

# UNLOCKING EXPORT OPPORTUNITIES FOR GREATER REGIONAL INTEGRATION AMONG ARAB STATES





# Unlocking export opportunities for greater regional integration among Arab States

*Draft for discussion*

## About the paper

This study takes stock of regional integration among LAS member countries examining regional trade complementarity and the prevalence of market frictions. It employs the ITC export potential and diversification methodology to identify sectors with significant untapped potential for regional export growth, and matches these results with ITC business survey information on NTMs to highlight key sectors in which regulatory harmonization would have the greatest impact towards strengthening trade integration. In addition, the study highlights opportunities to enhance regional trade complementarity through targeted diversification with the aim of better aligning the export structure with regional demand.

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For more information, contact: Julia Spies, [spies@intracen.org](mailto:spies@intracen.org)

For more information on export potential, see: [exportpotential.intracen.org](http://exportpotential.intracen.org).

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## Foreword

Strong regional integration is essential for driving inclusive trade-led growth, particularly for SMEs. Regional trade creates opportunities to build value chains, take advantage of proximity to regional consumer markets, and easier market access. The League of Arab States has taken considerable steps towards enhancing regional integration over the previous decades through trade agreements such as GAFTA. Yet, there is significant potential for further export growth to leverage these preferential market access conditions as low tariffs alone are insufficient to allow regional trade to thrive. Stronger and deeper trade integration requires coordinated efforts on the part of regional partners to tackle behind-the-border obstacles and create the supporting institutions to enable seamless trade.

To support regional efforts towards deepening integration in the Arab States, this paper draws on the ITC export potential assessment and diversification methodology to identify untapped opportunities in sectors with strong growth potential for intraregional trade. This analysis provides practical guidance for regional partners on where to focus further integration efforts, and in which key sectors deeper integration, including regulatory harmonization, could reap the greatest benefits for the LAS region at large. As part of the USAID project on “Overcoming Trade Obstacles related to Non-Tariff Measures in the Arab countries,” this analysis also builds on ITC’s work surveying regional exporters regarding the trade obstacles they face. This allows for matching of sectors with strong unused export potential with insights from the ITC business surveys on NTMs from five Arab States to identify key obstacles hindering stronger integration. The results from this paper show that stronger cooperation in addressing NTMs and relevant market frictions in high potential sectors can unlock billions in intraregional trade potential. Prioritizing regulatory harmonization in sectors in which regional exporters have encountered persistent obstacles is crucial for making real progress towards enhanced integration.

Looking beyond immediate opportunities, this paper offers guidance on how targeted diversification efforts could help regional economies strengthen the resilience of their export baskets while also bringing Arab States’ export baskets in line with regional demand. These diversification opportunities highlight feasible products for which regional export supply in the medium run will remain short of demand. This can help guide trade strategies and development plans in the region to channel efforts towards sectors that promise the most room for intraregional export growth.

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## Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

COMESA	Common Market for Eastern & Southern Africa
EPI	Export potential indicator
EU	European Union
FTA	Free trade agreement
GAFTA	Greater Arab Free Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross domestic product
IMF	International Monetary Fund
ISO	International Organization for Standardization
ITC	International Trade Centre
LAS	League of Arab States
MENA	Middle East and North Africa
NTM	Non-tariff measure
PDI	Product diversification indicator
RoW	Rest of the world
SPS	Sanitary and phytosanitary
TBI	Trade balance indicator
TBT	Technical barriers to trade
TMI	Trade Market Intelligence
UAE	United Arab Emirates
USAID	United States Agency for International Development

## Executive Summary

*Regional integration remains moderate and uneven among Arab States despite multiple trade agreements and minimal tariff levels.*

Despite the expansion of regional and bilateral free trade agreements (FTAs), which are effectively reducing tariff levels to nearly zero, regional integration remains limited and considerably below levels in Europe, Asia and the Americas. Intraregional exports as a share of total exports stand at 33%, less than half of the level of Europe. Intraregional imports account only for 12% of total imports, less than a fourth of the intraregional import shares found in most other regions. Levels of trade integration across LAS members and sectors vary considerably highlighting ample room for deepening integration through targeted measures.

*Moderate levels of trade complementarity and the high prevalence of market frictions are playing a considerable role in hindering regional integration in the League of Arab States (LAS).*

The level of complementarity between Arab States' exports and imports trails that of many other regions indicating some structural challenges hindering trade integration. Furthermore, market frictions including non-tariff measures (NTMs) play a strong role and lead to intraregional trade levels below those that could be expected based on a projection of export performance, import demand and prevailing market access conditions in the region. In fact, the Arab region features the second highest share of unrealized export potential after Africa: expected supply and demand growth promises nearly \$16 billion additional exports within the region (dynamic untapped potential). If frictions were removed, another \$12 billion would be possible (current untapped potential).

*Better leveraging existing complementarities requires addressing market frictions, including NTMs, as well as an expansion of production capacities to realize an additional \$28 billion in potential intraregional exports.*

Making use of dynamic and current potential requires coordinated policy efforts to overcome market frictions, and create the enabling conditions to increase supply to meet growing demand. In plastics and rubber and fruit sectors alone, the region holds over \$3.7 billion of dynamic untapped potential which likely is to be realized in the next five years if supply capacities can be augmented and demand continues to grow in line with projections. Effectively harmonizing regulatory and export procedures and removing other frictions across LAS markets could unlock \$12 billion of intraregional exports in total. Eight selected sectors in which NTMs play a considerable role account for 34% of this current untapped potential. Thus, the harmonization of regulatory measures and export procedures in these selected sectors could have a considerable impact on strengthening integration.

*NTMs are prevalent obstacles to intraregional trade, especially in manufacturing sectors.*

According to the ITC business surveys on NTMs, in agricultural sectors exporters from five Arab States<sup>1</sup> encountered 33% of all NTMs when exporting to regional markets. Conformity assessment measures were the most frequently reported trade obstacle, accounting for 44% of all problematic NTMs that were mentioned in these sectors. In manufacturing, the prevalence of intra-LAS NTMs was even higher with 40% of total NTMs occurring within the region despite the lower share of intraregional trade in these sectors. The most frequently noted concerns relate to rules of origin. Challenges with rules of origin and associated procedures accounted for 40% of NTM-related difficulties in these sectors, demonstrating how hard it can be for firms to benefit from the preferential tariffs agreed under the Greater Arab Free Trade Agreement (GAFTA) and other FTAs, especially in manufacturing where cross-country value chains make it difficult providing proof of originating status.

