CONCEPT NOTE

Trade for the People: Inclusive Globalization, Human Development and the Millennium Development Goals in the Arab Region

Towards further implementation of the UNDP-RBAS Project “Arab Initiative on Trade, Economic Governance and Human Development”

1. Introduction

1. The UNDP Strategic Plan approved in October 2007 provides clear guidelines regarding the orientation and content of UNDP activities for the 2008-2011 period. Supporting the achievement of the internationally agreed development goals, including the MDGs, constitutes the basis of the Strategic Plan. Support for capacity development will be the overarching contribution of UNDP in assisting countries’ efforts to achieve these goals.

2. *Inclusive growth* will serve as the connecting theme for UNDP work. It will be pursued through the provision of more effective support to countries to design and implement policies and programmes that can contribute to economic growth and national capacity development, and the reduction of various forms of inequality. The goal is to ensure equitable, broad-based human development. The Strategic plan recognizes in this connection that it is particularly important that the international trade and investment regime and development finance are consistent with and supportive of MDG achievement and the fulfillment of other internationally agreed international development goals for all developing countries. Therefore, fostering *inclusive globalization* is a necessary condition to support national development efforts. UNDP support will be directed towards developing national capacities to analyze trade trends and trade policies and their effects on poverty reduction and human development, which will in turn assist countries in the negotiation and implementation of bilateral, regional and multilateral trade frameworks that will promote human development. More effective pro-poor trade policies will be the result.

3. The UNDP Regional Bureau for the Arab States (RBS) approved in July 2006 the project “Arab States Regional Initiative on Trade, Economic Governance and Human Development” (ATHDEG) formulated in accordance with the Arab States Regional Programme Document approved by the Executive Board in January 2006. The present Concept Note suggests a road-map for the operationalization of the project, aligning it with the objectives, main focus areas and priorities laid down in the UNDP Strategic Plan 2008-2011.

4. For this purpose this concept note updates the situation analysis in the project document to reflect the current situation in the Arab region, and elaborates further the policy dimension, which is necessary for assessing the prospects for inclusive growth in the region and devising ways and means by which countries in the region can effectively reap human development gains from inclusive globalization. It also aims at incorporating a stronger MDG orientation in the project’s proposed areas of intervention and activities in line with the main objectives of the Strategic Plan. In particular, the project will seek to address, from a regional perspective, the

interaction between MDGs 1 and 8. The goals of the project will be achieved by assessing the contribution that trade policy and integration into the international economic system could best utilized for achieving the objectives of employment generation and poverty alleviation in the Arab region. Finally, this concept note proposes main focus areas and some specific activities within them through which its overall objective of contributing to the Arab countries' efforts to achieve the MDGs and fostering inclusive globalization could be achieved.

2. Background

Inclusive Globalization, Trade and the Millennium Development Goals

5. In September 2000, nations forged the Millennium Development Goals (MDGs) to, among other things, eradicate extreme poverty and hunger and ensure environmental sustainability. The MDGs recognize that trade policy can play a role in achieving these goals, but only if done properly (UNDP, 2000). MDGs recognize that success will be a function of good governance in the trading system, and nations committed themselves to an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system. In the 2005 World Summit, nations reaffirmed their commitment to the global partnership for development for achieving the internationally agreed development goals, recognizing the major role that trade can play in promoting economic growth, employment and development for all (UN, 2005). The international community has, therefore, embraced fair globalization as a potential major instrument for achieving the MDGs. Recently, under MDG 1, i.e. eradication of extreme poverty and hunger, a new target has been included as agreed in the 2005 World Summit: *achieving full and productive employment and decent work for all, including women and young people*.[1] Trade and the integration into the international economy are also expected to contribute to the achievement of this target.

6. As noted by ESCWA (2007), the prospects for the Arab region as a whole for achieving MDGs are encouraging. However, wide gaps and significant disparities in progress, both among and within sub-regions, remain. Regarding poverty, measured on the basis of the internationally agreed poverty lines, the proportion of the population living in poverty in the Arab region is relatively low in comparison with other developing regions, and poverty reduction achievements in the region have been substantial during the last two decades. In 2004 the proportion of the total population living with less than one dollar a day, adjusted to take PPP considerations, was only 3.4 per cent. On the basis of the 2 dollars a day poverty line, estimates suggest a ratio of 31.5 per cent of the total population living in poverty in the same year (ESCWA 2005). While the proportion of people living on less than $ 1 a day has declined in Northern Africa from 2.6 percent in 1990 to 1.4 percent in 2004, it has sharply increased in Western Asia from 1.6 percent to 3.8 percent during the same period, and the poverty gap, which reflects the depth of poverty and its incidence, has increased in this region (UN, 2007).

7. A relevant question concerning the agreed MDG targets is to what extent Arab countries will be able to sustain a pattern of poverty reduction in the near future. In this regard, Page and

[1] Refer to: "*Revised MDG monitoring framework including new targets and indicators, as recommended by the Inter-agency and Expert Group on MDG Indicators*". In addition to the new target mentioned supra, three additional targets have been included. Under Target 6: Achieve, by 2015, universal access to reproductive health. Under Target 7: Achieve, by 2010, universal access to Treatment for HIV/AIDS for all those who need it. Under Target 9: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss.

van Gelder (2002) noted, for example, that if income distribution is maintained and per capita growth rates continue to track those of the last 15 years (about 1.4 per cent) the poverty head count at 1 dollar per day will remain virtually unchanged and the two dollar a day headcount will continue to rise. Therefore, in the scenario of business as usual, it seems that the region could miss the agreed target.

8. It has been noted that internationally agreed income poverty lines might not necessarily reflect the reality of the Arab region where some countries are classified as high income, while the rest, with exception of the LDCs, are middle income countries. National poverty lines are a better indicator of the situation at the national level. Available national data show that on this basis the region as a whole has not experience significant progress in reducing income poverty. A slight decrease on the proportion of people living below the national poverty line is observed in the region when comparing the periods 1990-1995 and 2000-2004. Still 18.2 per cent of the population lived below the poverty line in the later period, down from 19.6 per cent during the former. While the poverty level have declined in the Mashreq by 5 percentage points and in the Mashreb by 3 percentage points, it rose by almost 10 percentage points in the Arab LDCs from 37.1 per cent to 46.8 percent. (ESCWA, 2007)

9. Data on poverty in the Arab countries should be taken with caution. Many difficulties - operational, methodological and pertaining to different definitions of poverty- are associated with computing poverty indicators for the Arab region (ESCAW, 2005). Furthermore, many countries have not yet elaborated national poverty indicators, as is the case of the GCC countries among others. National poverty indicators are only available for 11 Arab countries. Moreover, a comparison of different assessments at the country level shows great disparities in reported poverty levels (Kossaifi, 2000). The generation of reliable and comparable time-series data on poverty for all the Arab countries is an area that requires urgent attention to monitor progress towards the achievement of the MDGs.

10. The Arab region is also confronting serious challenges for achieving a substantial reduction of the proportion of people who suffer from hunger. The number of food deprived persons in the region rose from approximately 20 million in 1991 (8.8 per cent of the total population) to 23.3 million in 2002 (8.6 per cent of the total population), implying that the set target is unlikely to be met by 2015. Arab LDCs also did not make any noticeable progress in this area. In these countries, the number of food-deprived persons amounted to 26.3 per cent of the total population in 2002, almost the same level as in 1991 (26.5 per cent). Also, for the region as a whole, the proportion of underweight children under 5 years of age remained relatively high in 2000, 12.7 per cent, close to its 1990 level of 13.2 per cent (ESCAW, 2007).

