**Egypt-US and Morocco-US Free Trade Agreements**

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**Abstract**

This paper provides an assessment of concluding free trade agreements between Egypt and the US; and Morocco and the US. It starts with an analysis of what makes each pair of countries good candidates for concluding an FTA, followed by an estimation of the likely benefits to the parties involved. The paper concludes that an FTA between Egypt and the US is in the interest of both parties. For Morocco, the expected net static economic gains from an FTA with the US are not positive, but that result could be reversed if the dynamic gains are large enough. Finally, the paper notes that the economic gains from FTAs for Egypt and Morocco require complementary policy reforms at home, while the political gains for the US depend on its success in resolving the Palestinian-Israeli conflict and the Iraqi problem.

**ملخص**

تقيم هذه الورقة الجوانب المختلفة لإبرام اتفاقيتي تجارة حرة بين الولايات المتحدة الأمريكية وكل من مصر والمغرب. وتبدأ الورقة بتحليل العوامل التي تؤهل هذه الدول لإبرام اتفاقيات للتجارة الحرة، ثم تنتقل إلى تقدير المكاسب المحتملة بالنسبة للأطراف المختلفة. وتخلص الورقة إلى أن توقيع اتفاقية تجارة حرة بين مصر والولايات المتحدة من شأنه تحقيق مكاسب للطرفين. أما بالنسبة للمغرب، فإن المكاسب الإستاتيكية الصافية المتوقعة من إبرام اتفاقية تجارة حرة مع الولايات المتحدة ليست إيجابية، إلا أن هذه النتيجة يمكن أن تختلف في حالة توافر قدر كافي من المكاسب الديناميكية. وفي النهاية، تشير الورقة إلى أن المكاسب الاقتصادية التي ستترتب على الاتفاقيتين بالنسبة لمصر والمغرب تستلزم إجراء إصلاحات مكملة، في حين أن المكاسب السياسية للولايات المتحدة تتوقف على نجاحها في الوصول إلى تسوية عادلة للصراع الفلسطيني-الإسرائيلي وإيجاد حل للوضع في العراق.

## I. Introduction

The political importance of the Middle East to the United States is evident by the willingness of the US to wage a war in Iraq, the political capital some US administrations have invested in resolving the Palestinian-Israeli conflict, and the amount of aid extended to countries like Egypt and Israel. It is not surprising, therefore, that political rather than economic considerations have driven US free trade agreements (FTAs) in the Middle East. This is true of the agreements that the US has already implemented (with Israel and Jordan) and agreements that are being contemplated with other countries in the region and the region as a whole. Indeed, it can be argued that FTAs between the US and Middle Eastern countries are fundamentally about potentially large political (and consequently economic) gains for the US, while the potential gains to the countries themselves are mostly economic in nature (and consequently political).[1]

Nonetheless, it is risky, even for the United States, to focus on politics alone. The history of the Middle East (and many other regions) is replete with failed regional economic integration initiatives that were purely politically motivated and not supported by the necessary economic measures. In the long run, not only did these initiatives fail to provide economic benefits, but their failures ultimately led to disillusion, disappointment and a loss of credibility that inflicted political damage as well. Exacerbating this problem is the tendency, overtime, for people to take the political gains for granted, which requires increasing economic benefits overtime to offset these losses.

Thus, even an interest in the political benefits of FTAs requires an appraisal of their economic basis and a recognition that these are not assured. The key questions relate to the (static) benefits that result from trade creation versus trade diversion and dynamic benefits that result if the agreement stimulates productivity growth and investment, enhances policy credibility and reinforces domestic economic reforms and institutional development. The answers to these questions will depend heavily on the form these agreements take and the other policies that accompany them. In particular whether the agreements focus simply on border barriers (shallow

[1] See Gresser (2003) for the case that freer trade would support the war against terror.

integration) or include investment services and other rules and institutions (deeper integration); whether the agreements are seen as sufficient in themselves, or whether they are used to leverage domestic economic reforms. Moreover, even if the net benefits are positive, a crucial issue is whether they detract from, or complement, multilateral liberalization that could be even more beneficial.

An appraisal of FTAs between the US on the one hand and Egypt and Morocco on the other is also timely. In a commencement address at the University of South Carolina, on May 9, President George W. Bush proposed "the establishment of a US-Middle East free trade area within a decade." As amplified by US Trade Representative Robert Zoellick, in remarks before the World Economic Forum Meeting in Jordan on June 23rd 2003, the regional FTA with the US represents an ultimate goal that will be achieved by a series of cumulative measures that include (1) actively supporting WTO membership of "peaceful countries that seek it"; (2) increased use of GSP preferences; (3) negotiation of Trade and Investment Frameworks (TIFA's) that often precede FTAs; (4) bilateral investment treaties (BITs); (5) bilateral FTAs such as those currently being negotiated with Morocco and planned with Bahrain; (6) the extension of these agreements to include neighboring countries and, (7) ultimately, the whole region.

At the time of writing this research, the US has not announced negotiations for an FTA with Egypt, but Egypt is often mentioned as a potential FTA candidate for the United States. Accordingly, the first section of this paper considers some key economic and political characteristics of Egypt as a potential FTA partner. The next section considers the likely impact of an Egypt-US FTA. The United States and Morocco have already begun negotiations for a free trade agreement. The final sections of the paper mirror the Egyptian analysis with a similar discussion of Morocco as a partner and the likely economic impact of a US-Morocco FTA. Some brief conclusions and comparisons are then provided.

## II. Egypt as a Potential Partner

If the US were to select its FTA partners based on relative political importance in their region, Egypt would arguably top the list among Arab states. If the selection criteria were derived from the potential of boosting economic reforms in partner countries with ample demonstration effects as a reform model, Egypt would undoubtedly qualify. And, if the choice was based on the potential for the partner country to take advantage of an agreement, Egypt seems reasonably well-positioned if the FTA is accompanied by further domestic reforms and additional trade liberalization. Below is a brief discussion of what makes Egypt a viable political and economic FTA partner to the US.

***Key Political Characteristics***

Egypt is the largest Arab country, with 66 million inhabitants or 23 percent of the regional population. It has played a key role in shaping the politics of the region in recent decades. Most notably, Egypt hosted the Arab League since its inception in 1945, led the region's efforts toward resolving the Palestinian-Israeli conflict and has been fighting Islamic extremists for decades prior to September 11. Although incomplete, Egypt has been undergoing a process of democratic transition over the past couple of decades. This has included the adoption of a multiparty system, increasing the freedom of the press and strengthening the role of civil society. Egypt has also been a cultural hub for Arab countries, providing most of the movies, books, and TV programs produced in Arabic. Further, some 2 million Egyptians are currently working in neighboring countries as teachers, engineers, doctors, etc.

For the above reasons, Egypt came to be seen by many of its neighbors as a country to emulate. Over the past half a century, Egypt led the liberation movement from colonial powers, offered the region a vision of Pan-Arabism and Arab socialism, and more recently adopted a model of gradual political and economic liberalization. Many Arab countries adopted such ideas at the time, which supports the view that Egypt's influence extends beyond its borders. Accordingly, supporting the reform movement in Egypt, through various measures including a well-designed FTA with the US, could have a positive demonstration effect throughout the region.

***Key Economic Characteristics***

Although Egypt is a developing country with a per capita income of about $1,530, its economy is diversified, with industry and mining accounting for 33 percent of GDP, agriculture for 16 percent, and services for 50 percent. Egypt is also reasonably well-endowed with relatively cheap and skilled labor, abundant historical sites and other tourism attractions, and moderate natural resources (oil and natural gas). Water is available from the Nile. These characteristics suggest that Egypt could take advantage of more open markets abroad, provided domestic policies are aligned to promote exports.

As a destination for imports and a potential location for foreign direct investment, Egypt offers a relatively large market. The size of that market does not only depend on a population of about 66 million and a GDP of about $100 billion, but more significantly on the proximity of Egypt to Europe (with which Egypt has concluded an FTA) and its central location in the Arab world (with whom Egypt is an FTA partner). With an enlarged market, Egypt has the potential of serving as an export base for FDI in industries with substantial economies of scale.

***Current State of Reform***

Comparative advantage can be stifled, however, by policy-induced distortions. In this regard, Egypt has made significant progress in recent years although the process remains incomplete. After decades of an inward-looking and state-led development strategy, there was a partial departure from that strategy in 1974. However, the real shift to a market-based and private-sector-led strategy came in 1991when Egypt initiated far-reaching reforms in the tradition of the Washington Consensus. One consequence of these reforms is that the private sector now accounts for 70 percent of total investment and 73 percent of GDP, compared with 41 percent and 62 percent respectively in 1990/91.