*Deeper integration requires greater regulatory harmonization, and efforts towards increasing production capacities, both in existing sectors and in new ones that are in high regional demand.*

Removing tariffs is insufficient to create the enabling environment needed for stronger integration. In the short- and medium-run, partners can work together on addressing and harmonizing regulations, procedures, rules of origin and labelling requirements. A standardization of certificates of origin, technical and labelling

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<sup>1</sup> The ITC business survey on NTMs was implemented in Egypt, Jordan, Morocco, State of Palestine, and Tunisia.

requirements could boost trade considerably as the potential that currently remains untapped is high in sectors where these issues have been mentioned as burdensome by survey respondents. A region-wide trade portal and helpdesk would inform exporters about the best opportunities and requirements in regional trade and help solve recurrent problems.

*Regional trade complementarity can be increased through targeted diversification in line with demand.*

Extending the export offering to respond to regional demand that is currently satisfied through imports from non-LAS suppliers would make trade structures more complementary in the long run. Feasible diversification products with high regional demand are found in diverse sectors such as motor vehicles, apparel, jewellery, fish and shellfish, as well as meat and vegetable oils. In the motor vehicles and apparel sectors, the gap between regional supply and demand is particularly high. Even if current LAS exporters realized all of their export potential in these products, regional supply would be insufficient. Thus, these products could prove to be attractive diversification opportunities for other regional partners. Diversification efforts by LAS members that currently do not supply these products will help in achieving greater complementarity of regional exports and imports to boost trade integration.

## INTRODUCTION

Regional integration among Arab States is moderate despite the existence of several trade agreements. For instance, the GAFTA has reduced the average level of tariffs between the 18 participating countries to virtually zero. Yet, cross-country research has shown that the greatest benefits from participating in trade agreements comes from the deep aspects of these agreements, including the removal of NTM-related costs, rather than from preferential tariff liberalization (Hoekman and Konan, 2001). In the LAS,<sup>2</sup> part of the difficulty in reaping the benefits from intraregional trade stems from regulatory heterogeneity across countries, and the challenges associated with procedural obstacles in conducting trade. Findings from the national surveys on NTMs in five Arab States (Egypt, Jordan, Morocco, Tunisia, State of Palestine) reveal the incidence of problematic NTMs to be disproportionately high within the region. The high incidence of problematic NTMs creates substantial inefficiencies that hinder integration. Thus, addressing these NTM-related trade obstacles is crucial for strengthening trade integration across Arab countries.

In this context, this paper contributes to the ITC project on 'Overcoming Trade Obstacles Related to NTMs across the Arab Countries', funded by the United States' Agency for International Development (USAID), to help prioritize interventions that could have the largest impact on strengthening intraregional trade. This is done through the identification of sectors with growth potential for intra-Arab States' exports and matching these results with insights from the ITC NTM business surveys to indicate sectors and countries that could strongly benefit from a harmonization or mutual recognition of technical standards and the simplification of export procedures. This assessment allows for identifying win-win opportunities across regional exporters and importers for prioritizing efforts to address NTM-related market frictions that are hindering deeper trade integration among Arab States. The study also identifies feasible new products for diversification that have limited supply by LAS exporters but are in high demand in the region, to continue to strengthen integration while also reducing the vulnerabilities associated with narrow export baskets.

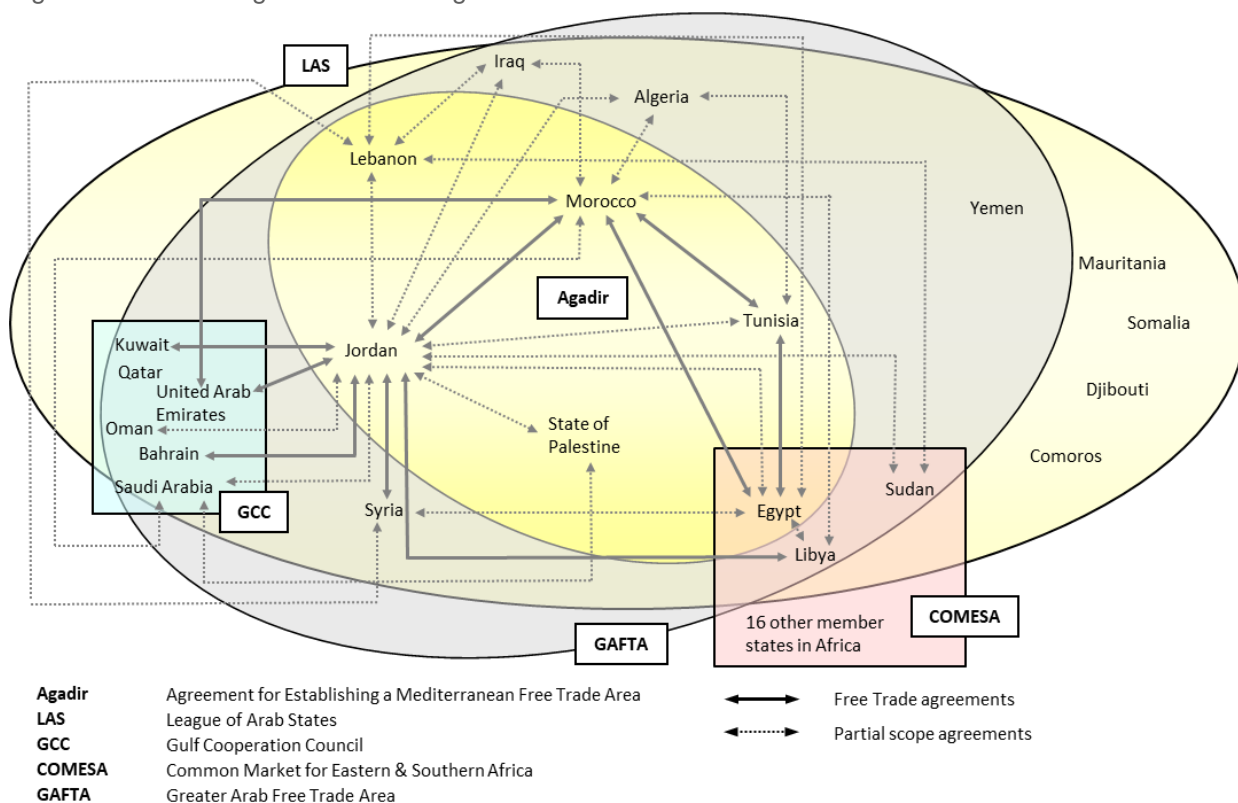
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<sup>2</sup> The League of Arab States has 22 member states. It includes the 18 GAFTA countries (Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, State of Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, Qatar, the United Arab Emirates and Yemen), with the addition of Comoros, Djibouti, Mauritania, and Somalia.

## CHAPTER 1 CURRENT STATE OF REGIONAL TRADE INTEGRATION

The 22 LAS members have signed a number of trade agreements on preferential market access, many of them overlapping (Figure 1). Within GAFTA, the six Gulf countries form the Gulf Cooperation Council (GCC) and Egypt, Jordan, Morocco, State of Palestine, Lebanon, and Tunisia are party to the Agadir agreement for establishing a Mediterranean free trade area. At the same time a number of bilateral agreements between Arab States, most of which were implemented before GAFTA, still formally exist. Although in principle superseded, these agreements may still be used for preferential trade, in particular where rules of origin differ from the ones stipulated by GAFTA.