11. Achieving the target of *full and productive employment and decent work for all, including women and young people* is perhaps the major challenge that Arab policy-makers will need to confront in the immediate future. Achieving the employment target is at the same time a necessary condition for sustainable progress on poverty reduction, alleviating the plight of people suffering from hunger and achieving other MDGs. The region is facing an extremely complicated labour market scenario (World Bank, 2007). Labour market developments vary among Arab countries and regional average trends are strongly influenced by developments in the biggest countries. The improvement of data on employment and unemployment in the Arab countries needs to be urgently addressed. Current data limitations will make assessing progress, and, consequently, devising appropriate policies in this area a complicated endeavour.

12. Some stylized facts can provide an overall perspective of the challenges confronting the region in the area of employment. The region as a whole, and some Arab countries in particular,

show the highest unemployment rates in the world. It was 12.2 percent in 2006 for the region, while for the world at large it was measured at 6.3 per cent. The aggregate unemployment rate for the region has 'hovered around the 12 per cent mark for at least the past decade' (ILO, 2004-5: 56)[2]. The case of Arab stands in sharp contrast with other regions, notably East and South Asia, where the unemployment rate stood at 6.1 and 3.8 per cent, respectively in 2005. The overall unemployment rate varies considerably across the region, ranging from 1 per cent in Qatar, to 32 per cent in West Bank and Gaza.

13. Unemployment primarily affects young, semi-educated and educated persons, urban people and is particularly acute among working-age woman. The region confronts at the same time the highest growth rate of the labour force (annual average of 3.7 per cent during 2000-2005, meaning more than 4 million new entrants to the labour market every year); has the lowest participation rate in the world (47 percent in 2006), particularly of woman; and, excluding sub-Saharan Africa the region has the youngest labour force in the world. The Arab region is highly dependent on public employment. Data available for 2000 show that public employment accounted for 33 percent of total employment in the region (Alissa, 2007).

14. Unemployment disproportionately affects the youth. The youth unemployment rate has remained almost constant at 30 percent between 1996 and 2006 in Northern Africa, and it has increased from 19 to 23 percent in Western Asia during the same period (UN, 2007). In Jordon the youth unemployment rate is 3.6 times the adult unemployment rate, while in Egypt it is 5.9 times the adult unemployment rate. A conspicuous case is Qatar in which the youth unemployment rate is 22 times the adult unemployment rate. In general, the GCC countries have adult unemployment rates that are below 5 per cent.

15. In the Arab region female employment averaged a mere 25 per cent of total employment in agriculture, 17.9 per cent in manufacturing and 26.7 per cent in services. The corresponding world averages are: 39.9 per cent in agriculture, 31.2 per cent in industry and 45 per cent in services (ILO, Global employment trends, 2006:12)[3].

13. The employment problem in the region besides its economic implications has been identified as the most politically volatile economic issue facing the region during the medium term (Richards, 2001). There are enormous challenges ahead. A World Bank report (2004) showed that around 100 million additional jobs, more than doubling the current employed labour force, would have to be created between 2000 and 2020 to employ all additional entrants to the labour market and eliminate unemployment.[4] The challenge is not only to create employment, but providing decent and productive employment to all the working-age population. In the Arab region, the average growth rate needed to create these additional jobs needs to be almost double than the one prevailing during the 1990's. The recent growth performance in the region, with a very few exceptions, is promising but still falling short of the annual growth rate of 7 percent needed for attainment of the MDG.

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[2] ILO (2005) World Employment Report, 2004-2005, Geneva

[3] ILO (2006) 'Global Employment Trends', Brief, January, Geneva

[4] To reach an employment rate of 64 per cent of the working-age population about 79 million jobs will have to be created in the next 15 years. To reach a level of 70 per cent, nearly 100 million jobs would be needed in the same time frame –that is 6.5 million jobs per year, representing a sustained employment growth of around 4.4 percent per year (World Bank 2007)

14. In the age of globalization it is undisputed that trade and an effective integration into the global economy are necessary conditions for achieving sustainable development. To enable trade to become a meaningful driver of development and a serious contributor to the achievement of the MDGs, i.e. employment generation and poverty and hunger alleviation, Arab countries need to develop the capacity to compete internationally by overcoming supply-side constraints; the capacity to negotiate, interpret and implement trade agreements which give priority to poverty and human development concerns; and, the capacity to integrate pro-poor trade policy in national poverty reduction strategies. However, Arab countries are confronting an increasingly complex global environment that could seriously affect the possibilities of reaping developmental gains from their integration into the international trading system.

15. In the realm of trade, globalization finds a concrete expression through the different "trade regimes" that are instituted establishing the norms and disciplines regulating transactions among nations. The international trading system has gradually evolved into a regime of "layered governance" in which developing countries' trade and development policies are increasingly bound and "locked in" by differentiated commitments at different layers of integration – multilateral, regional and bilateral. A defining characteristic of emerging trade regimes is that they go far beyond the promotion of free trade in goods, and increasingly are much more intrusive in areas that are critical to the development process and previously considered the exclusive domain of the nation state.[5] These trade regimes are increasingly imposing limitations to the range of development policy options available to developing countries. On this issue refer, among others, to Muchhala (2007); Abugattas and Paus (2007); Gallagher (2005); Chang (2005); Peterson (2004); Roffe (2004); Shadlen (2005); and, UNCTAD (2006b, 2007). In this context, the preservation of the required policy space and its effective utilization for implementing MDG-based trade and industrial policies is an issue of increasing concern for developing countries.

16. Thus, trade agreements are becoming increasingly much more intrusive in areas which are critical to the development process, constraining the policy space of national governments, and infringing on their ability to adopt strategies consistent with their sustainable human development goals and aiming to achieve the MDGs. The crucial question of employment generation has taken center stage in national development strategies, which are also emphasising the issues of national ownership and policy space as a means of achieving the MDGs and national development goals. Synchronizing national development objectives and policies with binding and enforceable multiple-dimensional commitments in different layers of integration has become therefore a core aspect of statecraft for developing countries.

17. The UNDP Arab Initiative on Trade, Economic Governance and Human Development aims at contributing with the Arab States in their efforts to manage the inter-linkages between national development objectives and policies and their trade and international integration strategies.

Goals and Strategy of the Arab Initiative on Trade, Economic Governance and Human Development

18. The project aims at supporting Arab countries in formulating appropriate responses to the opportunities and risks of globalization taking fully into consideration their sustainable human development and poverty alleviation goals, and to contribute to enhancing the capacities of Arab governments to promote their development concerns and priorities in ongoing and

[5] The trade agenda has progressively expanded incorporating services, domestic regulation, investment, government procurement, intellectual property rights, labour rights, and environment.

emerging multilateral and regional trade negotiations playing a more active role in shaping the global trading system. Also, it aims to contribute with efforts promoting regional integration as an effective vehicle for sustainable human development in the region. In this connection the regional trade project pursues five main interrelated objectives:

- Increased awareness by governments and civil society organizations in the Arab region of the potential national impact of global and regional economic integration through WTO accession and regional/bilateral trade agreements on human development;

- Identification of pro-poor trade and industrial policies (including measures to address supply-side constraints) that would help Arab countries grasp the opportunities of globalization and regional integration and achieve sustainable human development and MDGs;

- Enhanced trade negotiating capacities of Arab countries, with particular emphasis on countries seeking WTO membership; and,

- Strengthened common perspectives and positions among Arab governments in regional and global trade and economic governance fora and institutions.