Several studies assessed the stabilization program of the 1990s, concluding that it was one of the most successful in the developing world (e.g., Subramanian, 1997). The program included the unification and devaluation of the Egyptian pound, financial sector and capital account liberalization, and a drastic reduction in the fiscal deficit (from 20 percent in 1990/91 to 1.0 percent in 1997/98).[2] Inflation came down to a single digit and the economy grew at an average rate of 5 percent for most of the 1990s. The estimated stabilization reform index (given in Figure 1)

[2] For other measures of structural change see Dasgupta, keller, and Srinivasan (2002).

shows that Egypt not only caught up with several reforming countries in the region, but also fares well in comparison to other developing countries.[3]

Structural reforms were also initiated in the early 1990s but this effort remains work in progress. The reforms included trade liberalization, privatization of state-owned enterprises, and various improvements in the business environment. The trade liberalization effort is elaborated below. The cumulative proceeds from privatization amounted to 4.7 percent of GDP in 2001. As for the business environment, investment laws were changed to allow foreign participation without restrictions, protect ownership rights, and guarantee repatriation of profits. A stronger IPR law has also been passed, along with a money laundering law. More recently, the parliament approved a new labor law, which accords firms greater flexibility in return for workers' right to strike and engage in collective bargaining. Further, a new income tax law is about to be submitted to parliament, reducing corporate tax rate to 30 percent. At the sectoral level, reforms were carried out in telecommunications and electricity to encourage private sector participation, increase competition where possible, and regulate the monopolistic segments of the market.[4]

Notwithstanding these reforms, the estimated structural reform index[5] (shown in Figure 2) indicates that Egypt lags behind a sample of MENA (Middle East and North Africa) countries as well as other developing countries. Furthermore, the reform process has slowed down in recent years. An FTA with the US could boost economic reform and enable the Egyptian economy to

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[3] The index is a composite of current account balance, fiscal balance, inflation rate, and exchange rate premium. The four elements are given equal weights. All data are normalized using the formula:

$$Xjt = \frac{(W - Vjt)}{(W - B)}$$

*Where*

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|---|---|
| Xji | is the normalization value j for year t. |
| Vji | the value of variable for country j in year t, |
| B | best value for all countries and all years |
| W | worst value of all countries and years. |

[4] The private sector was awarded two licenses to provide mobile services, and a new telecommunications law was passed in 2002.

[5] This index is a composite of trade policy (measured by unweighted average tariffs), tax policy (measured by highest marginal corporate and individual tax rates), exchange rate overvaluation (measured by deviation from PPP) and privatization (measured by cumulative privatization proceeds as share of GDP). The four elements are given equal weights with the weight for the tax policy equally divided between individual and corporate tax rates. All data are normalized using the formula in footnote 3.

attract FDI, improve efficiency, and generate much-needed productive jobs for a growing labor force.

***Trade Patterns and Policies***

Egypt's trade deficit averaged 10 percent of GDP over the last 3 years. This deficit was financed for the most part by revenues from tourism, workers' remittances and the Suez Canal. Exports averaged about 6.6 percent of GDP over the period 1996/97-2001/02. The EU and the US are Egypt's most important trading partners. During 1990/91-2000/01, the EU and the US averaged 39 and 23 percent of Egypt's imports, and 33 and 31 percent of its total exports, respectively. Currently both the EU and the US are subject to the same Egyptian tariff rates. However, Egypt has signed an association agreement with the EU that will eliminate tariffs on EU exports within twelve years. Without a similar agreement with the United States, US exports will be seriously disadvantaged.

The modest export performance in Egypt is due to the prevailing incentive structure, which makes it more profitable for producers to sell at home rather than abroad. According to a recent study (Galal and Fawzy, 2002), the bias stems from lack of competitiveness of the exchange rate, relatively high tariff rates on imports, high corporate taxation, and low efficiency of trade logistics.

In recent years, there have been significant trade reforms. Most notably:

- *Nominal and effective protection.* Maximum tariff rates were reduced successively from 70 percent in 1994 to 43 percent in 2002, excluding alcoholic beverages, cars, whole poultry, textiles and clothing (Refaat, 2003). As a result, both nominal and effective rates of protection came down (Table 1). The dispersion rates also fell during the same period, albeit modestly.

- *Non-tariff barriers to trade.* The import ban list that covered 210 items in 1990 currently includes only poultry parts and some textile products. The ban on ready-made garments was replaced in 2002 by specific tariffs, which translates into an average ad valorem equivalent of 627 percent. Egypt also adopted the WTO agreement on customs valuation in July 2001. Reforms of customs administration are underway.

- *Exchange rate.* Egypt unified, devalued and kept fixed the exchange rate in 1991 to curb inflation and increase the competitiveness of Egyptian exports. The fixed regime was abandoned in favor of an intermediate regime in January 2001, but the new regime was never put to the test. Policy inconsistency gave way to a floating regime in January 2003 (Figure 3).

Despite these reforms, the Egyptian economy remains more protected than its competitors. If Egypt's commitments under the FTAs with the EU and Arab countries are supplemented by further commitments under a US FTA, the Egyptian economy would be much more open than it is today.

## III. Impact of an FTA Between the US and Egypt

The argument made at the outset of this paper is that the impact of a prospective FTA between Egypt and the US ought to be measured against both economic and political objectives, given the nature of the Middle East region and US interests. The starting point for subsequent analysis is that the interest of the US in the Middle East revolves around an improved relationship with the Arab world, regional stability, and the reliable supply of oil, beside the usual economic gains from trade and investment. Egypt's interest lies presumably in achieving higher economic growth and greater capacity for job creation through trade and investment rather than aid, coupled with additional gains from resolving the region's conflicts. Below is a discussion of both dimensions, starting with the likely economic impact.

### *Likely Economic Impact*

The expected static economic gains from an FTA between the US and Egypt were estimated by Hoekman, Konan, and Maskus (1998), Lawrence (1998), and more recently DeRosa (2003). Hoekman et al. used a general equilibrium model to estimate the impact of both shallow and deep integration agreements (the results are reported in Table 2). The analysis was carried out, taking into account Egypt's FTAs with the EU and Arab countries. Drawing on the results of this study, Lawrence estimated the impact of an agreement on the US, using partial equilibrium analysis and information about traded commodities, the prevailing trade barriers in 1996, and an import elasticity of 2.0-3.0. Finally, DeRosa estimated the impact of an FTA between the US and Egypt, using a gravity model that estimates the typical impact of an FTA on bilateral trade. The main results of these studies are discussed below.

- According to Hoekman et al., the expected static economic gains to **Egypt** from an FTA with the US are positive but small in absolute terms. A shallow FTA involving the elimination of barriers to trade on the border would expand net trade (trade creation minus trade diversion) by $145 million in 1996 prices. A deep FTA would expand net trade by $280 million in 1996 prices. Deep integration produces better results because it entails increased efficiency and better allocation of resources due to increased competition, lower cost of services, and lower transaction costs. DeRosa finds larger numbers. His model predicts an increase of Egyptian exports to the US from $895 million to $1,953 million, an increase of one billion dollars or 118 percent.

- For the **US**, the expected static economic gains are larger in absolute terms than the expected gains for Egypt, but these gains are very modest relative to the US economy. According to Hoekman et al., the increase in US exports to Egypt is expected to be 21.9 percent under a shallow FTA, and 38.8 percent under a deep FTA. Further, Robert Lawrence (1998) finds that an FTA with Egypt would cause a modest increase in employment in the US due to trade expansion. DeRosa again finds a much larger impact. His model predicts an increase in US exports to Egypt from $3,729 million to $8,135 million.

- Without an FTA agreement, both **Egypt** and the **US** are expected to be worse off. According to Hoekman et al., the Egyptian economy would suffer from trade diversion as a result of the agreements with the EU and Arab countries. For the US, the “opportunity cost” would be in the neighborhood of $1.5 billion. To the extent that current US aid to Egypt (of about $2 billion a year) is tied to imports from the US, phasing out economic aid will further diminish US exports to Egypt.

DeRosa's estimates are probably exaggerated for both Egypt and the US. Egyptian exporters currently face relatively low barriers to enter the US markets, outside of textiles and apparel (see Table 3). But the abolishment of quotas on imports of textiles and clothing in 2005 according to its commitment under the WTO will increase the competition facing Egyptian products in the US from low cost developing countries and countries enjoying preferential US treatment. With respect to the US, the removal of trade barriers in Egypt, which currently average 18 percent (Table 4), is likely to increase US exports to Egypt. But US exporters will also face greater competition from the EU gradually over the next 12 years as Egyptian tariffs are reduced to conform with the Euro-Med Agreement.

By the same token, the estimates of Hoekman et al. are probably too low. They start from a low level of Egyptian exports for reasons that are at least in part related to the prevailing disincentives facing Egyptian producers to export. If Egypt adopts reforms to increase the competitiveness of its producers and improve the incentives to export, Egyptian exports are expected to increase. Greater access to the US market through an FTA would offer an outlet for this increase in exports by more than is suggested by merely removing trade barriers in the US.

Further, if the Egypt-US FTA is structured along the lines of NAFTA with Mexico, further dynamic gains can accrue to Egypt. Domestic reforms would improve resource allocation and improve productivity. Further, the agreement could help mobilize capital inflows from the US and elsewhere to Egypt. Currently the level of FDI inflow to Egypt is very modest, amounting to about $277 million in 2000/2001. The association between FDI and deep FTAs was seen in Mexico where the NAFTA stimulated a large amount of FDI. To be sure, although Egypt does not enjoy Mexico's geographic advantages, an increase in FDI could similarly occur in Egypt if foreign investors are convinced that Egypt has become a more attractive location. With increased FDI, the Egyptian economy could benefit from the transfer of modern technical and managerial techniques, as well as market access. For the US investors, Egypt could offer access to cheap labor and an attractive location.

***Likely Political Impact***

Unlike the potential economic gains from FTAs, the political ramifications of an FTA between Egypt and the US are difficult to identify, let alone measure accurately. But this difficulty is by no means a convincing reason for ignoring such benefits. Below is a brief discussion of the possible political impact of a US FTA.

The starting point is the observation that the relationship between the US and the Muslim/Arab world has deteriorated in the aftermath of September 11. There is a widespread perception in Arab countries that they are targeted by the US for the sake of oil, especially in the wake of the war in Iraq. Complicating the picture further is another widespread perception that US foreign policy is one-sided in dealing with the Palestinian-Israeli problem. On the other hand, there are voices in the US that claim that the discontent with the US does not follow from US policies toward the region. Rather, it finds its roots in local conditions and lack of progress in these countries.

