106. Ibid.

107. Ibid.

108. Ibid.

109. Ibid.

110. Ibid., 76.

111. Ibid.

112. Ibid., 77.

113. "A Generally Liberal Economy Whose Performance Could Further Improve with Structural Reform," press release, World Trade Organization, 24 and 26 April 2006, http://www.wto.org/english/tratop_e/tpr_e/tp263_e.htm.

114. Ibid. "Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals." Ibid.

115. Ibid.

116. Ibid.

117. Ibid.

118. Lawrence, *US–Middle East Trade Agreement*, 106; and Lawrence, *Recent US Free Trade Initiatives*, 16.

119. Lawrence, *Recent US Free Trade Initiatives*, 16.

120. Ibid.

121. Ibid.

122. Ibid.

123. Ibid., 17.

124. Wayne, "Creating Free and Dynamic Economies."

125. Lawrence, *Recent US Free Trade Initiatives*, 17.

126. Bolle, *Middle East Free Trade Area*, 6.

127. Ibid. During this time period, petroleum and natural gas prices and traded volume increased, affecting imports. Ibid.

128. Ibid., 6–7.

129. Ibid., 7.

130. Ibid., 10 (quoting transcript of Background Press Conference Call to Discuss Proposed Mideast Free Trade Area Announced by President Bush, 9 May 2003).

131. Wayne, "Creating Free and Dynamic Economies."

132. Ibid.

133. Ibid.

134. Ibid.

135. Gary G. Yerkey, "Bush's Plan to Create Mideast Free Trade Area by 2013 Could Take Off This Year," *International Trade Reporter* 23 (19 January 2006): 103.