- Increased regional trade cooperation with a view of achieving regional economic integration

19. Conceptually the project is rooted on a *development-centred approach to trade* rather than on a *trade-centred approach to development*. The latter, favoured by the International Financial Institutions (IFIs) is based on the expectation that the reallocation of resources according to comparative advantage produced by trade liberalization will yield significant efficiency gains and welfare benefits addressing the employment and poverty problems afflicting developing countries. Thus, this approach identifies trade liberalization as the prime source of income convergence across countries and as a key element of any development strategy. On the contrary, a development-centred approach to trade, as suggested by UNDP (2003), UNCTAD (2004, 2004a) and analysts such as Rodrick (2000), Sachs (2001, 2004) and Stiglitz (2006) postulates that national policies that will best support poverty reduction should not be based mainly on an strategy to integrate into the global economy but rather on a national development strategy with an integration component.

20. As noted by UNCTAD (2004a) the analytical core of this approach is that poverty reduction occurs through the efficient utilization of productive capacities in a manner in which the working-age population becomes more and more fully and productively employed; and that international trade can facilitate, hinder or modify this process. There is no presumption that trade and trade liberalization are unambiguously good, and that will necessarily produce positive outcomes regarding growth, employment generation and poverty alleviation.

21. The development-centred approach, considers trade regimes as a means to an end, rather than and end in itself; trade regimes being instrumentally rather than intrinsically valuable. The purpose of trade rules should be to facilitate positive development and poverty reduction outcomes rather than solely promoting trade liberalization and providing stability and predictability for market participants by restricting governments' actions that might affect trade (Helleiner, 2003). Trade regimes should enable rather than constrain the development and utilization of productive capacities enabling developing countries to effectively address their

pressing employment and poverty problems through national policies that fully take into account their particular situation and their own development objectives.

22. The project addresses its goals and objectives through two pillars: *policy advocacy and advice* and *capacity-development*. Region-wide policy oriented research and analysis supports both pillars. The project works in close collaboration with other UN agencies (UNCTAD) and with regional organizations (ESCWA, UNECA), and builds on a strategic partnership with the League of Arab States (LAS) for implementing the project's activities. As appropriate, regional policy think-tanks, UNDP-RBAS regional projects (e.g. POGAR, ICTDAR and HARPAS) and NGOs are sought for specific activities.[6]

3. Situation Analysis

Economic Reform, Trade Agreements and Human Development in the Arab Region

23. As part of broader economic and governance reform programmes most Arab States have reformed their trade policies to enhance their integration into the global economy. They aim at reaping the benefits of globalization, through improved access to the major world markets, more foreign investments and technology transfers, and ultimately faster and more sustainable economic growth generating sufficient employment opportunities for their people. Most of these reforms have consisted of reducing tariffs and removing non-tariff barriers to trade; opening up to FDI, launching ambitious privatization programmes, and implementing measures to unleash market forces in the economy.

24.. Reform programmes in the Arab countries, as in many other developing countries, followed the Washington Consensus policy prescriptions that promoted a trade-driven development policy approach, whereby trade liberalization of goods and services, domestic deregulation and privatization, in a context of macroeconomic prudence and an overall business-friendly environment, were considered the main tenets of development policy. For some, even sufficient conditions for achieving national development objectives. Allowing the efficient functioning of the markets, with limited State intervention to address isolated cases of market failure, it was believed would automatically generate substantial developmental gains through enhancing economic growth and improving overall welfare of the population.

25. The pace of reform has varied among the Arab countries, but in general substantial trade liberalization, autonomous or negotiated, has taken place during the last decade; and, almost all countries in the region have abandoned prior State-led development programmes and made profound changes in their domestic regulatory frameworks, increasingly relying on the free functioning of markets and on the private sector as the main engine of growth. Different studies show that the region as a whole is not far behind other developing countries in terms of

[6] The project will bring value added by: (i) by addressing the issues of trade, development policies, human development and poverty reduction in an integrated manner from a regional perspective.; (ii) covering, as much as appropriate, all League of Arab States (LAS) members in its research and analytical work, expanding the scope of work being done by other organizations. UNESCWA does not cover all LAS members, and the MENA definition used by the World Bank and the IMF also have a more limited coverage. The project will aim to incorporate all LAS members in the research work in order to be able to present a more comprehensive comparative perspective of the Arab region; and, (iii) by disseminating all outcomes of the project in Arabic, guaranteeing accessibility to a wide audience.

structural reform, and that in some areas Arab countries are among the best achievers (World Bank, 2003, 2007; Nabili and Veganzones-Varoudakis, 2004)

26. The Arab region has made significant progress in macroeconomic management. Its performance is recognized as particularly impressive, moving from a level of stability roughly similar to that of South Asia and sub-Saharan Africa to that of East Asia and the Pacific, traditionally the best performing regions in macroeconomic terms (Page, 2004). In parallel, Arab countries have significantly opened their economies to trade, investment and capital flows. In the realm of trade policy tariffs have been significantly reduced in almost all the countries of the region and most NTBs eliminated or significantly reduced. The GCC Custom Union members have by now an average tariff that is below 5 percent; Lebanon simple average tariff is 5.4 percent, Yemen 7 percent, Egypt just over 9 percent, and Jordan 11.8 percent. Thus, ten countries in the Arab region had average tariffs below 12 percent in 2006.

27. Other countries in the region have also reform their trade policies significantly reducing tariffs but still maintain higher levels. This is the case of Algeria (18.7 percent), Djibouti (31 percent), Libya (17 percent), Sudan (24.1 percent), Morocco (26.6 percent), Syria (26.9 percent) and Tunisia (26.9 percent). The case of Morocco and Tunisia needs to be qualified. Even though they maintain higher average tariffs they are at the vanguard of implementing the EU partnership agreements that has entailed the elimination of tariffs to a significant number of products. A more relevant indicator in general of tariff policy is the effective tariff, which is the amount of revenue actually collected from imports. This indicator captures the effect of trade preferences granted to trade partners and of domestic legislation providing special tariff treatment.

28. Some Arab countries have anchored some components of their reform programs through international binding commitments within the scope of the multilateral trading system (WTO) or through regional and bilateral trade agreements; in particular in the Euro-Med Association Agreements and in bilateral agreements with the US and EFTA. Concerning the multilateral trading system, eleven[7] of the eighteen countries under the mandate of UNDP' Regional Bureau of Arab States (RBAS) are members of WTO. The last one to join was Saudi Arabia in December 2005 at the Sixth WTO Ministerial meeting held in Hong-Kong, becoming its 149th member. Six other countries are in different stages of accession (working parties established for Algeria, Lebanon, Yemen, Sudan, Iraq, and Libya). Syria is still waiting for a General Council decision to start negotiations.[8] West Bank and Gaza was admitted recently as observer, the first step towards requesting membership of the WTO in the future.

29. WTO membership imposes a broad range of obligations and implementation challenges for Arab countries as provided by the Uruguay Round Agreements. Current negotiations on the basis of the Doha Work Programme (DWP), even though with an uncertain prognosis at this moment, will probably enhance commitments and will bring new challenges, as well as opportunities to the Arab counties. Accession negotiations are very complex and the cost of entry into the WTO, as can be observed from the stringent commitments demanded from new members, could have significant developmental implications for those Arab countries currently undergoing the process.