Whatever the roots of the negative perception of the US in the region, measures are needed on both sides to build confidence for better relations and for a more peaceful and prosperous Middle East. An FTA with a country like Egypt could be one instrument toward achieving this goal. Clearly, the single act of an FTA would not by itself change the image of the US in the Muslim/Arab world. Nor would it be the cornerstone of putting Egypt on a path of sustainable growth and prosperity. The most an FTA could do is to demonstrate a US commitment to countries that are willing to reform their economies. For Egypt, it would also make for a smooth transition from aid to trade and bring about a more sustainable economic relationship between the two countries.

If an FTA with Egypt materializes, along with actions such as resolving the Palestinian-Israeli conflict and success in Iraq's transformation, the gains can be enormous to all parties. Judging the size of the potential gains by what happened in the past, a more peaceful and prosperous Middle East might have saved the US a war in Iraq. It might have prevented the two oil shocks in the mid 1970s and early 1980s. Egypt might have avoided several wars since 1948, saved some of the resources allocated to defense, and policymakers could have focused their attention on domestic reforms. And if Egypt was doing even better than it is doing today, other countries in the region may have followed suit.

**IV. Morocco as a Potential Partner**

The history of Morocco has been deeply affected by its geographic location at the crossroads between Africa, the Middle East and Europe.[6] The patterns of its international and economic relations today continue to reflect Morocco's position between the West, the Middle East and Africa. Morocco also has long had a close relationship with the United States.[7] Both countries have, more recently, shared interests in trying to bring about peace between Israelis and Palestinians, containing Iraqi aggression, and combating terrorism. As befits its role as a moderate Arab state, Morocco has been active in the search for peace in the Middle East, encouraging negotiations and urging moderation on both sides.[8] Morocco was one of the first Arab states to condemn Iraq's invasion of Kuwait and it sent troops to defend Saudi Arabia and aid the efforts to repulse Saddam Hussein. Morocco was also vocal in denouncing September 11th attacks and it has assisted the United States in the war against terrorism. However, Morocco has not been supportive of the more recent US war with Iraq.

Several features of Morocco's international relations are contentious and hinder its relations with its neighbors. Morocco had tensions with Spain and other EU members over immigration and drug smuggling. Morocco also has a long-lived dispute over jurisdiction of the Western Sahara territory that lies between Morocco and Mauritania.[9] This friction stands in the way of North African regional economic integration.

[6] The list of foreigners who have ruled Morocco includes the Phoenicians, Romans, Vandals, Visigoths, Byzantine Greeks, Arabs, France and Spain. This section draws heavily on the profile of Morocco issued by the US State Department, Background Note: Morocco available at www.state.gov/r/pa/ei/bgn/5431.htm.

[7] According to the US State Department op. cit. "Moroccans recognized the Government of the United States in 1777. Formal U.S. relations with Morocco date from 1787, when the two nations negotiated a treaty of peace and friendship. Renegotiated in 1836, the treaty is still in force, constituting the longest unbroken treaty relationship in U.S. history."

[8] In 1986, then King Hassan II invited then Israeli Prime Minister Shimon Peres for talks. Following the Oslo Agreement between Israel and the Palestinians in 1993, Morocco increased its economic and political ties with Israel, and in 1994, both parties opened liaison offices. However these offices were subsequently closed in 2000 in response to renewed violence between Israel and the Palestinians.

[9] In 1991 after a long period of hostilities, the United Nations brokered a cease-fire between Morocco and the Polisario and it remains in effect. In addition, the UN also proposed that the area be given autonomy under Moroccan sovereignty -- a position agreed to by Morocco, US, France and the UK. However, because of opposition from Spain, Algeria and the Polisario, a final settlement has not occurred. In addition Russia and China continue to seek a UN-organized referendum allowing the territory's inhabitants to determine their future.

### *Key Political Characteristics*

Morocco also occupies the crossroads between monarchy and a full-fledged democracy. Morocco is a constitutional monarchy, in which ultimate authority rests with the king, currently Mohammed VI, who assumed the throne in July 1999. The king is also head of the military and the country's religious leader. He appoints the prime minister following legislative elections. He also appoints directly the five most senior cabinet positions, and may at his discretion terminate the tenure of any minister, dissolve the Parliament, and call for new elections or rule by decree.[10]

Morocco's system of proportional representation has generated a large number of parties spanning the political spectrum. In 2002, after parliamentary elections, the King named Driss Jettou, a technocrat with no political party affiliation, rather than an elected member of parliament, to head the government. This marked a shift from the previous left-wing coalition government that had served since 1999, although the coalition assembled by Mr. Jettou is said not to be very different from its predecessor.[11] The leading opposition party, with 13 percent of the seats is the Islamist PJD.[12] Moreover, the low participation in the election has given rise to speculation that support for radical Islamism is considerably higher. This explains why faster economic growth and efforts to reduce unemployment deserve a high priority on Morocco's economic policy agenda.

### *Key Economic Characteristics*

Morocco is a mid-sized, middle-income developing country. In 2002, its GDP was about $40.0 billion, which given its population of 29.6 million, implies a per-capita income of $1350. Agriculture continues to play an important role–typically accounting for between 14 percent and 20 percent of output (depending on rainfall) and about 40 percent of the workforce. Morocco has substantial deposits of phosphates and phosphate derivatives, and mines producing lead, silver, and copper. It also has a large fishing industry and a large public sector. While Morocco has a

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[10] State Department op. cit.
[11] Economist Intelligence Unit (2003).
[12] In addition however, Morocco's largest Islamist group, Al-Adl Wal-Ihsane (Justice and Charity) did not have political party status and took no part in the elections. According to the EIU op. cit. "Its absence from the ballot and the fact that the turnout was a meager 52 percent appear to be related: a significant proportion of the 48 percent who did not vote probably stayed at home because of their non-participation."

modern manufacturing sector with significant output of clothing and textiles, a considerable share of its output is traditional craft industries. According to a recent study, almost a fifth of Moroccan GDP originates in traditional craft industries that produce ceramics, metal-ware, woodcrafts, traditional clothing, footwear, and textiles including rugs.[13] The sector produces almost entirely for the domestic market and tourism and generates almost no exports.

Morocco has been successful in maintaining monetary stability and low inflation but less successful in stimulating economic growth. In the1960s and 1970s, Morocco's growth performance was strong but more recently growth has been insufficient either to significantly improve living standards or to provide employment opportunities for the growing labor force. It is estimated that in 2001 for example, the overall unemployment rate stood at almost 13 percent while urban unemployment was over 20 percent.[14]

Morocco has typically run a merchandise trade deficit offset by earnings from tourism and remittances from expatriates abroad. Moroccan merchandise trade is focused on the European Union. In 2000, for example, the EU accounted for 58 percent of imports and about 75 percent of exports. France was by far its most important trading partner (24 percent of imports and 33.5 percent of exports) followed by Spain (9.9 percent of imports and 13 percent of imports). (See Tables 5 and 6).

The United States is a relatively minor trading partner. In 2000, US exports of $525 million and imports of $444 million accounted for 5.6 and 3.4 percent of Moroccan exports and imports, respectively. The pattern of trade is quite predictable and reflects resource endowments and levels of development. US imports are concentrated in phosphates, fish and prepared vegetables, electronic parts (cathode valves) and textiles and clothing; US exports are concentrated in agricultural products (maize and wheat), aircraft and machinery (see Table 7).

***Reform and Trade Liberalization***

In the 1980s, Morocco was an inward-looking, highly-regulated economy with considerable state participation. Overtime, however, numerous measures have been taken to enhance the role of the

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[13] Based on a Unesco study cited by EIU Country Report for Morocco, November 2002.
[14] IMF.

domestic and international market. Nonetheless the process has slowed down over the past few years under the government dominated by the Socialist Union of Popular Forces and remains incomplete.[15] As indicated in Figures 4 and 5, and judged by both the stabilization and structural reform measures, Morocco's performance is fairly typical for a MENA country.

The liberalization of both trade and investment has played an important role in Morocco's reform efforts. Tariffs have been reduced and the tariff system has been simplified. Reference prices for textiles, clothing and appliances and several quantitative restrictions have been eliminated. Nonetheless, Morocco still has high MFN tariffs (average 33.9 percent) and a fairly restrictive regime of non-tariff barriers (see Table 8). In the GATS, Morocco's few commitments are typical for a developing country.

Morocco has undertaken additional liberalization commitments regionally. Like Egypt, it has concluded an association agreement with the European Union that will lead to free trade in industrial products with EU by 2012. The EU agreement is incomplete, particularly with respect to services, agricultural products and investment.[16] Morocco has a similar agreement with EFTA. It has also signed preferential arrangements with Algeria, Guinea, Iraq, Libya and Mauritania. Egypt, Jordan, Morocco and Tunisia last year agreed to set up a free trade zone ahead of the 2010 target for trade barriers to end in the Euro-Mediterranean area. The zone would also "be open to other Arab countries" such as Algeria, Libya, Mauritania, Syria, Lebanon and Palestine. Morocco is also a member of the Community of Sahel-Saharan States (COMESSA), which seeks to

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[15] Morocco currently ranks 68th out of 156 countries in terms of the Index of Economic Freedom developed by the Heritage Foundation (it ties with Tunisia and Saudi Arabia). Its overall score based on ten equally weighted criteria of 2.95 places it just in the "mostly free" category and just out of the "mostly unfree" category. Source: http://cf.heritage.org/index/indexoffreedom.cfm.