Figure 1 Trade agreements among LAS members



Source: ITC staff elaboration based on data from ITC's Market Access Map (2018).

The trade agreements among LAS members have brought tariff levels down to virtually zero, with a marginally higher tariff rate still remaining for agro-food products relative to manufacturing. On average, among all LAS member states, the average tariff on agro-food products is 0.6%, with a tariff advantage of 4 percentage points relative to the average applied tariff by LAS countries to the world. In manufacturing, LAS members face a tariff of 0.3% in intraregional trade on average, with a tariff advantage of 3.1 percentage points over the world average.

*The share of intraregional trade is low despite several trade agreements, a common language and cultural similarities.*

FTAs, common language and cultural similarities are factors commonly expected to boost regional trade integration. Yet, the share of Arab States in the region's total exports and imports is considerably lower than in Europe, Asia or the Americas (Table 1).<sup>3</sup> In fact, when all products are considered, the share of exports within the Arab region is less than one-third of those found in more integrated regions. Only Africa and the

<sup>3</sup> This simple measure of regional integration does not take differences in economic sizes into account. A more complex measure however does not change the Arab States' ranking as the third least integrated among the regions we have considered.

Pacific have lower shares of intraregional trade. When only ITC positive list products are considered, excluding oil, waste, and products irrelevant for trade promotion services, the share of intra-LAS exports increases to 33%, or roughly two-thirds of the share of Asia and the Americas. This finding is due to the significant role of oil exports across many countries in the region, of which 96% are destined to markets outside the LAS. Despite the higher intraregional export share when excluding petroleum and other products, the relative ranking across regions remains the same, indicating scope for greater regional integration.

Table 1 Intraregional export and import shares exports, by world region

Region	All products		ITC positive list*	
	Share in exports	Share in imports	Share in exports	Share in imports
Africa	15%	13%	20%	11%
Americas	53%	43%	53%	39%
<b>Arab States</b>	<b>16%</b>	<b>14%</b>	<b>33%</b>	<b>12%</b>
Asia	57%	54%	54%	64%
Europe	68%	70%	67%	70%
Pacific	7%	7%	12%	7%

\*excludes oil, waste and other products irrelevant for trade promotion.

Source: ITC staff calculations based on data from ITC's Trade Map (2018).

This moderate level of integration is also influenced by the dearth of regional production chains. According to Hoekman (2016), there is limited value chain activity in the Middle East and North Africa (MENA)<sup>4</sup> region, a subset of LAS members, as compared to more integrated regions such as East Asia and Central and Eastern Europe. This is visible in the low intra-LAS shares of manufacturing exports and imports (Table 2), which significantly trail those in other regions, like Americas, Asia, or Europe, where production chains are often organized across several countries (Baldwin and Forslid, 2013).

Across both manufacturing and agro-food sectors, intraregional exports exceed imports, while the pattern is reversed for excluded products in which the share of intraregional exports is only 5%. This stems from the fact that 96% of petroleum exports, which are part of the excluded products group, are destined for countries outside of the region. The associated revenues are used to import food and machinery which are currently not supplied in sufficient quantities within the region (see Table A in the Appendix for detailed trade balance figures). The share of intraregional in total exports in agro-food is 23 percentage points higher than in manufacturing, suggesting that more than in other regions, LAS' agro-food exports – albeit small – target regional markets.

Aggregate intraregional export and import shares mask the diverse levels of integration across individual countries. For instance, Bahrain, Oman, Somalia, and Sudan have shares of intra-LAS trade exceeding 35% of total trade.<sup>5</sup> Meanwhile, due to their strong trade relationships with the European Union (EU), Morocco and Tunisia have intra-LAS trade shares below 10% of total trade. Mauritania's key export markets include China, EU and Switzerland, resulting in an intra-LAS export share of merely 1%.

<sup>4</sup> The MENA region includes Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, UAE, Yemen and State of Palestine.

<sup>5</sup> The calculation of the share of intra-LAS trade in total trade is based on ITC positive list of products, which excludes oil, waste products, etc.  $trade_{ijk} = (x_{ijk} + m_{ijk})/2$  with  $x$  corresponding to exports and  $m$  to imports of a country  $i$  in product  $k$  to or from market  $j$ .

Table 2 Intraregional export and import shares, by world region and broad sector

Region	Manufacturing products		Agro-food products		Excluded products	
	Share in exports	Share in imports	Share in exports	Share in imports	Share in exports	Share in imports
Africa	20%	10%	22%	16%	8%	20%
Americas	55%	37%	42%	65%	53%	65%
<b>Arab States</b>	<b>31%</b>	<b>12%</b>	<b>54%</b>	<b>16%</b>	<b>5%</b>	<b>27%</b>
Asia	54%	67%	62%	39%	73%	55%
Europe	66%	69%	74%	76%	69%	67%
Pacific	15%	5%	8%	24%	2%	7%

**Note:** excluded products are those covered by international conventions on waste, pollutants, arms and ammunitions, tobacco, extractive industries, including oil, as well as products that cannot be produced (e.g. antiques) or are irrelevant for market intelligence (e.g. commodities n.e.s.).

**Source:** ITC staff calculations based on data from ITC's Trade Map (2018).



## CHAPTER 2 FACTORS AFFECTING THE LEVEL OF TRADE INTEGRATION AMONG ARAB STATES

The previous chapter has shown that regional trade integration among Arab States is moderate despite the high number of FTAs, cultural similarities and a shared language. Factors like limitations in infrastructure and connectivity, a moderate level of complementarity between exports and imports, and the presence of market frictions may explain this pattern. Hoekman (2016) for instance found that bilateral trade costs for MENA countries are typically twice as high in the region as they are in the EU, and are especially high in agricultural products. This is driven primarily by distance, poor trade logistics, and NTMs. In the following, we will assess two factors that may hinder greater trade integration in the LAS: (i) a moderate level of complementarity between export and import patterns and (ii) the presence of market frictions.

### Complementarity of export and import patterns

The 22 members of the LAS are spread across approximately 7,500 km<sup>6</sup> and over two continents. While the large distance weighs on the intraregional trade potential, the diverse climate conditions and agro-ecological zones could also create business opportunities.

In ten LAS countries, petroleum has a dominant share in the export basket (“mineral fuels & oil-based economies”). These countries include Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, United Arab Emirates (UAE) and Yemen. Oil exports account for 73% of total exports on average for this group. Oil-related sectors, like chemicals and plastics and rubber products are also important for these countries.