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[7] This excludes Mauritania although it is member of the League of Arab States.

[8] Syria's application for membership was first presented on October 2001, then again on January 2004 and in September 2005.

30. Arab WTO members, individually and through their membership to regional groupings, including African Union, LDCs, ACP, landlocked developing countries, and G20, have actively participated in the DWP negotiations. The Arab region has a vital stake in these negotiations as they focus on areas which are critical for the Arab countries and which have the potential, depending on the final outcome, either for generating large gains or alternatively significant costs in terms of employment and welfare. The Arab countries, due to their different level of development and patterns of integration into the international economy, have diverse interests in the negotiations (UNCTAD, 2006) (Dasgupta et.al, 2002). Also, newly acceded countries, Saudi Arabia, Oman and Jordan, already made extensive commitments during the process of accession and their interests are different than those of countries that have a larger room of manoeuvre in the current negotiations. Arab LDCs are not expected to make any commitments during this round of negotiations.

31. Arab countries, even facing different challenges in the negotiations, collectively have been able to adopt common positions addressing the main areas of the negotiations. Two Arab Ministerial Meetings have been held to address this issue, in Beirut in July 2003 in preparation for the Fifth WTO Ministerial Conference; and in Amman in September 2005 before the Sixth WTO Ministerial. Since that date, no high level meeting has taken place to further an Arab region common position and negotiating strategy.

32. No significant progress has been made in the DWP negotiations since the process was restarted early this year after the July 2006 suspension. Members are expected to revise new proposals on Agriculture and NAMA in November, but the final outcome is still highly uncertain. A total collapse of the negotiations would entail a significant cost for the multilateral trading system. One should expect therefore that negotiations will continue until consensus can be finally reached on the most contentious issues. The implications for human development and the achievement of the MDGs in the Arab region could significantly vary according to the final package that is agreed upon. The assessment of the human development implications of the outcome of the DWP should receive the necessary attention in the region.

33. Arab acceding countries can expect to face significant challenges in their negotiations, as is the case of all acceding countries that are requested to adopt stringent commitments in all areas that go far beyond what other developing countries have accepted to commit in the WTO. Even the S&D treatment is challenged during the negotiations (Evenett and Braga, 2005). Major producers and exporters of energy products will confront additional challenges as these products are considered strategic and even linked to national security considerations by major trading partners. The impact of the multilateral trading system for Arab countries in the process of accession will depend on the speed and ease which they are able to joint the WTO and on the terms of their accession. Commitments adopted during the accession negotiations could have significant effects on the policy space of these countries for implementing national development policies aiming at achieving human development and the MDG (Bacchetta and Drabeck, 2002), Directly accession commitments can seriously impact on employment and welfare. The human development implications of accession commitments should be carefully assessed and should guide the negotiating position and strategy of Arab countries confronting this process.

34, Pursuant to the Barcelona Declaration, the EU has negotiated bilateral FTAs with the Mediterranean Arab countries aiming to the establishment of the Euro-Mediterranean FTA by 2010. So far eight Arab countries, namely Algeria, Egypt, Jordan, Lebanon, Morocco, Palestine, Tunisia and Syria, have signed new generation Association Agreements (AA) with the EU that provide for a gradual liberalization of bilateral trade, particularly in manufactured goods, and include other deep integration measures covering different policy issues, providing also for cooperation in a variety of political, social and economic areas. All the agreements, except the one with Syria have already entered into force. A similar agreement is currently under negotiations between Libya and the EU. The latter is also negotiating a different form of FTA with the GCC.

35. Euro-Med Arab countries, such as Egypt and Morocco, are currently in the process of incorporating the liberalization of agriculture, processed agricultural and fisheries products, services trade and investment within the framework of the existing agreements with the EU.[9] Jordan has already completed negotiations on agriculture with the EU. Besides extending liberalization to these areas with all partners an ambitious programme to deepen integration in the Mediterranean zone has been contemplated in the 6th Euro-Med Trade Ministerial Conference held at Lisbon on October 2007; including the reinforcing of the institutional and legal framework by negotiating a more effective dispute settlement mechanism, and strengthening regulatory convergence on industrial products.

36. In the process of building the Euro-Mediterranean FTA, which contemplates free trade among all its members, Arab countries, Egypt, Morocco and Tunisia, have negotiated agreements with Turkey, and negotiations are under way with other Mediterrnean countries to establish similar agreements. It is expected that the other five Arab countries participating in the Med-FTA will finalize and implement agreements with Turkey in the near future.

37. Some Arab countries, mainly Egypt, Morocco, Tunisia, Jordan, Lebanon, and Palestine, are party to bilateral agreements with the EFTA. All this agreements are currently in force, the Egypt agreement entering in force in August 2007, while Algeria, and the GCC are currently in the process of negotiating a FTA agreement. The FTA agreements will incorporate the Euro-Med Protocol on Rules of Origin.

38. In recent years, four Arab countries, namely Bahrain, Jordan, Morocco, and Oman, have entered into free trade agreements with the USA. All of these agreements are in force, and they go far beyond liberalization of trade in goods, incorporating deep commitments on services trade, investments, government procurement and intellectual property rights, among other issues. The UAE negotiations for a similar agreement with the US have been in progress since March 2005. The FTA with Jordan and the bilateral agreement with Egypt contain a tripartite component, under which quota and tariff free access to the US market is granted for goods manufactured in qualified industrial zones (QIZ) provided that a minimum Israeli, Egyptian or Jordanian content requirement is met. Other Arab countries (Algeria, Kuwait, Iraq, Qatar, Saudi Arabia, Tunisia and Yemen) have signed Trade and Investment Framework Agreements (TIFAS) with the US which are regarded as a first stage towards deeper arrangements between partners.

39. Arab countries are also actively engaged in promoting free trade agreements with countries in other regions of the world. Arab countries such as Jordan, Bahrain, Egypt, Kuwait, Qatar, UAE, and are contemplating or in the process of negotiating FTAs with major trading partners in Asia, such as China, India, and Singapore; with Australia, and even with countries in Latin America.

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[9] Service negotiations are underway in regional mode, and bilateral negotiations will take place with countries that ready and interested with a view to conclude them as soon as possible before 2010. Negotiations on investment aim at improving market access through specific commitments and at ensuring national treatment, while promoting deep integration through regulatory convergence.

40. This plethora of trade agreements in which the Arab countries are involved has pushed forward trade liberalization in the region, which will be deepened as the agreements mature. It is safely to assert that in the medium term most of the Arab economies will be almost fully liberalized as result of commitments adopted in the framework of trade agreements. Agreements "locks-in" also the orientation of development policies in a number of critical areas by means of the binding commitments adopted. This effect is most pronounced in those agreements with developed countries.

41. Most recently, intra-regional integration efforts have has been revitalized in the region. Economic integration is being actively promoted through the Pan Arab Free Trade Area (PAFTA), the Agadir Accord, UMA and the newly (2003) established Gulf Cooperation Council (GCC) Customs Union. At the same time some Arab countries are members of other regional groupings pursuing trade liberalization. This is the case of Egypt, Sudan, Djibouti and Libya that are also Members of COMESA. Except for Libya, the other countries are participating in the COMESA FTA. COMESA is aiming at establishing a Custom Union and is immersed in the current efforts to build the African Union through the convergence of sub-regional arrangements. The parallel participation of countries in different integration groupings brings increasing complexity to the overall integration efforts in the Arab region.