[16] For a discussion of the welfare effects on this agreement see Page and Underwood (1997). They report that since Moroccan non-agricultural exports were already entering the EU market duty-free, the expected gains from the agreement came primarily from lower prices to consumers due to reducing Moroccan trade barriers. A troubling feature of the agreement was related to the phasing in of these tariff reductions. In particular relatively rapid increases in tariffs on inputs actually raised effective protection in the short run, thereby generating small welfare losses.

consolidate economic and commercial integration among member states.[17] The government has also taken numerous unilateral measures to liberalize and attract foreign investment.[18]

In sum, Morocco stands at a crossroads in several respects: It has close political linkages with the United States, Europe, Africa and the Middle East. It is in transition from an autocratic monarchy to a more full-fledged democracy. It is shifting from a highly controlled economy to one based on free market principles and it is in the process of creating itself as the hub of a set of preferential trade agreements. These are crucial attributes of Morocco as an FTA partner for the United States.

## V. Impact of an FTA Between the US and Morocco

### *The Moroccan Perspective*

The analysis of Morocco's general economic characteristics and its relationship with the United States does not immediately suggest that the United States is the ideal candidate for a free trade agreement for Morocco. From a Moroccan perspective the immediate economic benefits are questionable and the case for an agreement rests partly on its less certain potential dynamic benefits.

After all, Morocco's primary international economic focus has been Europe. The widely spoken foreign languages (French and to a lesser degree Spanish), history and geographic location all suggest that Europe, to use the parlance of trade theorists, is Morocco's "natural" trading partner. By contrast, Morocco and the United States do not have a particularly close economic relationship. The US accounts for only 5 percent of Moroccan trade and American foreign investment is small. In addition, most of the goods Morocco currently exports to the U.S.

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[17] Members include Burkina Faso, Central African Republic, Chad, Djibouti, Egypt, Eritrea, Gambia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Somalia, Sudan and Tunisia. Algeria is not a member.

[18] In November 1989, it abrogated a 1973 law requiring majority Moroccan ownership in a wide range of industries. In 1993 Mobil oil was allowed to buy back 50 percent share of a major oil-producing subsidiary it had previously owned. The government does not screen FDI and provides favorable treatment on foreign exchange for foreign investors. Investment is permitted in all sectors except agricultural land and sectors reserved for the state (e.g. phosphate mining). There are no performance requirements. In 1991 Morocco signed a bilateral investment treaty (BIT) with the United States that provided for MFN treatment, international arbitration for expropriation and in 1995 Morocco drafted a new foreign investment code that provides some tax breaks on income for investment in certain regions, crafts and export industries.

are not subject to high tariffs–many of these actually already enter duty-free partly because US tariffs are already low for minerals and some agricultural products.[19] The disparities in tariff rates explain why an FTA has very different implications for tariff revenues in both countries. Gilbert's CGE analysis reports that, by implementing a free trade area, Morocco would lose a total of $293 million and the US just $10.9 million.[20]

Under such circumstances it is quite possible that giving US exports tariff-free access to the Moroccan market could result in substantial trade diversion. Although Moroccan consumers might enjoy lower prices, these gains could be more than offset for the economy as a whole because of the loss in tariff revenue and the purchase of goods from the United States rather than more efficient sources. In addition, there is the possibility that Morocco could experience declines in its terms of trade since its tariff reductions would be much larger than those of the United States. In fact, according to simulations undertaken for this conference,[21] the trade impact of a US-FTA would *reduce* Moroccan incomes by about $93 million (in 1997 dollars) — 0.26 percent of GDP — of which $25 million is estimated to result from reduced efficiency and $68 million from reductions in terms of trade. [22]

While this conclusion is a good starting point for thinking about the economic impact, there are economic considerations that could mitigate these effects and others that could exacerbate them. We consider each in turn.

First, the conclusions are sensitive to assumptions made about other Moroccan tariffs, both with respect to the EU and to other trading partners. In particular the simulations take tariffs on the EU, EFTA and other regional trading partners as given. In fact, the tariffs on industrial products with Europe are scheduled to be eliminated by 2012. This will surely reduce the trade diversion from the US-Morocco FTA. Indeed, the FTA with the US can be seen as a measure that offsets trade diversion due to Morocco's FTA with the EU. Moreover, if Morocco were to

[19] According to the paper Gilbert has undertaken for this conference, US tariffs exceed 4 percent in crops besides grains (13.9 percent), processed food products (11.5 percent) and textiles and apparel (11.8 percent). By contrast Moroccan tariffs are generally between 15 and 25 percent and as high as 71 percent for processed foods.
[20] Gilbert op. cit. estimates that Morocco would lose $115 million from revenues currently collected on US products and an additional $177 million as a result of purchases of additional US products in preference to those of other trading partners.
[21] The conference mentioned throughout this paper is the one referred to on the title page.
[22] Gilbert op. Cit.

complement its US FTA with more reductions in its MFN tariffs, the impact of this diversion could be reduced and even eliminated–although these considerations also point to the need for policies to deal with the budgetary implications of these measures.

Second, there could also be gains due to the liberalization of services and investment that have not been modeled.[23] These could be significant. In its goals for the FTA negotiations, the Coalition of US Service Industries is seeking general disciplines to improve policy transparency, a strengthening of intellectual property protection, as well as sectoral provisions for market access and national treatment for a number of modes of delivery.[24] These could provide additional benefits particularly if Morocco extends the measures unilaterally to other trading partners or uses such a prospect to obtain additional benefits from other trading partners, particularly Europe.[25]

Third, regional trade agreements can stimulate domestic regulatory reform, improve administrative procedures, raise domestic standards, remove bureaucratic red tape, and improve the rule of law. If such steps are taken, they confer benefits, not only on international trade and investment, but on other forms of economic activity. In addition, agreements can serve to improve investor expectations.

For countries with long histories of intervention in trade and investment, unilateral action is often greeted with skepticism. Locking in economic reform could reduce risk premiums and thereby enhance investment and economic growth. There could be additional benefits not captured in the static framework if trade liberalization reduces the price of capital goods, stimulates domestic investment, enhances the transfer of technology through foreign investment, and stimulates productivity growth through enhanced competition.

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[23] As indicated above, Morocco already has a Bilateral Investment Treaty (BIT) with the United States and liberal investment rules. To stimulate additional investment, it would have to improve its general business environment through additional measures.

[24] These include e-commerce, telecommunications services, banking and financial services, insurance, audiovisual, computer, education, energy, environmental services, express delivery, and tourism (see Vastine, 2002).

[25] In their simulations of an FTA between the EU and Egypt, for example, Hoekman and Konan found very large gains from including services liberalization.

Fourth, Morocco is thwarted in some of its efforts in the European market. It faces restrictions in citrus, fresh vegetables, horticultural products and apparel.[26] Striking an agreement with the United States could give Morocco greater leverage in negotiations currently underway with the European Union to improve its market access in agricultural products. Just as the United States has been given a defensive motivation by the Euro-Med agreements to match preferences granted to European competitors, so Europe could be given similar reasons to match preferences granted to the US in services, investment and particularly agricultural products.

Finally, Morocco's strategy in being willing to sign FTAs with a multiplicity of trading partners is similar to the approach used by other prolific FTA negotiators such as Chile, Mexico and Singapore. While economists are fond of pointing out that in general preferential trading arrangements are second best as compared with multilateral free trade, they often neglect that for a single country the best outcome would be to have no domestic barriers but preferential access in all other markets. It appears that countries such as Singapore are headed in this direction, and while it is much further than these three countries in removing its domestic barriers, Morocco could be trying to move toward such an outcome.

There are, however, other considerations that suggest the gains could actually be lower than projected in the model. One could be if agriculture is not fully liberalized. The NAFTA, for example, contained some noteworthy exceptions such as Canadian dairy and poultry products.[27] A second could be the impact of the FTA rules of origin–particularly for textiles.[28] The United States has generally insisted on highly restrictive rules of origin–so called "fiber-forward" rules–for clothing products to qualify for duty-free access. By forcing Moroccan clothing manufacturers to use high cost domestic or US inputs, these rules could seriously affect Moroccan export competitiveness. A report written by the American Chamber of Commerce suggests this is not simply an academic concern. It describes the recent cutbacks in the

[26] French external trade Minister, Francois Loos, is reported to have stated that there is an "incompatibility" in Morocco's conducting at the same time free trade negotiations with the USA and with the EU. The fact that the EU has concluded an FTA with Mexico has apparently escaped his attention.
[27] See Miller, 2002.
[28] Both these elements have been troubling features of other US preferential arrangements in particular NAFTA. For an excellent analysis of NAFTA exceptions see Miller, 2002.

production of Jordache denim jeans in Morocco and notes: "The high price of local fabric is a key issue. J.R.A. believes that Jordache New York could not justify continued imports of finished goods from Morocco–even with an FTA–if the high cost of using local fabric (required to satisfy the rules of origin) negated its benefits." [29]

Major sectors of Moroccan agriculture currently enjoy high rates of tariff protection. A third concern, therefore, relates to the adjustment challenges posed by eliminating these tariffs on United States exports. According to the simulations undertaken for this conference, the real returns to owners of land, i.e. farmers, could be reduced by as much as 4 percent as a result of such an arrangement. By contrast, owners of natural resource would see their incomes rise by 4 percent, while the incomes of skilled labor, unskilled capital would each rise by about one percent. Morocco faces the short-run challenge of providing for a rural social safety net program and alternative activities and agricultural income supports in the long run.

A fourth, more general challenge relates to implementation. It takes considerable administrative capacity to negotiate and implement an agreement of the type envisaged.[30] Ensuring compliance with new rules in areas such as intellectual property, customs, competition, environment, worker rights and government procurement will all require an upgrading of skills and resources. Actions by the private sector to avail itself of new market opportunities could entail additional costs. Agricultural producers may have to first meet new rules on food safety and additional sanitary and phyto-sanitary requirements. Similarly potential exporters of manufactured goods will have to meet US safety and design standards and labeling requirements. Meeting these requirements could lead to additional positive spillovers to the rest of the economy. But in the short run, they will entail additional costs not captured by the economic simulations. Nathan Associates Inc. has estimated that a reasonable package would require between $39.5 and $48.3 million dollars in additional resources–a considerable increase over the aid given to Morocco in 2002 (according to AID data, Moroccan repayments actually exceeded its receipts from the US).