A smaller group of economies dedicated primarily to manufacturing activities with more diversified export baskets includes Egypt, Jordan, Lebanon, Morocco, and Tunisia (“manufacturing economies”). The apparel sector accounts for 13% of this group’s exports, machinery for 11%, and fertilizers for another 6%. Egypt is the only country with significant oil exports in this group and yet is a net importer of this product. Exports are also growing across other manufacturing sectors including motor vehicles, plastics and rubber, electronic equipment and chemicals among others.

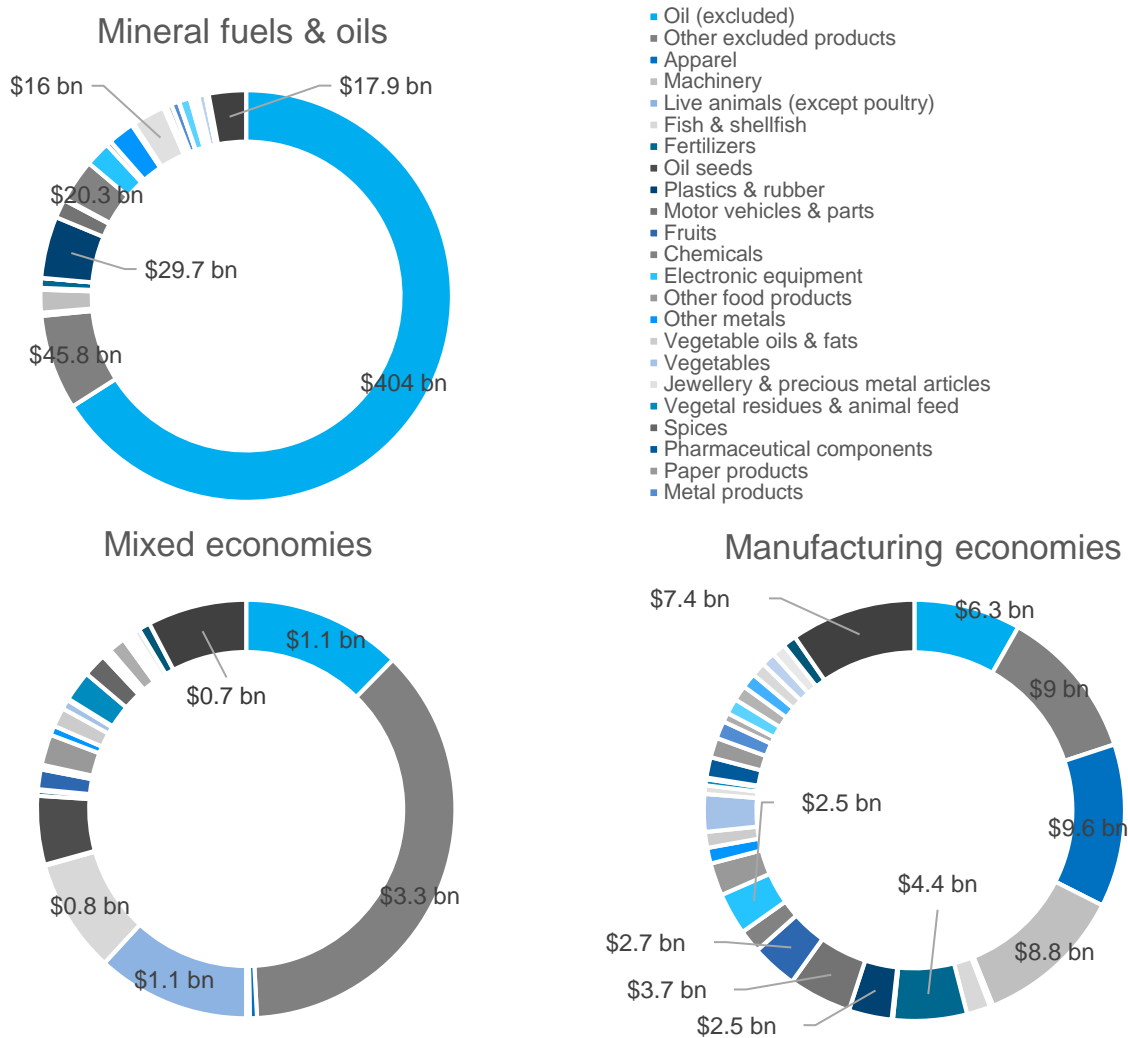
A third group of LAS members, comprising Comoros, Djibouti, Mauritania, the State of Palestine, Somalia, Sudan and Syria,<sup>7</sup> has export baskets that rely heavily on mineral products, including iron ore, steel and iron waste, but also shows a stronger presence of agricultural products, including fish (“mixed economies”). In total, over 42% of the groups’ exports are agricultural products even though Mauritania is the only net food exporter in this group (see Table A in the Appendix). Sectors including live animals (12%), fish and shells (9%) and oil seeds (5%) play a larger role in the export baskets of these countries.

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<sup>6</sup> Not accounting for Comoros, another member of the LAS, located near the coast of Southern Africa.

<sup>7</sup> Syria would have belonged to the oil exporting group with its pre-conflict export structure, but the ongoing conflict has altered the composition of its exports.

Figure 2 Average exports of LAS sub-groups, by sector



**Note:** average exports between 2013 and 2017. Products grouped as excluded are those covered by international conventions on waste, pollutants, arms and ammunitions, tobacco, extractive industries, products that cannot be produced (e.g. antiques) or are irrelevant for market intelligence (e.g. commodities n.e.s.). In the graph for "Mixed economies", the sizable share of excluded products is predominantly influenced by iron ore exports from Mauritania, unspecified commodities from Djibouti and Iron or steel waste from the State of Palestine.

**Source:** ITC staff calculations based on data from ITC's Trade Map (2018).

The distinct export baskets of the different LAS sub-groups could create trade if the products one sub-group exports were imported by another one. The direct comparison of total exports and imports of LAS members in Figure 3, however, shows that this is not the case and that export and import patterns largely differ.

Figure 3 Average LAS exports and imports, by sector



**Note:** average exports and imports between 2013 and 2017. Products grouped as excluded are those covered by international conventions on waste, pollutants, arms and ammunitions, tobacco, extractive industries, products that cannot be produced (e.g. antiques) or are irrelevant for market intelligence (e.g. commodities n.e.s.).

**Source:** ITC staff calculations based on data from ITC's Trade Map (2018).

Exports for the LAS region are dominated by oil accounting for nearly 60% of the region's exports, while oil accounts for only 6% of imports in the region. The largest import sector for the LAS group is the machinery & electronic equipment sector, accounting for 21% of total imports. This sector plays a particularly important role in the imports of oil exporting states, implying that this is likely to include specialized machinery needed in the capital-intensive petroleum sector for extraction. The sector, however, is of limited importance for the region's exports accounting only for 5% of total exports. The relatively minor exports of ignitions wiring sets and electrical conductors in the machinery sector from within the region, predominantly from Tunisia and Egypt, are not a close match for the types of much of the machinery in demand regionally. The second largest import subsector is motor vehicles accounting for 13% of regional imports, and 3% of regional exports. Minerals and metal products make up an additional 13% of total imports, 6% of exports. Agro-food plays a very limited role, accounting in total for merely 4% of the region's exports. To satisfy demand despite the limited local production, several countries in the region significantly depend on agro-food imports. These discrepancies in regional import and export shares reveal the insufficiency of regional supply relative to the elevated regional demand across these sectors. Even at the broad sector level, there is a clear mismatch between those sectors predominantly exported and those with the highest demand across LAS members.