42. The PAFTA, launched in 1997 and signed by 19 countries to date, aims at fostering intra-regional trade mainly of industrialized and agricultural goods through tariff reductions and the elimination of non tariff barriers. Liberalization of trade in services is also being negotiated in the framework of PAFTA. PAFTA aimed at eliminating tariffs among participating countries by 2005. Progress has been achieved but still some hurdles have delayed the effective implementation of the liberalization process, among them the lack of agreement regarding rules of origin for important products from an intra-regional trade perspective. The coexistence of multiple agreements in the region –regional, sub-regional and bilateral needs to be address. The convergence of all efforts towards a well functioning Arab free trade area should be promoted with the objective of enhancing human development in the region. Arab integration, besides trade liberalization, should also effectively incorporate programs aimed at addressing the pressing social problems that are afflicting the region.

43. Four PAFTA members, namely Egypt, Jordan, Morocco and Tunisia, decided to go further and concluded the Agadir agreement in February 2004. The agreement entered in force in January 2006. In addition to promoting trade among concerned countries, the latter is aimed at grasping, through increased regional trade cooperation, the opportunities created by agreements with other non-Arab partners, in particular with the EU which allows regional accumulation for purposes of determining origin of the products[10]. The GCC is rapidly moving towards deeper integration among its members, and with the international economy, on the basis of the new agreements. The GCC has instituted a common external tariff of five percent, with numerous tariff lines free of duty, particularly inputs. Also, the Arab Maghreb Union (AMU), even though confronting some problems in the past, is exploring new avenues to foster integration and cooperation among its members,

44. Arab countries, at the same time that regional and sub-regional integration is being promoted, are part or are entering into bilateral or plurilateral FTAs with each other. Currently

[10] For more on PAFTA and the Agadir agreement, refer to: UNESCWA Report on Globalization and Regional Integration (2004, 2005).

there are more than 24 arrangements of this type among Arab countries, with Egypt, Morocco and Jordan emerging as hubs in a complex web of bilateral trade agreements.

Outcome of the Reforms

45. Trade liberalization and economic reform efforts have produced mixed outcomes in the region. Only a few countries have achieved substantial results through an outward-oriented strategy[11]. After the "growth crisis" of the eighties, real per capita GDP growth in the last fifteen years for the whole Arab region has been disappointing; well below that of the golden age of economic growth of the sixties and seventies, and clearly insufficient to address the acute employment problem challenging the region. Despite the acceleration of growth since 2004, explained in great part by the oil boom, real per capita income is growing only at two thirds of the aggregate rate of low and middle-income developing countries as a whole (World Bank, 2007) In terms of economic growth the Arab region since 2000 is performing slightly better than sub-Saharan Africa and behind other developing regions, and there are questions surrounding whether the region will be able to sustained current growth rate in the near future.

46. As discussed earlier the region has the highest unemployment rate in the world while maintaining the highest growth rate of the labour force. Although the region has made progress in human development in the last three decades, human poverty and inequality of capabilities and opportunities are still prevalent and pronounced. Despite perceptions that poverty is not generally a problem in the region, household surveys reveal that poverty is widespread and remains a serious challenge to policy-makers (ESCWA, 2005). Although average income poverty levels are lower than in other developing regions there are three LDCs in the region (Djibouti, Sudan and Yemen) with very low income per capita and a high incidence of poverty; and there are pockets of acute poverty in many other Arab countries. Also, it should be noted that large segments of the population live on the edge of poverty and are highly vulnerable and would be affected directly by public policy choices and by any negative effects of global and regional trade liberalization.

47. The integration of the Arab region as a whole with the world economy has not improved noticeably in recent years. This especially when comparing the region with other developing regions in terms of trade openness (trade to GDP ratios) and foreign direct investment flows. In 2006, total exports from the region represented barely around 5 percent of total world exports of goods while imports represented near 3 percent of total world imports. These shares have increased slightly in recent years mainly due to soaring oil prices. Despite some efforts and progress to diversify, most countries in the region still export a narrow range of low value-added goods, exports being dominated by fuels that account for 70 percent of total exports of the region.[12] Exports are oriented to a few exports markets, particularly the European Union. Arab exporters have not made significant in-roads into the major economies in Latin America

[11] The UAE, a small rich oil producer often cited as an example, has seen its per capita GDP almost double since 1989 with an average real GDP growth of 7% a year in the 90s and near 10 percent since 2004. This rapid growth was driven by, besides oil activities, the expansion of non-oil activities and a boom in private domestic and foreign investments in the non-oil sector. Jordan and Tunisia have also enjoyed higher growth rates led by increased non-oil exports and increasing investments. Qatar also has experienced high growth rates since 1996, which have jump to above 11 percent since 2003.

[12] Fuels exports constitute an average of 75 to 90 per cent of the merchandize exports of GCC countries, Yemen, Algeria and of Libya. In the cases of Syria and Egypt oil represents 68 and 44 per cent of total merchandize exports respectively.

and East Asia. Nor are there any major links to the major economies in the rest of Africa or South Asia (Madani and Page, 2000)

48. In terms of FDI inflows, the region accounted for merely 1.5% of world total FDI inflows and 5% of FDI inflows received by developing countries in 2003. These shares have slightly increased since that year due to a sharp increase of FDI inflows in the oil sector and partly as result of privatization to infrastructure and banking and telecommunications services. Two countries in the region Saudi Arabia and the UAE account for 58 percent of total FDI inflows in the region (WIR, 2007) It is notable that near fifty percent of FDI in the region comes from within the region, mainly from the UAE and the KSA. On one hand this testifies to the strength of intra-regional ties; on the other it demonstrates that so far the region is not attracting investments by the big multinational global players, except in oil and other few limited activities

49. The performance and the composition of trade are reflections of the overall performance of the productive sectors of the economy, particularly the industrial sector. Trade in the Arab region is characterized by highly concentrated exports and relatively diversified imports. Export concentration indices for all Arab country groups exceed the average concentration indices for middle-income, low-income and LDCs. Exports are dominated by primary products and low value-added goods which have low returns to domestic factors of production, particularly labour.

50. Manufactures exports, on the other hand, represent a small proportion of total exports in the Arab countries. They barely constitute 10 per cent of GCC merchandize exports, except for UAE where 20 per cent of merchandise exports are manufactures, most of which are Petrochemicals and oil related products. Manufacture exports account for 26 per cent of the Mashreq total exports, 21 per cent of the Maghrib, and 5 per cent of exports of LDCs, Moreover, the technological content of manufactures exports is very low. High-technology exports constitute, on average, 1 to 3 per cent of manufactured exports for most Arab countries, except for UAE and Morocco, where they stand around 10 per cent, and in Jordan and Tunisia where they represent 5 per cent of total manufacture exports.

51. Except for tourism in some Arab countries, and FDI by the Gulf countries in services activities abroad, services exports have not shown significant dynamism in the region during the last decade. The Mashreq is ranked first in the region in terms of exports of services, mainly due to tourism receipts, followed by the Maghrib, the GCC and LDCs, respectively.