[29] This is drawn from the American Chamber of Commerce in Morocco (2002). Morocco's role as a regional hub could be improved if the rules of origin allowed for cumulating with other countries in the Middle East.
[30] For an extensive appraisal of these requirements see Nathan Associates, 2003.

It is common to hear the slogan "Trade not Aid." However, as trade agreements become deeper, and enhanced domestic capacity imperative for implementation, this becomes a false choice. Trade and aid are complements in agreements between developed and developing countries, not substitutes. Without appropriate and adequate aid, the benefits from trade are unlikely to be realized. USTR Robert Zoellick has promised that the Administration intends to target ongoing development assistance and trade-related technical assistance to help Morocco follow through on the commitments it will make as part of the FTA.

In sum, for Morocco to benefit from an FTA with the United States, it needs to accompany the Agreement with complementary policies, such as to:

- extend the bilateral tariff reductions to those placed on other trading partners;
- use the agreement to accelerate domestic reforms that improve the overall business environment;
- use the agreement as a means of making these reforms more credible;
- use the agreement to increase its bargaining leverage with the EU, and improve its market access, particularly in agricultural products;
- improve its capacity to implement and take advantage of the agreement.

***The United States' Perspective***

The simulations undertaken for this conference indicate positive effects from the removal of high tariff barriers. According to Gilbert, measured in 1997 dollars, the US benefits to the tune of $178 million as exports increase by 88 percent. Most of the welfare gain stems from improvements in America's terms of trade. Moreover, since Europe has already signed an agreement to give it preferential access, for the US, an FTA with Morocco can be seen as a defensive measure against an important competitor. In addition the agreement helps underscore America's willingness to move to free trade with all partners who are willing to reciprocate.

Nonetheless, the primary US objectives are political, although their realization is subject to considerable uncertainty. An optimist would point to several potential benefits. First, the agreement could enhance Morocco's reform process, improving its institutions and governance, and stimulating its economic growth. Prosperity based on a market system could enhance political stability and allow the emergence of a more fully-fledged democracy. Second, growth based on trade and foreign investment would cement the friendly relations between Morocco and the West. Third, prosperity would also help reduce the conditions of despair that have created a breeding ground for terrorists and fourth, the example of a successful Morocco could serve to catalyze similar changes in neighboring countries.

However, it should be pointed out that none of these outcomes are assured. First, the economic effects of a US FTA are relatively small and there is no assurance that the required complementary policies will be adopted. If they are not, the immediate economic impact of the agreement could actually reduce welfare in Morocco. Second, a movement toward greater democracy without the necessary preconditions could actually enhance the power of Islamic fundamentalists–Algeria being a telling example. Third, a larger foreign presence could actually help stimulate more xenophobic political responses and be viewed as even more threatening by such fundamentalists. Fourth, since Morocco remains on the periphery of the Middle East, and has fairly distinctive characteristics, its success might have less precedential value for the neighborhood. By contrast, as we will argue below, successful reform in a more pivotal country such as Egypt could prove to be a much more powerful agent of change.

In agreeing to negotiate with Morocco, the US is signaling its willingness to negotiate FTAs with partners in the Middle East besides Israel and its neighbors. But there is a danger that by negotiating these agreements separately and crafting deals to meet individual cases, it could be creating a "crazy-quilt" set of agreements that introduce costly complexity into its trading relationships. It is important, particularly if the idea is eventually to produce a single regional FTA, that the component agreements be designed to allow easy docking.

## VI. Conclusions and Final Comments

Under both FTAs considered in this paper, the US could enjoy positive economic benefits, although these are unlikely to be perceptible in an economy of its size. Egypt would derive positive benefits from a US-Egypt FTA. By contrast, the (static-efficiency) economic benefits of a US-FTA covering only goods trade could be negative for Morocco. These conclusions are sensitive to the scope of agreement. Simulations indicate, for example, that Egypt would benefit more from a deep agreement that includes services and investment than one confined to merchandise trade. Since these sectors are to be included in the US-Morocco FTA, the sign of the economic impacts for Morocco could be reversed.

The magnitudes of the economic benefits for both Egypt and Morocco will ultimately depend on their agreement's more dynamic effects. These will in turn reflect largely the other policy measures they adopt and the additional aid they receive. In particular, the ability to mitigate trade diversion through lowering other external barriers; the ability to use an agreement to enhance domestic reform; and their ability to enhance domestic implementation capacity.

By serving as an anchor for reform, a free trade agreement can affect the probability that these complementary measures will be adopted. Negotiators should be mindful of this potential when deciding on the content of the agreement. In particular, they should ensure that the relevant institutional changes are included in its terms. In addition, mechanisms for conditionality and monitoring should be incorporated and the agreements phased in with suitable time provided to ensure effective implementation.

On the political front, it is not coincidental that, among other attributes, countries with whom the United States has had the most conflict such as Cuba, Iraq, Libya, North Korea, and Iran, have been among the most controlled economies, the least integrated with the global economy and the least democratic. But appraising the likelihood of these political gains presents difficulties because the political implications of free trade agreements are far more difficult to analyze than the economic, not simply because the authors of this paper are economists by profession but also because the causal relationships are tenuous.

Nevertheless, it is likely that successful economic reform could well enhance prosperity and employment opportunities and thus help create societies that are less fertile breeding grounds for terrorism. The demonstration effect of success could also have positive spillover effects in the rest of the region, creating pressures for emulation on those more resistant to change. To the extent that the US is party to such a process, its image would improve. This would help dispel perceptions that its regional interests are simply strategic rather than in promoting the welfare of all who reside in the region.

It is certainly plausible that free markets, participation in international economic agreements and institutions, improved governance, and greater harmony with the United States could go together. Freer markets and the rule of law are natural complements to good governance. The ability to confer rents and preferences on political allies is far greater when the economy is centrally controlled and regulated than when it is based on free market principles. Favoritism and nepotism are less likely when firms profit from increased efficiency and meeting consumer needs rather than obtaining permits and licenses. Similarly, when subject to binding international rules and requirements of transparency, governmental capacity to provide special favors will be more constrained.

Moreover, countries that do not allow their own citizens access to the rule of law and economic freedom will certainly be unwilling to accord such freedoms to foreigners. Conversely, if foreigners are allowed to compete freely in the domestic market, it becomes difficult to prevent citizens from doing likewise. That is why international agreements and domestic reform are complementary activities, particularly when the agreements entail deep economic integration and cover domestic rules and institutions.

However, these same reasons suggest that actually implementing and obtaining compliance with agreements could be difficult. Formal agreement will not necessarily lead to effective implementation if economic reform threatens political control. In addition, it is important that the rules themselves be appropriate to the country's social and political conditions. There are dangers that such agreements could actually create greater domestic instability and harm external relations if they are perceived to be unfair and to have been imposed.

In sum, the choice of Morocco as an FTA partner for the US appears to be driven more by the availability of an opportunity rather than compelling economic or strategic considerations. Morocco has long had a close political relationship with the United States, but the economic ties with the US are weak and its economic future will be driven far more by its relationships with Europe and its neighbors. From a political standpoint its influence in the region is likely to be moderate.

Although not yet chosen as a partner, Egypt could offer favorable opportunities. Egypt's pivotal role in the Middle East, the importance of progress in economic reforms, its relationship with the United States and its influential role in the region all suggest that an Egypt-US FTA should be given priority. Ultimately, however, in the case of both FTAs, as with the potential economic gains, the political gains to be reaped will depend on the adoption of complementary policies. While the economic gains will require complementary policies by Morocco and Egypt, the political gains for the US will depend on its success in restoring the prosperity and independence of Iraq and in ensuring an equitable resolution of the Israeli-Palestinian conflict.

**Table 1. Levels of Protection in the Egyptian Economy, 1994-2002**

| | Nominal protection | | Effective protection[1] | |
|---|---|---|---|---|
| | 1994 | 2002 | 1994 | 2002 |
| <u>*Economy-wide protection*</u>[2] | | | | |
| *Average protection* | 22.0 | 18.9 | 23.3 | 18.5 |
| *Dispersion* | 13.3 | 11.1 | 16.6 | 14.7 |
| | | | | |
| <u>*Protection by economic sector*</u> | | | | |
| Agriculture | 8.3 | 7.6 | 7.9 | 7.2 |
| Mining &Quarrying | 9.4 | 7.2 | 7.4 | 5.2 |
| Crude Oil | 14.3 | 14.3 | 13.0 | 11.0 |
| Industry* | 25.1 | 21.4 | 27.1 | 21.4 |
| Food Industries | 8.8 | 7.9 | 6.6 | 1.5 |
| Textiles | 34.5 | 32.9 | 40.4 | 38.4 |
| Clothes & Leather Footwear | 68.9 | 516.6 | 81.1 | 674.1 |
| Wood & Wood Products | 12.5 | 12.7 | 11.5 | 12.0 |
| Paper & printing | 16.7 | 15.6 | 15.9 | 15.0 |
| Leather & Leather Products | 44.4 | 37.4 | 52.3 | 43.6 |
| Rubber Products | 35.8 | 28.3 | 39.5 | 31.0 |
| Chemical Industries | 11.4 | 10.7 | 9.6 | 6.9 |
| Basic Metal Industries | 19.9 | 15.3 | 21.0 | 12.0 |
| Non-Metal Industries | 25.4 | 20.2 | 27.9 | 19.6 |
| M&E | 19.9 | 15.1 | 19.5 | 11.1 |
| Transport Devices | 46.7 | 39.3 | 53.4 | 44.6 |

[1] Using I/O 1998/99
[2] Averages are reported excluding garments, beverages and tobacco due to their exceptionally high tariffs.
*Source:* Refaat (2003).