*Export structures differ across the Arab States, and complementarity between regional exports and imports remains moderate when compared to other regions.*

A certain mismatch between regional exports and imports is also confirmed with a more detailed assessment through a trade complementarity index. The trade complementarity index<sup>8</sup> (Table 3) measures the degree to which the export and import structures of two trade partners, or regions, overlap: it takes the value of 100 if every product accounts for the same share of a country's exports and of its trade partner's imports, and zero otherwise. When looking at the index for all products, the dominance of petroleum in the export baskets of several Arab States weighs on the complementarity of regional trade. The level of complementarity is only lower in the Pacific region, and significantly trails those of the Americas, Asia and Europe. When the index is calculated for the ITC positive list products, which excludes oil, mineral waste products, pollutants and other products irrelevant for export promotion services, the complementarity index reaches 54%, signalling moderate levels of complementarity with room for improvement when comparing with other major world regions.

<sup>8</sup> The trade complementarity index between two regions  $i$  and  $j$  is defined as:

$TC_{ij} = 100 \left( 1 - \sum_k \left( \frac{|m_{jk} - x_{ik}|}{2} \right) \right)$ , where  $x_{ik}$  is the share of good  $k$  in total exports of region  $i$  and  $m_{jk}$  is the share of good  $k$  in total imports of region  $j$ .

Table 3 Complementarity of export supply and import demand, by world region

Region	Africa	Americas	Asia	Europe	Arab States	Pacific
Trade complementarity index (all products)	32%	74%	78%	86%	35%	22%
Trade complementarity index (ITC positive list*)	38%	74%	78%	86%	54%	28%

\*excludes oil, waste and other products irrelevant for trade promotion.

Source: ITC staff calculations based on data from ITC's Trade Map (2018).

Enhancing the complementarity of trade in the region hinges on introducing new products that have high regional demand but are not yet exported at significant scale by LAS members. Improving complementarity of trade in the LAS region could thus be possible through targeted diversification programs in the medium to long term. The analysis of specific diversification opportunities which takes into account the relative feasibility of moving into new export products by LAS members is part of Chapter 3.

## Frictions in intraregional trade

For the sectors and products that are both exported and imported by the region, it is crucial to address frictions that are hindering intraregional trade flows. The ITC export potential and diversification methodology provides an estimate of these frictions based on an assessment of utilization rates of intraregional trade potential. The computation of trade potential relies on an assessment of the exporting country's projected export performance, the importing country's projected demand and the relative market access conditions between the exporting country and the partner market (see Box 1).

### Box 1 The ITC export potential and diversification methodology

The ITC export potential and diversification assessment methodology identifies existing products with export growth potential (export potential indicator, EPI) and new products for export diversification (product diversification indicator, PDI) based on three components. The demand and ease-of-trade component are identical between the two indicators:

- The *market's demand condition* is measured by imports while accounting for relative market access (tariffs and transportation costs) for a given product.
- The overall *ease-of-trade* between the exporting country and the target market is measured by the total bilateral trade relative to what trade would be if the exporting country held the same share in the target market as it holds in the world market.

The supply component differs. In the EPI,

- The exporting country's export performance is measured by its market share in a given product.

Combining the three factors gives a current export potential value. To make the concept of potential trade forward-looking, we project both imports and market share five years into the future based on GDP per capita growth forecasts and an estimation of how import demand by sector and development level likely will respond to that growth. This total potential export value can be compared with the actual export value to reveal untapped trade opportunities a country may have for any of its export products in new or existing regional target markets.

In the PDI,

- The *exporting country's supply capacity* is measured by the average distance of the country's current export basket to a new export product as defined by the 'Product Space' concept.

This supply measure together with the demand and ease-of-trade measure indicates a unique ranking of promising options for export diversification.

The comparison between the export potential value and the actual export value reveals untapped trade opportunities for a given country. One part of the untapped trade potential is explained by the fact that the method is forward-looking – it projects current export performance and demand five years ahead based on expected gross domestic product (GDP) and population growth rates (dynamic untapped potential). Another part however is structural and likely results from a variety of frictions (current untapped potential), for instance:

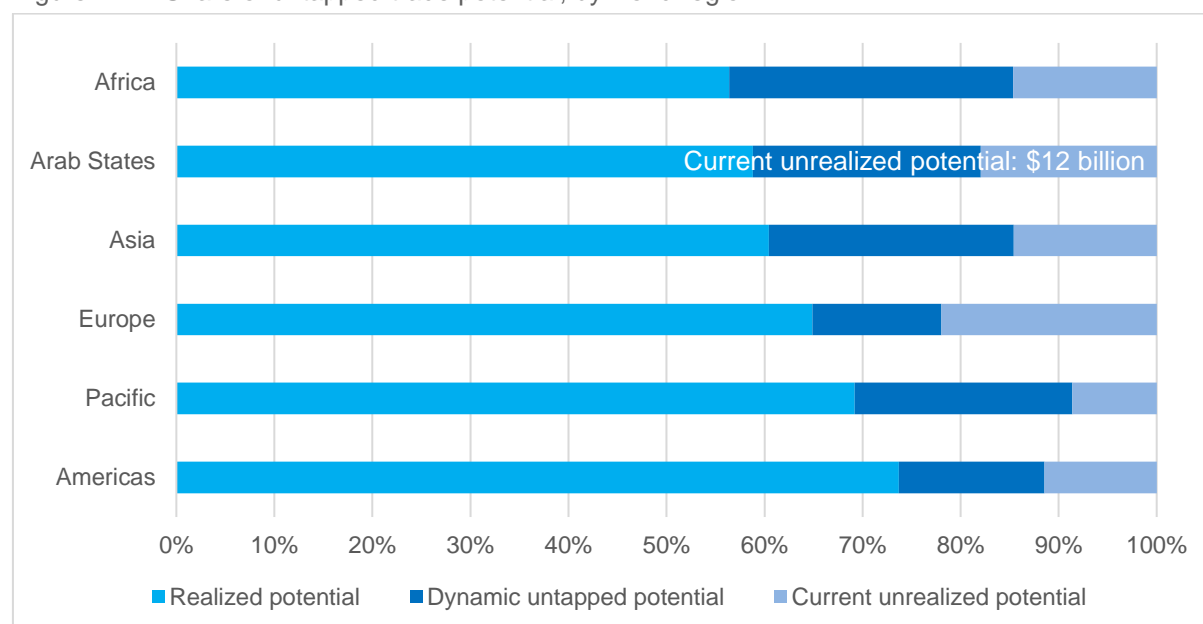
- difficulties to comply with non-tariff measures
- misalignment of the supply with the price or quality preferences of the consumers
- difficulties to find buyers in the target market
- suboptimal allocation of exports across potential target markets due to lack of market intelligence

These frictions affect the exporter's ability to trade with a specific market.