52. It appears, therefore, that the Uruguay Round Agreements (URA) did not significantly contribute to a more fruitful integration of the Arab countries in the international trading system. On the other hand, it is too early for a full assessment of the trade and development implications of the bilateral agreements in which the Arab countries are participating as they recently entered into force, and need to be completely implemented. However, available evidence suggests that these agreements have not yet brought any significant change in the traditional patterns of relationship between the partners. The development promises of these agreements are still to materialize. Similarly, it is striking to note that despite the commitment of Arab policy makers to further regional economic integration, intra-regional trade, with the exception of the GCC, remains disappointingly low, at an average of 8% of total Arab trade since the establishment of PAFTA in 1997. However, excluding oil intra-regional trade represents 22 percent of the total trade of the Arab countries, signalling the promise that economic integration can bring to the region.

53. A number of specific factors can help explain the current situation regarding development and trade in the Arab region. The Arab States' relative decline in merchandise trade openness is often attributed, for example, to the high level of product and geographic concentration of their trade. The existence of many supply side constraints, including weak infrastructures and business support institutions, and limited market access for agricultural exports could also explain the slow pace of integration of the region with the global economy. The poor results in intra-regional trade are attributed to the lack of complementarities between their economies; persistence of numerous tariff and non-tariff trade barriers despite the existence of various bilateral and regional agreements; the non-compliance by many countries with their obligations under these agreements in the absence of any credible dispute settlement mechanism; the lack of clear definitions of rules of origin, and the high cost of transport partly due to bureaucratic and infrastructure bottlenecks (ESCWA, 2004).

54. The impact of conflict and of security-related issues affecting trade and development in the Arab region is another factor to consider, which can not be downplayed due to the past and present situation seriously affecting a number of Arab countries. This needs to be factored into any analysis regarding trade and development in the region. The main fact is, however, that economic reform as implemented and trade liberalization in the region until now has not been able to increase and diversify exports and generate sustainable human development in most countries in the Arab region.

Determinants of Unfulfilled Expectations

55. As noted by ESCWA (2005a) the conventional economic strategies employed in the region have been, to date, largely unsuccessful. The stabilization and structural adjustment policies implemented during the last 25 years have failed to trigger rapid economic growth and a sustained reduction of poverty.[13] The reason why the Arab countries have not been able to enter into a path of sustainable economic growth and human development is a matter of analysis and debate, both in academic and policy-making circles in the region. There are contending views in this respect reflecting the broader worldwide ongoing debate, spurred by the unfulfilled promises of conventional wisdom, concerning the most appropriate trade and development policies for developing countries.

56. The explanation of the relatively unsatisfactory results of trade liberalization and economic reform in the region suggested by many mainstream analysts and by the Bretton Woods Institutions do not differ from those used to explain dismal results in other regions of the world, for example in Latin America. Governments are blamed for implementing wrong economic policies (fuelling macroeconomic instability or generating exchange rate misalignment), insufficiently reforming their economies (lack of adequate regulatory frameworks) or trade regimes (not enough liberalization) to stimulate trade and create a more business-friendly environment for investors, in particular foreign investors (Abed, 2003; Singh et al, 2005; Krueger, 2004; World Bank, 2007). The argument that poor performance derives from insufficient reform in the Arab region have been challenge by Nunnenkamp (2005), and by Page and van Gelder (2002) who show that in the region no clear relationship can be demonstrated between policy-related variables and economic growth or poverty reduction.

57. Conventional wisdom is rooted in the presumption that openness produces growth and growth is unambiguously good for the poor. Even though it is still asserted that "openness to international

[13] ESCAW highlights the fact that "Unfortunately, these policies are not self-correcting, and their perceived failure often leads to the intensification of the ongoing structural adjustment programmes"

trade and income growth is almost axiomatic" (World Bank, 2007); the relationship between openness and growth and between growth and poverty reduction have not been fully empirically demonstrated, and studies claiming these relationships have been seriously questioned.[14] Analysis of the links between trade and growth, and growth and poverty has not produced clear cut conclusions (refer to Taylor, 1991 and Abu-Ismail, 2003 on the relationship between trade and gorwth). McCullock, Winters & Cirera (2001) early statement that the fairest assessment is that liberalized trade alone has not yet been unambiguously and universally linked to subsequent economic growth, still holds valid today. The link between economic growth and poverty reduction is at it best very tenuous, and it is increasingly recognized that there is no automatic and predetermined relationship between economic growth and employment, which is the principal link through which growth is transmitted to the poor, and that not all growth is equally employment intensive (UNDP and ILO, 2007, Kakwani, Prakash and Son, 2000). The fact is that we know that trade liberalization is supposed to be good for growth, but we are not quite clear on who wins and looses, or how free trade affects poverty (Cockburn, 2004)

57. Confronting unfulfilled expectations, proponents of the Augmented Washington Consensus (AWC) now emphasize 'institutional weakness' and the lack of 'good governance', blaming these factors for undermining the expected results of policy prescriptions that had the right fix on the problem to begin with. A new set of broad reforms relating to institutions and governance are now suggested as the definitive solution to developing countries growth and welfare problems.

57. On the other hand, there are analysts who emphasize the fact that the free functioning of markets in general and trade liberalization in particular, by themselves cannot provide a solid foundation for sustainable development, including employment generation and poverty alleviation (Shafaedin, 2006, 2006a; Gallagher 2005; Paus, 2004; Rodrik, 2000, 2001; UNDP, 2003; Stiglitz and Charlton, 2005). Evidence showing, with rare exceptions, that latecomers to the development process have only caught up with other countries with additional forms of active government intervention influencing resource allocation in the economy is brought in by many analysts to demonstrate a serious flaw in conventional wisdom (i.e. Chang, 2004; Rodrik, 2004, 2000, Amsden, 2001). The recent experience of successful developing countries (i.e. China, India, and Vietnam) provides further empirical evidence supporting this opinion (UNDP, 2003).

58. The disjuncture between the theoretical underpinnings of the neoliberal model which posit markets that are perfect and complete, and the reality in most developing countries where markets are riddled with failures and imperfections, is also noted as an element contributing to explain the dismal results of the neo-liberal policy prescriptions (i.e. Lall, 2005; Stiglitz, 1998 1998a; and 2006; Arndt, 1988, Stiglitz and Charlton, 2005). While it is widely recognized that the AWC proposed reforms tackle important issues that developing countries should address in their own right, their shortcomings from an economic growth and trade perspective are stressed by many (i.e. Fine, 2001; Rodrik, 2004; Stiglitz, 1998, 2006)

59. In any event, trade liberalization and economic reform, whether unilateral or within the scope of the multilateral trading system or regional and bilateral agreements, should not be seen as an end in itself but assessed for its contribution to human development (UNDP, 2003) (Millenium Project 2005). We may add in particular on the basis of its contribution to the achievement of the MDGs The multilateral trading system in its current shape puts much more emphasis on promoting trade liberalization and market access than sustainable human

[14] For a discussion of this issue refer to (Oxfam International, 2000).

development, even though the current negotiations under the DWP are officially driven by a development agenda. The predominantly focus on market access issues at the expense of developmental considerations also define North-South trade agreements.

60. Consequently, in some Arab States, policy-makers whose main objective is to improve the wellbeing of their populations are cautious and concerned about the effects of further trade liberalization and of the implications of the commitments in the framework of new generation trade agreements. The benefits are uncertain and its implementation may impose serious stress to their agricultural and industrial sectors with a direct impact on already high levels of unemployment and poverty, and thus on human development. In addition, trade liberalization may require substantial reforms to their macroeconomic policies, in particular fiscal policy. Furthermore, the 'single undertaking' mandate which compels member governments to accept agreements as a package raise some concerns about the developmental implications of the final outcome of the WTO negotiations. The position of the major trading partners that acceding countries should accept "WTO plus" provisions in their terms of accession will create new obligations to Arab governments in terms of dismantling trade barriers, and might impose on them rules and institutional arrangements that are not necessarily consistent with their current development priorities and specific situations.