**Table 2. Impact of US FTA on Welfare in Egypt and on Bilateral Trade Flows**

| | EMA, AFTA & No US FTA | EMA, AFTA & shallow US FTA | EMA, AFTA & deep US FTA |
|---|---|---|---|
| **Impact on welfare (% of GDP)** | **0.99** | **1.26** | **1.84** |
| **Trade Impacts** | | | |
| Trade creation ($mn) | 252 | 342 | 450 |
| Trade diversion ($mn) | 233 | 197 | 170 |
| Average weighted tariff | 4.1 | 2.7 | 2.6 |
| Trade flows (% growth)* | | | |
| Exports to EU | 3.2 | 2.8 | 31.8 |
| Imports from EU | 38.2 | 29.3 | 47.3 |
| Exports to US | -7.0 | 17.5 | 51.3 |
| Imports from US | -14.3 | 21.9 | 38.8 |
| Exports to Arab countries | 44.4 | 45.8 | 41.4 |
| Imports from Arab countries | 33.3 | 26.7 | 29.4 |

* Relative to 1996 base.
*Source:* Hoekman et al., 1998.

**Table 3. Egyptian Exports to the US and Bound Tariff Rates in US Market by 2-digit HS Classification**

| | Average exports 2000-01 ($mn) | Bound tariff rates (Percent) |
|---|---|---|
| Articles of apparel & clothing accessories, not knitted | 249.6 | 10.0 |
| Articles of apparel and clothing accessories, knitted | 147.0 | 11.5 |
| Mineral fuels & oils & products of distillation | 142.7 | 0.5 |
| Fertilizers | 36.9 | 0.0 |
| Cotton, yarns & woven fabrics | 53.0 | 7.9 |
| Carpets & other textile floor coverings | 45.1 | 2.9 |
| Special classification provisions | 65.2 | |
| Made-up textile articles | 25.3 | 6.2 |
| Iron & steel | 17.2 | 0.3 |
| Furniture; bedding, cushions etc. | 24.1 | 1.9 |
| Works of art, collectors' pieces & antiques | 14.9 | 0.0 |
| Organic chemicals | 5.7 | 3.3 |
| Inorganic chemicals | 3.3 | 2.2 |
| Preparations of vegetables, fruit, nuts | 5.5 | 7.4 |
| Oil seeds & oleaginous fruits | 4.9 | 1.3 |
| Tools, cutlery, spoons of base metal & parts | 4.4 | 3.5 |
| Coffee, tea, mate & spices | 3.1 | 0.03 |
| Salt; sulfur; earths & stone; plastering materials | 2.8 | 0.2 |
| Special import reporting provisions | 2.9 | |
| Articles of iron or steel | 3.0 | 1.2 |
| Nuclear reactors, boilers & parts | 2.7 | 1.3 |
| Sugars & sugar confectionery | 3.2 | 2.3 |
| Edible vegetables & certain roots & tubers | 1.9 | 2.4 |
| Essential oils, perfumery, cosmetic prep. | 1.8 | 1.6 |
| Manmade filaments, yarns & woven fabrics | 1.9 | 9.7 |
| Plastics & articles | 1.5 | 4.4 |
| Toys, games & sports equipment; parts | 1.3 | 1.4 |
| Articles of stone, plaster, cement, asbestos | 1.6 | 1.3 |
| Printed books & other printed products | 0.8 | 0.0 |
| Knitted or crocheted fabrics | 2.1 | 9.9 |
| Preparations of cereals, flour, starch or milk | 0.5 | 4.3 |
| Glass & glassware | 1.1 | 4.6 |
| Others | 11.9 | |
| Total exports/ Average tariffs (unweighted/weighted) | 888.2 | 3.5/5.9 |

*Sources*: IIE FTA Project Database; OECD, *Tariffs and Trade: OECD Query and Reporting System 2000 CD.*

**Table 4. Egyptian Imports from the US and Applied Tariffs in Egypt by 2-digit HS Classification**

| | Average imports 2000-01 ($mn) | Applied tariff rates 2002 (Percent) |
|---|---|---|
| Aircraft, spacecraft, & parts | 730.9 | 5.0 |
| Cereals | 813.7 | 1.0 |
| Nuclear reactors, boilers & parts | 425.4 | 10.9 |
| Plastics & articles | 183.9 | 18.6 |
| Vehicles, other than railway or tramway rolling stock, & parts | 222.5 | 40.9 |
| Electrical machinery & equipment & parts | 196.5 | 19.0 |
| Ships, boats & floating structures | 69 | 11.2 |
| Optical, photographic, cinematographic & parts | 92.5 | 11.9 |
| Residues from the food industries; prepared animal feed | 97.2 | 8.1 |
| Special classification provisions | 80.4 | |
| Arms & ammunition & parts | 151.5 | 25.9 |
| Oil seeds & oleaginous fruits; miscellaneous grains | 40.2 | 12.4 |
| Mineral fuels, mineral oils & products of their distillation | 47.1 | 11.2 |
| Furniture; bedding, cushions etc. | 23.8 | 35.8 |
| Manmade staple fibers, including yarns & woven fabrics | 16.4 | 40.7 |
| Animal or vegetable fats & oils & their cleavage products | 25.2 | 14.5 |
| Meat & edible meat offal | 28 | 35.1 |
| Organic chemicals | 24.9 | 9.7 |
| Paper & paperboard; articles of paper pulp | 23.7 | 24.0 |
| Articles of iron or steel | 26.4 | 25.0 |
| Pulp of wood or other fibrous cellulosic material | 22.1 | 5.0 |
| Pharmaceutical products | 18.4 | 8.7 |
| Inorganic chemicals | 10.2 | 11.8 |
| Miscellaneous chemical products | 18.2 | 11.7 |
| Copper & articles | 6 | 17.4 |
| Edible fruit & nuts; peel of citrus fruit or melons | 8.1 | 35.2 |
| Tanning or dyeing extracts; tannins & derivatives | 9.4 | 18.9 |
| Wood & articles of wood; wood charcoal | 9.2 | 21.7 |
| Rubber & articles | 6.1 | 17.2 |
| Miscellaneous articles of base metal | 4.7 | 26.9 |
| Tools, cutlery, spoons of base metal & parts | 5 | 16.0 |
| Railway or tramway locomotives & parts | 5.3 | 6.7 |
| Others | 78.1 | |
| Total imports/ Average tariffs (unweighted/weighted) | 3519.3 | 18.0/11.3 |

*Sources*: IIE FTA Project Database; and author's calculations based on Egypt's applied tariff schedule 2002.

**Table 5. Principal Moroccan Trade Partners, 2000**

| Exports | | | Imports | | |
|---|---|---|---|---|---|
| *country* | *share* | *total ($mm)* | *country* | *share* | *total ($mm)* |
| France | 34% | 2,491.0 | France | 24% | 2,771.3 |
| Spain | 13% | 963.5 | Spain | 10% | 1,138.4 |
| UK | 10% | 712.7 | UK | 6% | 711.6 |
| Italy | 7% | 529.5 | USA | 6% | 643.5 |
| Germany | 5% | 369.2 | Saudi Arabia | 5% | 573.1 |
| India | 4% | 310.9 | Germany | 5% | 562.8 |
| Japan | 4% | 283.8 | Italy | 5% | 546.3 |
| USA | 3% | 253.9 | Iraq | 4% | 475.2 |
| Belgium | 3% | 209.6 | Iran | 3% | 357.4 |
| Netherlands | 2% | 124.1 | China | 2% | 268.0 |
| Brazil | 1% | 68.9 | Sweden | 2% | 255.9 |
| All Others | 15% | 1,114.7 | All Others | 28% | 3,229.7 |

*Source:* UNSD COMTRADE database, United Nations, 2003.

**Table 6. Principal Moroccan Trade Products, 2000**

| Exports | | | Imports | | |
|---|---|---|---|---|---|
| *category* | *share* | *total ($mm)* | *category* | *share* | *total ($mm)* |
| Articles of apparel, accessories, not knit or crochet | 22% | 1,666.2 | Mineral fuels, oils, distillation products, etc | 18% | 2,039.2 |
| Fish, crustaceans, molluscs, aquatic invertebrates | 10% | 766.2 | Electrical, electronic equipment | 12% | 1,412.7 |
| Electrical, electronic equipment | 10% | 760.8 | Nuclear reactors, boilers, machinery, etc | 9% | 1,068.4 |
| Articles of apparel, accessories, knit or crochet | 10% | 710.9 | Cereals | 6% | 730.6 |
| Inorganic chemicals, precious metal compound, isotope | 7% | 507.7 | Vehicles other than railway, tramway | 4% | 491.9 |
| Other commodities | 41% | 3,020.0 | Other commodities | 50% | 5,790.5 |

*Source:* UNSD COMTRADE database, United Nations, 2003.

**Table 7. Moroccan Bilateral Trade with the U.S., by Category of Product, 2000**

| Exports | | | Imports | | |
|---|---|---|---|---|---|
| *category* | *share* | *total ($mm)* | *category* | *share* | *total ($mm)* |
| Articles of apparel, accessories, not knit or crochet | 28% | 69.7 | Aircraft, spacecraft, and parts thereof | 22% | 143.8 |
| Salt, sulphur, earth, stone, plaster, lime and cement | 24% | 60.0 | Cereals | 21% | 135.4 |
| Meat, fish and seafood food preparations | 9% | 23.2 | Nuclear reactors, boilers, machinery, etc | 11% | 69.3 |
| Mineral fuels, oils, distillation products, etc | 9% | 21.6 | Mineral fuels, oils, distillation products, etc | 8% | 48.8 |
| Vegetable, fruit, nut, etc, food preparations | 8% | 19.9 | Tobacco and manufactured tobacco substitutes | 7% | 43.0 |
| Other commodities | 23% | 58.5 | Other commodities | 32% | 203.2 |

*Source:* UNSD COMTRADE database, United Nations, 2003.