*The Arab States region has one of the highest shares of untapped trade potential, approximately half of which is explained by growth effects and the other half by market frictions.*

Figure 4 presents the shares of dynamic and current untapped in total intraregional trade potential, by region. The strong prevalence of both growth- and market friction-related opportunities in the LAS region is evident. The Arab region features the second highest share of unrealized export potential after Africa, with total remaining intraregional trade potential of \$28 billion. Expected supply and demand growth promises nearly \$16 billion additional exports within the region. If frictions were removed, another \$12 billion would be possible.

Figure 4 Share of untapped trade potential, by world region



Source: ITC staff calculations based on the ITC export potential and diversification assessment methodology.

*Survey evidence from exporting firms in Arab States sheds light on prevalent market frictions constraining intraregional trade.<sup>9</sup>*

Burdensome NTMs can partially explain why a country falls short of utilizing its current export potential in a given market. To know which official rules and regulations firms perceive as burdensome, ITC conducted country surveys to interview exporters about their experience with NTMs. The surveys present an analysis of the private-sector perceptions of NTM-related trade obstacles, in order to identify concrete actions that will enable countries to achieve greater efficiency in the export process and to reduce trade costs. The surveys assess who is affected by NTMs and to what extent, as well as ascertaining why the NTM is burdensome, differentiating between the strictness of regulations, and the procedural obstacles associated with compliance. The survey has been implemented in five Arab States as listed below (Table 4).

<sup>9</sup> For a comprehensive discussion of the survey findings on intra-Arab States NTMs, please refer to ITC (2015): Making Regional Integration Work – Company Perspectives on Non-Tariff Measures in Arab States, <http://www.intracen.org/publication/Working-towards-regional-integration---Company-perspectives-on-non-tariff-measures-in-Arab-States/>.

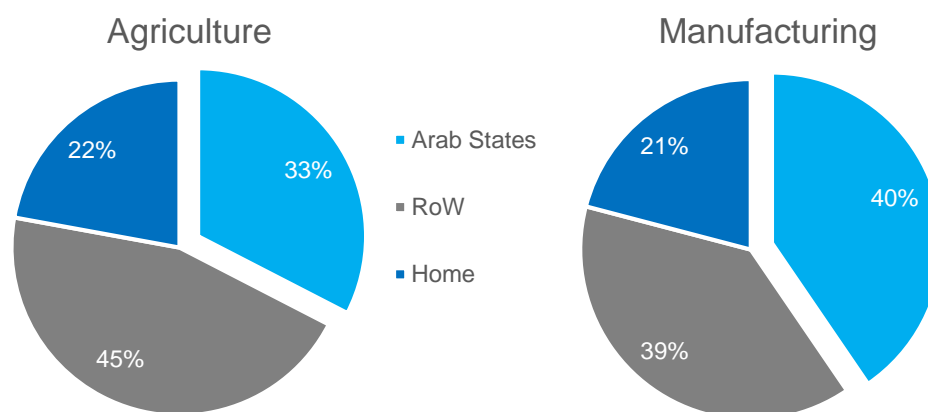
Table 4 Key facts about the NTM surveys, by country

	Interview period	No. of companies in the sample	No. of phone interviews	No. of face-to-face interviews
Egypt	May – Nov 2011	3,017	869	189
Jordan	Apr 2015 – Mar 2016	9,424	570	207
Morocco	Apr 2010 – Feb 2011	3,264	794	256
State of Palestine	Dec 2011 – Mar 2012	513	n.a.	239
Tunisia	Jul – Aug 2011 & Jul – Oct 2012	4,868	258	171

Source: ITC business surveys on NTMs.

Despite a limited country coverage, surveys conducted during the last few years in these LAS members provide guidance about the sectors, markets, and types of NTMs that often give rise to complaints. These business perceptions are extremely valuable for comparing and assessing NTM impacts on regional trade integration among Arab States. These surveys are conducted with active exporters, thus, it is possible that NTMs that entirely prohibit trade for some companies in the region will not be fully captured. The sampling of these surveys aims to represent all of a country's export sectors which exceed 2% of total exports, excluding arms and minerals.<sup>10</sup>

Figure 5 Origin of challenging NTMs



Source: ITC staff calculations based on survey findings for Egypt, Morocco, the State of Palestine, Tunisia and Jordan.

*The burden of intraregional NTMs across Arab States is disproportionate and independent of their levels of intraregional trade integration.*

Figure 5 gives an overview of challenging NTMs by geographic origin as reported in the five country surveys. In the agriculture and manufacturing sectors, 33% and 40% of all problems relate to NTMs applied by trade partners within the region. Difficulties with NTMs in intraregional trade are high, especially in manufacturing, where 31% of these countries' total exports are destined to regional markets.<sup>11</sup> The averages presented in Figure 5 understate intraregional dynamics due to the diversity of trade profiles across the five Arab countries. Higher shares of intraregional trade are associated with greater exposure to burdensome NTMs imposed by LAS countries. For example, in the case of Jordan, where 54% of exports are destined for the region, LAS members are responsible for 93% of the NTMs that Jordanian traders perceive as burdensome. In the case of Morocco, which has stronger trade relationships with countries outside of the region, intraregional exports correspond to only 6% of total exports and LAS members are responsible for 12% of