61. Globalization and the integration of the Arab countries into the international trading system can bring substantial developmental gains. However, the realization of those gains will depend to a large extent on the sequence and speed of reform and on the nature of the flanking policies that countries implement. Trade liberalization in an adequate regulatory and policy environment can contribute to the human development objectives in the region and to achieving the MDGs. Nevertheless, with all certainty, there will be winners and losers. National policy makers must be sure that the winners significantly outrank the losers; and that adequate policies to address the adjustment costs are implemented efficiently and timely to support those who will lose from the process.

Challenges Ahead

62. The main economic policy challenge confronting Arab countries today is to harness the forces of globalization seizing all the opportunities created by it, and using trade more effectively as a vehicle for sustainable growth and human development enhancing its contribution to the achievent of the MDGs. Today most analysts, even early supporters of the Washington Consensus prescriptions, agree that at its best that approach has proven to be insufficient to generate the development outcomes that developing countries urgently require, in particular as it relates to human development. Arab countries, like many other developing countries, confronted with the unfulfilled promises of economic reforms need to design and implement development-driven trade policy options that would contribute to assuring sustainable human development.

63. There is growing recognition that active public policy interventions are necessary for achieving national and sectoral developmental objectives; therefore the issue of *industrial policies*, in its broadest sense, has come back to the development agenda. Consensus also exists by now that there is no "one-size-its-all" policy that developing countries should pursue. Policies need to respond to the particularities of the countries in question given the profound structural differences among them and be cognisant of the prevailing international context, in both its economic and legal dimensions, and of the direction of change. Therefore, the assessment of policy alternatives for the Arab States besides recognizing the specificities of each country has to factor in the profound and accelerating changes taking place in the world

order in its economic, social and political spheres: (i) increasing economic interdependence; (ii) enhanced social and cultural exchanges; (iii) rise of electronic ‘virtual’ markets, (iv) intensified international repercussion of domestic actions through the market; (v) the progressive emergence of an international trade regime of “layered governance,” (iv) the emergence of the South and the configuration of a new trade geography; and, (iv) a shifting international agenda with increased emphasis on security issues, climate change, labour rights and gender empowerment.

64. To reap benefits from globalization Arab countries need to generate the skill base, or more broadly the knowledge-based assets, to confront the challenges of intensified international competition and derive benefits from their integration into the international trading system. Each country has to find new competitive advantages, and, thus, a sustainable basis for human development, in accordance with its country-specific endowments, path dependency and institutional characteristics. But for all countries, productivity growth and the move to higher value added activities in both goods and services provide the only shot at the high road to development. The low road of insufficient productivity and declining real wages is not a road to development, but it is the *de facto* default option (Abugattas and Paus, forthcoming). Arab policy-makers need to face the challenge of designing and implementing trade/industrial policies that will open the door to the high road to development.

65. As the result of increasing obligations deriving from the multilateral trading system and from the proliferation of FTAs, the international trade system is evolving into a regime of “layered governance” As discussed above, Arab States are increasingly immersed in a web of overlapping trade agreements at different layers of integration –multilateral (WTO), regional, sub-regional, and bilateral- with provisions whose implementation increasingly impinges on policy areas previously considered the exclusive domain of the nation State. The binding international commitments adopted in the framework of trade agreements define, by setting its boundaries, the *policy space* available to the countries to implement their national and sectoral development policies.

66. Arab countries are thus confronting three main and closely interrelated challenges:

i. Devising the most appropriate national response to globalization by means of pro-poor trade and industrial policies that will bring them into the high road to development and to achieving human development and the MDGs. Also, devising ways and means to address the adjustment costs that integration into the global economy will necessarily entail;

ii. Assessing the impact of the trade and investment disciplines, already negotiated or being negotiated at different layers of integration, on the policy space needed to implement national development strategies; and,

iii. Adjusting trade/industrial policies to the existing policy space as defined by the binding commitments undertaken in the multilateral trading system and in other trade and investment agreements in order to secure developmental gains and an effective contribution of the agreements to the attainment of the MDG.

67. All the above issues need to be addressed by policy-makers in the Arab to seize the opportunities while minimizing the costs of integration into the global economy and foster regional integration from a human development perspective. In this connection a critical issue for the countries in the region, particularly those engaged in North-south agreements, is to devise the nature of a post-liberal development policy that would assure sustainable

development and the achievement of the MDG in the new trading and international integration environment.

The Road Ahead: The Project Results

68. The objectives, areas of intervention and outputs of the project are defined by the project document as approved by RBAS. The project aims at developing national capacities and regional expert networks to manage trade liberalization in line with the impact on human development outcomes. The project builds on the experience of other similar initiatives launched by UNDP in other regions of the world, such as the Asian Trade Initiative, and will build synergies with other projects being undertaken in the Arab region, particularly with the project "Assessing Development Strategies to Achieve the MDG" (RAMP).

69. The project addresses the issues of trade policy and trade agreements from the perspective of their impact on human development and the achievement of the MDGs. It aims at contributing with Arab countries in maintaining the necessary coherence between trade policy and the commitments adopted in different trade agreements with national development and poverty reduction strategies and policies. An enhanced understanding by Arab countries of the potential impact of trade policy and agreements on human development and the MDGs will reduce the risk of incurring substantial adjustment costs, and will contribute to strengthen their position in ongoing and future trade negotiations.

69. For achieving its results the project rests on research and analytical work and will provide technical assistance to the Arab countries to enhance their capacities to design and implement pro-poor trade and industrial policies and to negotiate, interpret and implement trade agreements in a manner conducive to human development and the achievement of the MDGs. It will also contribute with the countries of the region in pursuing their efforts to formulate and defend common positions in international trade negotiations, and increase their leverage in global discussions playing a more active role in the shaping of the multilateral trading system.

70. The project will emphasize work in those areas which will contribute more directly to the achievement of the MDGs in the Arab region in line with the new approved UNDP Strategic Plan, For such a purpose, in accordance with the intended outcome in the projects results framework, the following activities are proposed:

OUTPUT: *Enhanced policy-making in Arab countries based on informed public choice with respect to the WTO and regional trade agreements (RTAs) and strong national capacities in trade research and policy analysis from a human development perspective.*

71. To achieve this output the project will undertake the following activities, for each one a specific concept notes will be elaborated.

Activity 1: Analysis of the impact of trade policy and trade agreements on the prospects for achieving human development and the MDGs in the Arab region. Research and analytical work in this area will also contribute to a better understanding of the agreements and their policy implications. Work in this area has to be cognizant of the different situation of Arab countries in terms of the commitments already made in the WTO and in different regional and bilateral agreements. In this connection, two different sets of national studies will be undertaken. These studies in turn will be the basis for the elaboration of regional and sub-regional synthesis.

Two different approximations are proposed for assessing the impact of trade policy and trade agreements on human development and the MDGs in the region.