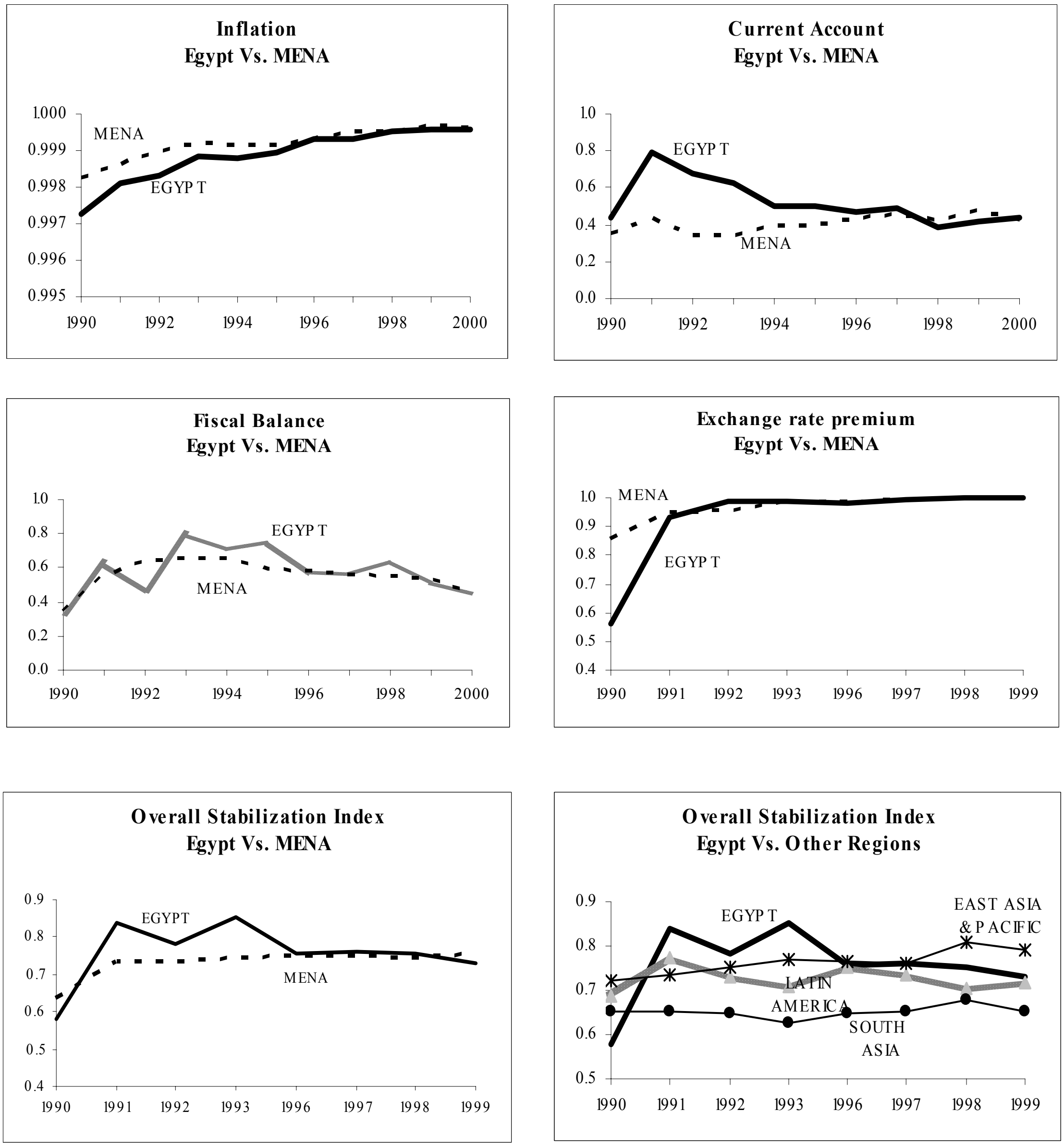
**Table 8. Moroccan Average Rates of Tariff Protection, by Major Trade Categories, 2000-2001**

| *Cat #* | *Category Name* | *%* |
|---|---|---|
| 0 | Food and Live Animals | 2.5 |
| 1 | Beverages and Tobacco | 50 |
| 2 | Crude materials, inedible, except fuels | 25 |
| 3 | Mineral fuels, lubricants, and related materials | 17.5 |
| 4 | Animal and vegetable oils and fats | 50 |
| 5 | Chemicals | 32.5 |
| 6 | Manufactured goods | 32.5 |
| 7 | Machinery and transport equipment | 2.5 |
| 8 | Miscellaneous manufactured articles | 50 |
| 9 | Commodities and transactions not classified according to kind | 2.5 |

*Source:* WITS, World Integrated Trade Solution database, World Bank, 2003.

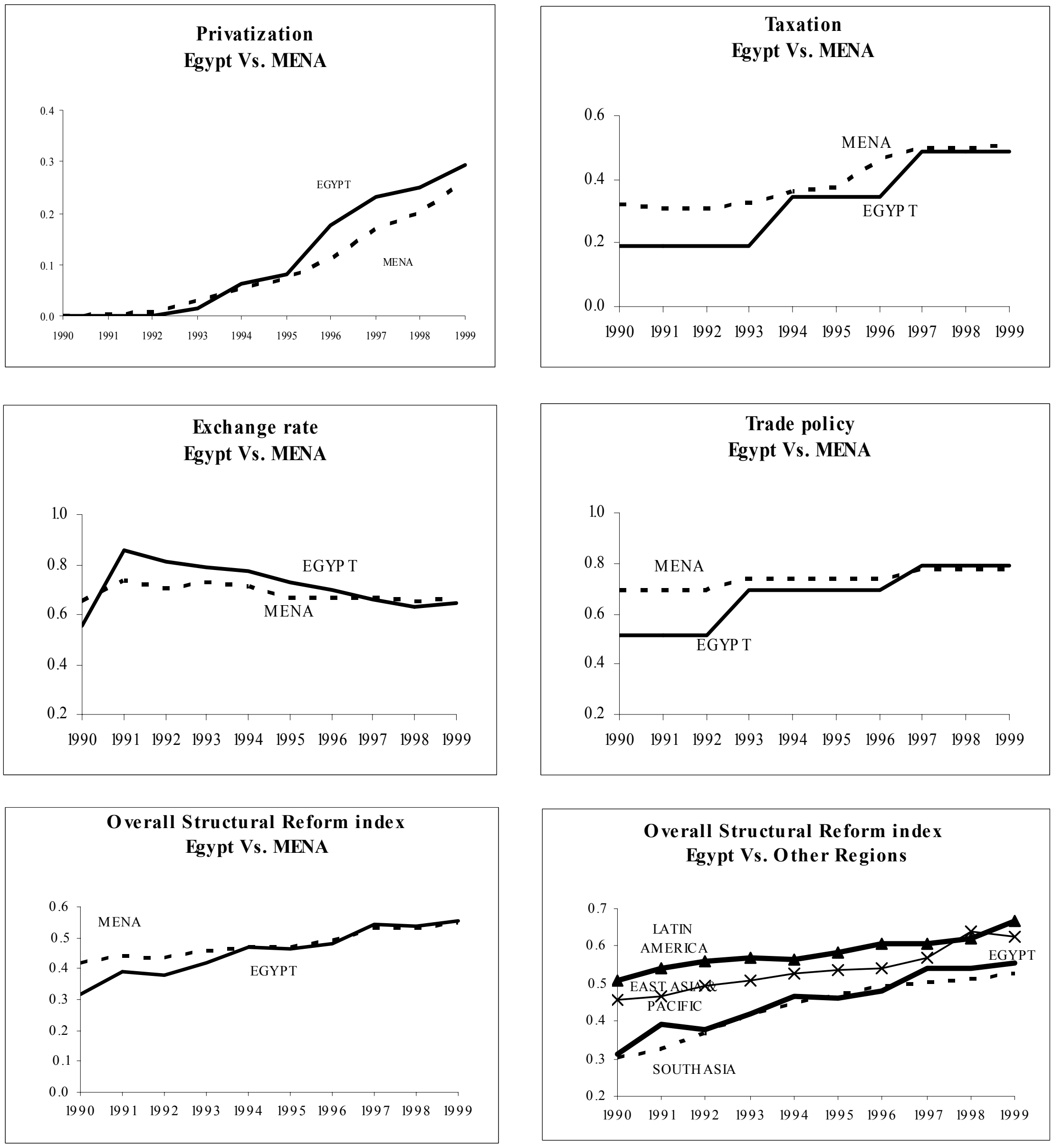
**Note:* These tariffs held for the same classifications (SITC Revision 1) in both years, 2000 and 2001. However, the tariffs varied a lot when different categories were used. For instance, the average tariff on "food and beverage" is 2.5% - the same as "food and live animals," but much less than "beverages and tobacco" in the above table.