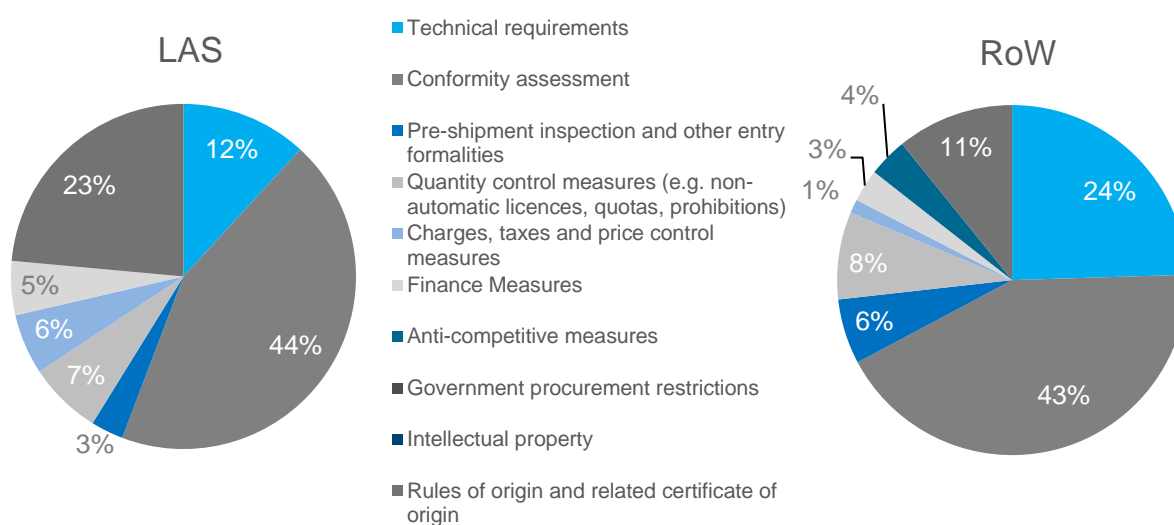
<sup>10</sup> This selection of exporting firms provides a useful overview but in some cases may not correspond exactly to the sectors with significant untapped export potential towards the region.

<sup>11</sup> For this calculation, intraregional trade is measured using the ITC positive list of products.

burdensome NTMs.<sup>12</sup> While the share of intraregional trade varies considerably across LAS members, the relative exposure to NTMs remains consistently higher.<sup>13</sup> This underscores the disproportionate burden of intraregional NTMs across LAS members regardless of their levels of regional trade integration.

It is also interesting to note that over 20% of challenging NTMs occur domestically in the exporting country. These measures include mandatory export permits, registration or licensing requirements, export taxes, as well as all related procedural obstacles. This signals the importance of effective trade facilitation measures, and that building competitiveness in trade begins at home. Nevertheless, these domestic measures are likely to affect all export markets equally, thus are not explicitly considered in the forthcoming analysis as a factor hindering the exploitation of export potential across LAS markets. The NTMs that are considered are those imposed by LAS members on their LAS trade partners.

Figure 6 Types of NTMs in agricultural trade, in the LAS and with other partners



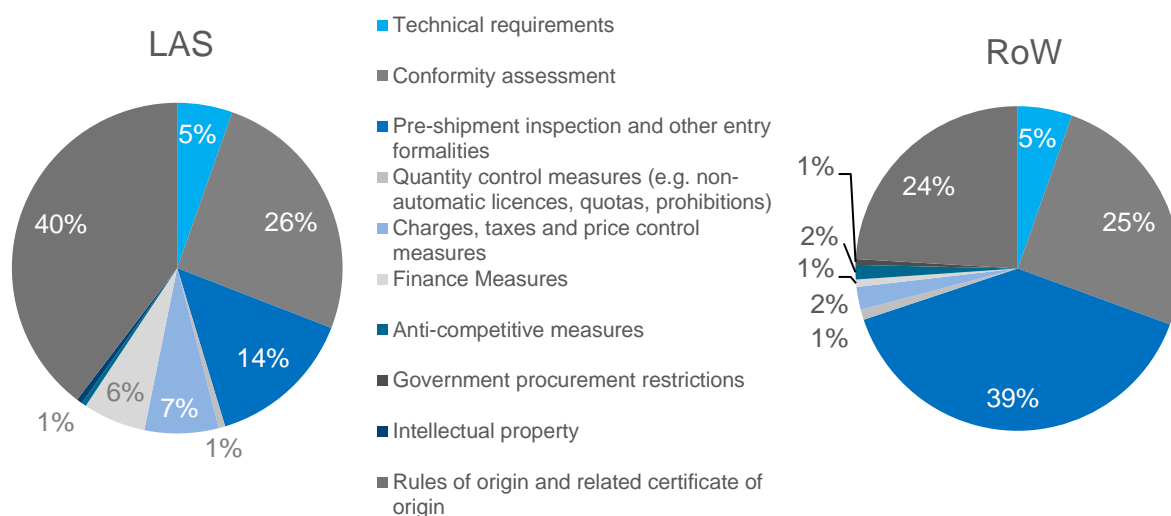
Source: ITC staff calculations based on survey findings for Egypt, Morocco, the State of Palestine, Tunisia and Jordan.

Within intraregional trade in agricultural products (Figure 6), conformity assessment measures were the most prevalent type of obstacle faced by survey respondents accounting for 44% of total intraregional NTMs in these sectors. Companies had many more problems in meeting the conformity assessment requirements of countries within the region than with technical regulations themselves. When comparing intraregional obstacles to those faced when exporting to partners in other regions, technical regulations are much less prevalent. On the contrary, problems related to rules of origin and certificates of origin, as well as charges, taxes and price control measures were more often mentioned as burdensome in trade with regional partners rather than with partners in the rest of the world.

<sup>12</sup> Trade figures are computed using a mix of direct and reliable mirror reports for the period 2013-2017.

<sup>13</sup> Only State of Palestine's share of intra-LAS NTMs is below its share of intra-LAS exports.

Figure 7 Types of NTMs in manufacturing trade, in the LAS and with other partners



Source: ITC staff calculations based on survey findings for Egypt, Morocco, the State of Palestine, Tunisia and Jordan.

In manufacturing sectors, the NTM survey findings demonstrate that intraregional trade in the Arab world is disproportionately affected by NTM-related trade obstacles. While 31% of manufacturing exports are destined to other Arab States, 40% of the reported NTM cases concern measures applied by partner countries within the region. Challenges with rules of origin and associated procedures account for 40% of reported NTM-related difficulties in these sectors (Figure 7), demonstrating how hard it can be for firms to benefit from the preferential tariffs agreed under GAFTA and the other regional or bilateral FTAs, especially in manufacturing where cross-country value chains make it difficult providing proof of originating status. Persistent failures to obtain preferential treatment, language issues, and inefficiencies in issuing certificates of origin create an environment of uncertainty for regional exporters. Furthermore, differing rules of origin create confusion as to which agreement is actually binding. Technical requirements and conformity assessment procedures were also reported as significant challenges for exports between Arab countries. Within technical requirements, the most problematic areas include product certification, testing and labelling requirements. These are perceived as challenging mostly because of their strictness. There is a considerable heterogeneity across labelling requirements in the region with regards to language, details required or permitted on the labels, as well as the nature of materials used within the labels.

Addressing these diverse challenges related to NTMs is critical to help exporters take advantage of remaining intraregional trade opportunities. A significant portion of obstacles to intraregional trade are procedural in nature. As such, they can be tackled pragmatically by facilitating trade rather than changing the underlying trade rules. While there are numerous issues that need to be addressed, prioritizing interventions in accordance with export potential can help maximize the benefits of regional regulatory and procedural harmonization efforts.



