

GAFTA Agreement: Potential Economy Wide Effects

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Introduction

- The GATT agreement and the establishment of the WTO aims at providing world wide market access without any restrictions and widening the scope of competition.
- By the end of Uruguay round, many trading blocs emerged to grant preferential treatment to certain countries without having to grant other members of the WTO the same treatment, as well as strengthening their relations within the bloc.
- In 1998, Arab countries established the Great Arab Free Trade Area GAFTA, to foster cooperation relations among them, to promote regional trade integration and to enhance development.

GAFTA Objectives

The agreement aims at liberalizing trade among Arab member countries to be into effect with the following outcomes:

- Increase the trade volume within member countries;
- Distribute the production among members according to comparative advantages;
- Modify the investment structure to promote the exports to the Arab markets and to develop the marketing infrastructure;
- Care about quality standards and qualifications to ensure price competition and to increase marketing share;
- Harmonize matching between production of and trade in Arab goods, particularly providing the funding facilities required for their production;
- Promote trade through monetary and banking policies (facilitate required funding and expand its base under preferential and concessional terms and conditions);
- Make complete liberalization of trade among members conducive to the creation of an economic block.

Policy Experiments

- The method used in the report is based on Computable General Equilibrium (CGE) modeling approach using the GLOBE model to quantify the impact of GAFTA agreement on Egypt.
- The aim of the experiments is to analyze the economy wide effects of tariff elimination among GAFTA members.
- The macroeconomic implications of GAFTA are analyzed by comparing the results of trade liberalization with the baseline scenario of 80% tariff reduction in 2004, in addition to analyzing the potential impact of adopting a common external tariff, which is carried out through exploring a number of alternative scenarios for the level of this common external tariff.

Conclusion

The impact of GAFTA application:

- It had positive impact on the growth of trade between Egypt and rest of GAFTA countries.
- It did have an effect, though small, on Egypt's trade share with its major trading partners, as its trade share with rest of GAFTA countries have grown by 0.28% diverting its trade away from other countries mainly NAFTA, EU, and China.
- However, it also participated in trade creation for Egypt as its total trade has increased.

Conclusions (Cont.)

The impact of upgrading the level of economic integration to a CU:

- Much more gains could be reaped by member states as a result of upgrading the level of economic integration to a CU.
- What remains is deciding on the common external tariff rates applied because the best scenario differs from one member to the other. As for Egypt, the best scenario is applying the maximum tariff.

Policy Recommendations

- Economically GAFTA could be a promising agreement, if the concerned countries would improve the institutions deeply rooted in their economies.
- These include the availability of market information and also the transportation between countries.
- Exporters of different countries should not only focus on the production suitable for them but suitable for the external markets they target with their production (outward orientation).
- To specialize and diversify, lots of information is needed about all the countries of one agreement.
- Any of GAFTA members could benefit from being involved in several trade arrangements as one experience could positively affect the other.

THANK YOU