A. Assessment of the impact on human development and the MDGs of North-south trade agreements. At least three national case studies will be undertaken. The main objective is to develop and apply an approach for participatory concurrent assessment of the impact of trade policy (as embedded in new generation of WTO plus North-South agreements) on the MDGs, in particular MDG 1: poverty reduction and achieving full employment. This will be done by developing and applying a methodology that will assist Arab countries in: first, identifying in real time -while implementing the provisions of the agreements- their impact as it materializes: secondly, in designing adequate flanking policies and the institutional responses needed to minimize adverse effects and enhance positive ones. (Refer to concept note on Concurrent Assessment)

B. Assessment of the implication of the WTO accession negotiations for the achievement of the MDG in Arab countries. Six Arab countries, among them two LDCs, are currently negotiating their accession to the WTO. Two Arab acceding countries are already participating in the Euro-Mediterranean FTA, and one is negotiating its participation in this arrangement. The objective is to undertake at least three *ex-ante* national studies and elaborate a synthesis discussing the potential developmental impact of alternative commitments that countries could adop when acceding to the WTO and on their prospects for achieving the MDGs.

Activity 2: Assessment of the potential contribution of intra-Arab economic integration and cooperation for achieving human development and the MDGs in the region. Research and analytical work will be undertaken reviewing the state of play regarding cooperation and economic integration among the Arab States, the progress achieved, and the obstacles encountered in regional and sub-regional economic integration arrangements. The objective is to explore and suggest ways and means to foster integration from a human development perspective among Arab States, including through the progressive convergence of the different initiatives currently being pursued. Work in this area will focus on exploring how economic integration and cooperation among Arab States can support national development policies and contribute to human development and the achievement of the MDGs in the region.

Activity 3: Policy oriented sector studies

On the basis of the priority areas identified in the project document, research and analytical work will be undertaken by the project in the following areas:

A. Services activities and their contribution to development, and the issue of trade in services are understudied areas in the region, while their implications for human development and the achievement of the MDGs have been widely emphasized in the literature. In fact some MDGs are themselves the outcome of services activities. The project will undertake research and analytical work assessing the development of services and services trade in the Arab region in order to explore policy options that will contribute with the national development goals of the Arab countries. In the region, some work is being done in this regard.[15] The project will build on these efforts and will expand the regional and sectoral coverage.

The project aims at undertaking at least three national studies and elaborating a regional synthesis providing a comprehensive review of the development of services activities, patterns of trade and trade reform in services in the Arab region. This activity will also identify areas for further research and analysis to assist Arab countries in reaping the benefits of trade in services. Analytical work will also provide inputs for the negotiations on services in which Arab countries are currently involved at the regional level, with developed countries partners and in the WTO.

B. Arab States, as is the case of many other developing countries, are confronting a dual challenge arising from the new realities of global trade in textiles and clothing. On the one hand, they are facing increasing competition in their traditional export markets brought about by the dismantling of the quota system since 1995; and on the other increasing competition in their domestic markets by imports from low cost producers intensified by the unilateral or negotiated reduction of tariff and NTBs. The textile and clothing industry is a crucial manufacturing sector in most Arab countries, particularly in terms of employment generation and contributes significantly to non-oil exports. The project will assess the welfare impact on Arab countries, in particular exporters of textile and clothing, of the implementation of the WTO Agreement on Textile and Clothing, evaluating also the effect of preference erosion brought about by bilateral agreements signed by major trading partners, and potentially by the WTO NAMA negotiations. It will also address the welfare implications for the Arab countries of further liberalization of the domestic markets of textiles and clothing.

The goal of work in this sector is to suggest policy options that Arab countries could implement to assure sustainable human developmental gains from the development of the textile and clothing sector in the region. Under this activity at least three national studies and a regional synthesis will be elaborated. For this purpose the project will aim at building synergies with the ongoing work on textiles and clothing done by the UNDP Asia Trade Initiative.

C. Agriculture remains an important sector in most Arab countries. In the region on average 23 percent of the work force is engaged in the agricultural sector. This proportion is significantly larger if we include the food processing sector that is the main manufacturing activity in many countries in the region. Agriculture is particularly important for the poor, since a disproportionately large segment of the poor live in rural areas in almost all Arab countries. Trade in agricultural products account for around 13 percent of non-oil exports of the region, while imports for 20 percent of imports. Almost all Arab countries are net-food importers.

Agriculture liberalization is the most contending issue in the current negotiations in the WTO and Arab countries are in the process of incorporating agricultural products in the liberalization programmes in the Euro-Mediterranean agreements. Arab

[15] For example, by the ERF with the OECD covering five countries (Egypt, Lebanon, Jordan, Morocco and Tunisia) in three sectors (financial, telecommunications and maritime transport). There are also a few studies at the country level, for example in Egypt with technical cooperation of the EU, covering few services sectors, and there are couple of national assessments of trade in services.

countries still maintain high levels of protection for agriculture and limited progress has been achieved in intra-regional liberalization of this products. The final outcome of the DWP and the liberalization of agricultural trade by Arab countries can have significant effects on employment and poverty in the region. Depending on the extent and speed of liberalization and on the flanking policies that are implemented these effects can be positive or negative.

The project will assess the implications of trade policies in the agricultural sector from a human development perspective evaluating its potential impact on employment an poverty at the national level. At least three national studies will be conducted and a regional synthesis elaborated highlighting the potential implications of alternative policies for the prospects of achieving the MDGs.

OUTPUT: *Better understanding among policy makers and civil society of the WTO and RTAs processes and rules as well as their policy implications.*

In this connection the following activities are proposed:

Activity 1: The project will publish a monthly brief on trade and human development in the Arab region with the purpose of disseminating information on these issues among relevant stakeholders from government, academia and civil society in all Arab countries, and as a tool for networking and capacity development in the region. The aim is to provide a space where this issues are analyzed and discussed from a regional perspective and introduce them into the sphere of public discussion. In order to assure its sustainability the publication will be developed in close collaboration with an institution in the region, a university or research NGO, which will host it in the future.[16]

Activity 2: The project will establish a regional network of research institutions, CSOs and experts concerned with the issues of trade and human development. This network will promote research on these issues and support the above mentioned publication and the different activities to be undertaken by the project at the sub-regional and regional levels. Close cooperation with the Arab NGO Network for Development (ANND) will be sought for this purpose.

Activity 3: A multi-stakeholders workshop for Arab countries in the process of acceding to the WTO. The objective will be to disseminate and discuss the national assessment studies and the regional synthesis and providing a space for Arab countries, those that have recently acceded and those undergoing negotiations, to exchange experiences and device common approaches.

OUTPUT: *Strengthened common perspectives and positions among Arab governments in regional global trade and economic governance and fora.*

Activity 1: A regional conference aiming at providing a platform for Arab policy makers, private sector and CSOs to engage in a productive debate addressing trade, globalization and international economic governance issues from a human development and MDGs perspective. A main objective will be reducing the knowledge gaps among governments, private sector and CSOs, on one the hand, and, on the other hand, among different Arab countries, in order to promote a common prospective on the road to a common goal, that is

[16] A partnership is being sought with ICTSD for the purpose of launching this publication.

MDGs achievement in all, and, for all, Arabs. Policy oriented studies, prepared by the project team and by highly experienced regional and international consultants will provide analysis, lessons that can be learned from other regions and policy recommendations with the aim of providing substantive and technical basis for discussion as well as steer the debate towards the most crucial issues of concern in the region.

Activity 2: On a demand driven basis the project will organize experts meetings at the sub-regional level to address specific issues of interest to participating Arab countries.

OUTPUT: *Enhanced trade negotiation capacities*

Activity 1: The project first will undertake a training needs assessment in the region in consultation with governments, relevant stakeholders and COs. On a demand-driven basis it will organize regional or subregional training workshops.

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