**Figure 1. Economic Stabilization in Egypt vs. Different Regions**[1]



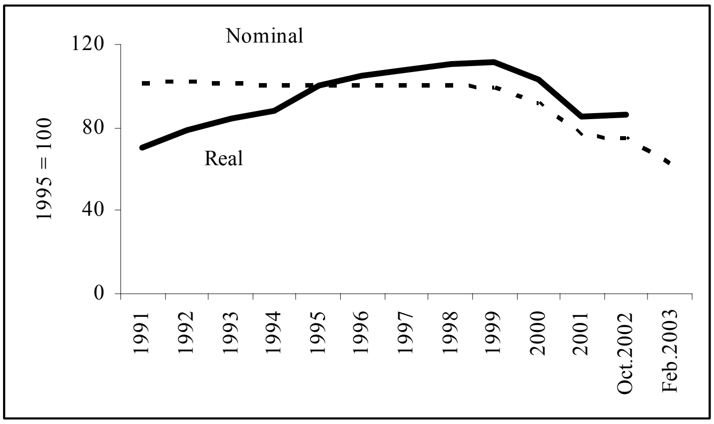

[1] The index for MENA covers: Egypt, Jordan, Morocco and Tunisia; for Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; for South Asia: India and Pakistan; and for East Asia and Pacific: China, Indonesia, Korea, Malaysia, Philippines and Thailand.
*Source:* Author's calculations.

**Figure 2. Structural Reform in Egypt vs. Different Regions**[1]



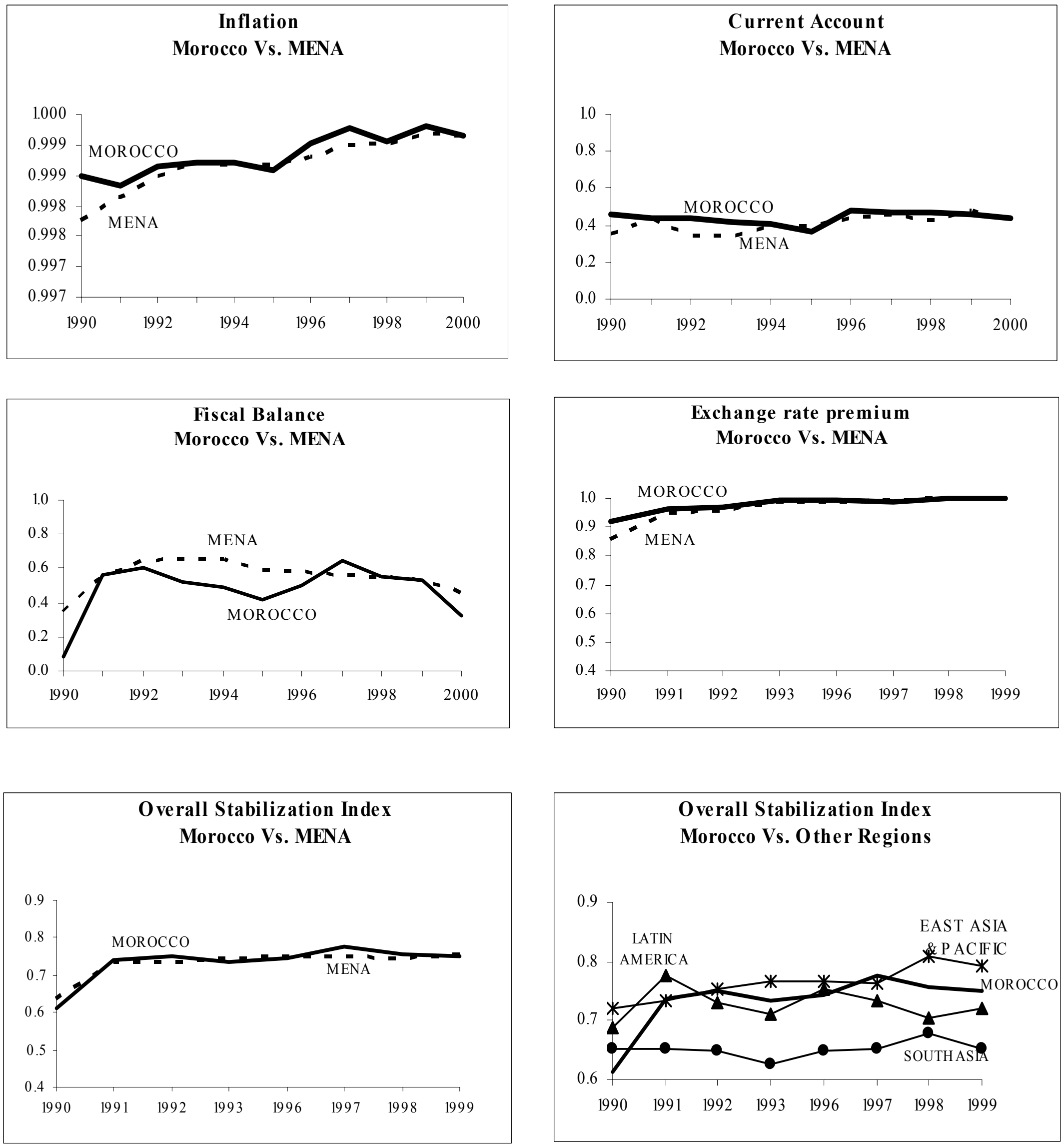

[1] The index for MENA covers Egypt, Jordan, Morocco and Tunisia; for Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; for South Asia: India and Pakistan; for East Asia and Pacific: China, Indonesia, Korea, Malaysia, Philippines and Thailand.
*Source:* Authors calculations.

**Figure 3. Nominal and Real Exchange Rate Indices in Egypt[1], 1991-2003**



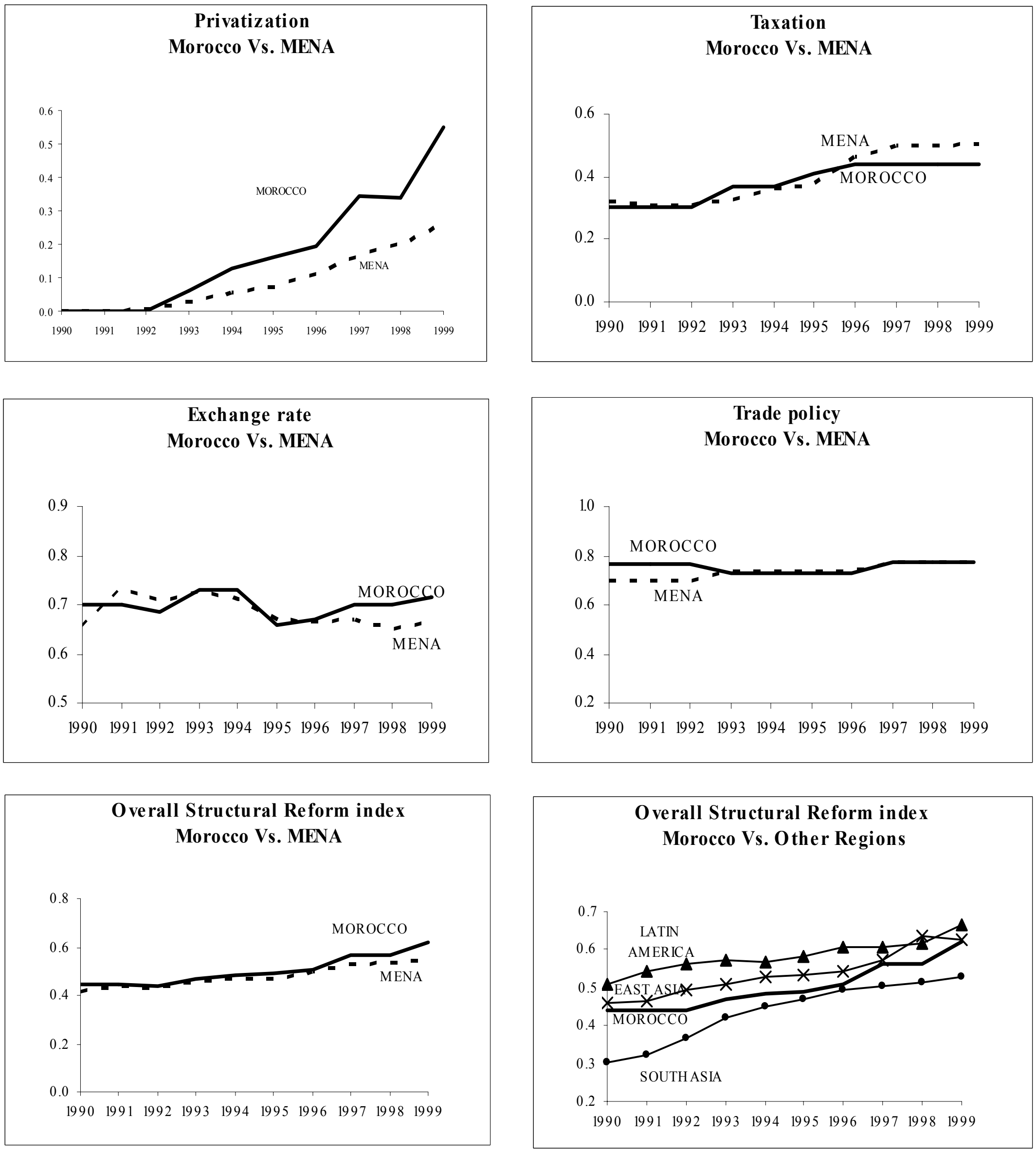

[1] Nominal and real exchange rates are expressed in terms of US dollars per Egyptian pound. Increases in indices reflect appreciation of the pound.
*Source*: IMF, *International Financial Statistics*, different issues; EFG-Herms; and Author's calculations.

**Figure 4. Economic Stabilization Morocco vs. Different Regions**[1]




[1] The index for MENA covers: Egypt, Jordan , Morocco and Tunisia; for Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; for South Asia: India and Pakistan; and for East Asia and Pacific: China, Indonesia, Korea, Malaysia, Philippines and Thailand.

**Figure 5. Structural Reform in Morocco vs. Different Regions**



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