## CHAPTER 3 IDENTIFYING OPPORTUNITIES FOR GREATER REGIONAL TRADE INTEGRATION

As integration in the region remains moderate despite the significant tariff reduction between LAS members, targeted efforts are needed to make further progress in enhancing intraregional trade. The selection of opportunities for strengthening regional trade integration will be twofold:

- 1) Regional partners can increase their exports across products they already successfully export. Countries can start to better leverage the existing complementarity between export and import structures. We will use the EPI (see Box 1) to highlight countries, products and markets with untapped potential for intraregional trade. This untapped potential can either be driven by expected supply and demand growth (dynamic untapped potential) or by market frictions (current untapped potential). Disentangling the two will help define the actions required to unlock this potential.
- 2) The moderate level of complementarity between regional exports and imports can only be improved by altering the export structure of LAS countries. This will happen if countries start exporting products that are in high regional demand and for which regional supply is and will remain insufficient during the next five years. We will use the PDI (see Box 1) to suggest feasible products for diversifying LAS' members export baskets, while accounting for possible export increases by current LAS suppliers of these products through a better use of their export potential.

Through these selection criteria we are able to draw attention to the opportunities that are currently being overlooked within the region, as well as consider options for fostering diversification while also enhancing regional complementarity.

### Leveraging complementarity: identifying unused regional trade opportunities

While the level of complementarity is moderate, the share of regional trade is low among Arab States, implying that numerous opportunities for meeting regional demand with regional exports remain unexplored. To shed light on these unused and underused possibilities for strengthening intraregional trade, we compare actual with potential exports across sectors. Unused potential can be further decomposed into static and dynamic elements (Box 2), allowing us to differentiate between sectors in which growth-dependent potential plays a strong role, and those in which market frictions need to be addressed for its realization independent of time and growth. This is crucial for understanding what types of interventions are needed to realize these opportunities across different sectors.

#### Box 2 Understanding untapped export potential

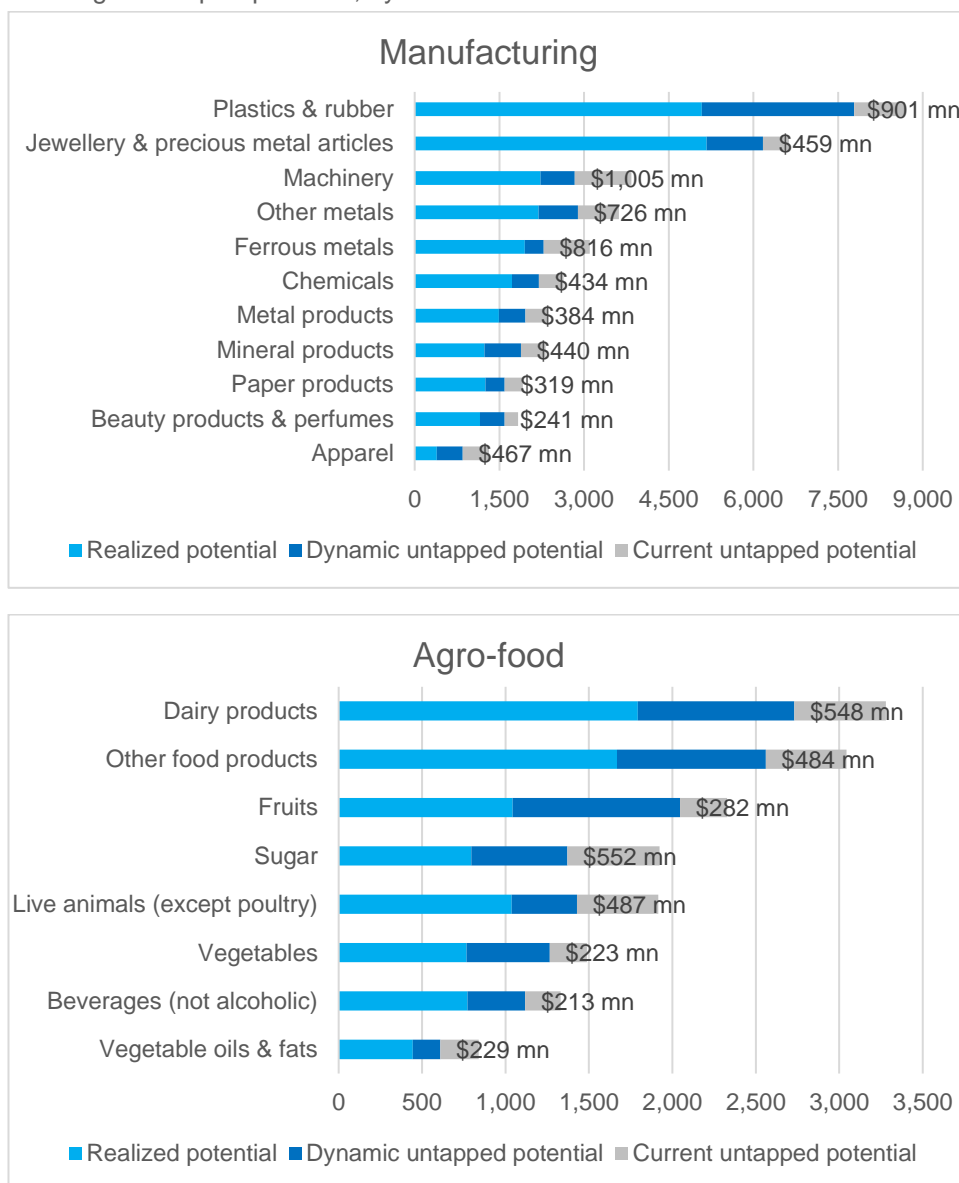
Unused, or untapped export potential, can be broken down into two components that facilitate the understanding on the types of actions needed to unlock this potential:

- Current untapped potential reflects the part of remaining potential that is driven by diverse market frictions, including those related to NTMs. It is computed as current export potential (see Box 1) – exports, whenever current export potential > exports, and zero otherwise.
- Dynamic untapped potential refers to the part of remaining potential whose realization depends on the growth projections of supply and demand over the coming five years. It is computed as total untapped potential – current untapped potential.

Intraregional export potential across sectors is presented in Figure 8. It displays the share of export potential which has already been realized, as well as the decomposition of remaining potential between dynamic and current values. Within manufacturing, the plastics and rubber sector has the highest total and untapped export potential. In agro-food products, the dairy sector holds the greatest total and unused potential. Yet, the distribution between current and dynamic untapped potential varies considerably across sectors. In the

following sections, we zoom into the countries with dynamic or current unused potential in their export sectors, to understand its geographic distribution as well as the implications for unlocking this potential.

Figure 8 Intraregional export potential, by sector



**Note:** this figure presents total regional export potential by key sectors based on the ITC positive list. Export potential is decomposed into the shares that have already been realized, as well as those that remain unused due to market frictions, or growth-dependent dynamics.

**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

### Sectors and products with dynamic untapped intraregional export potential: growth-dependent trade opportunities

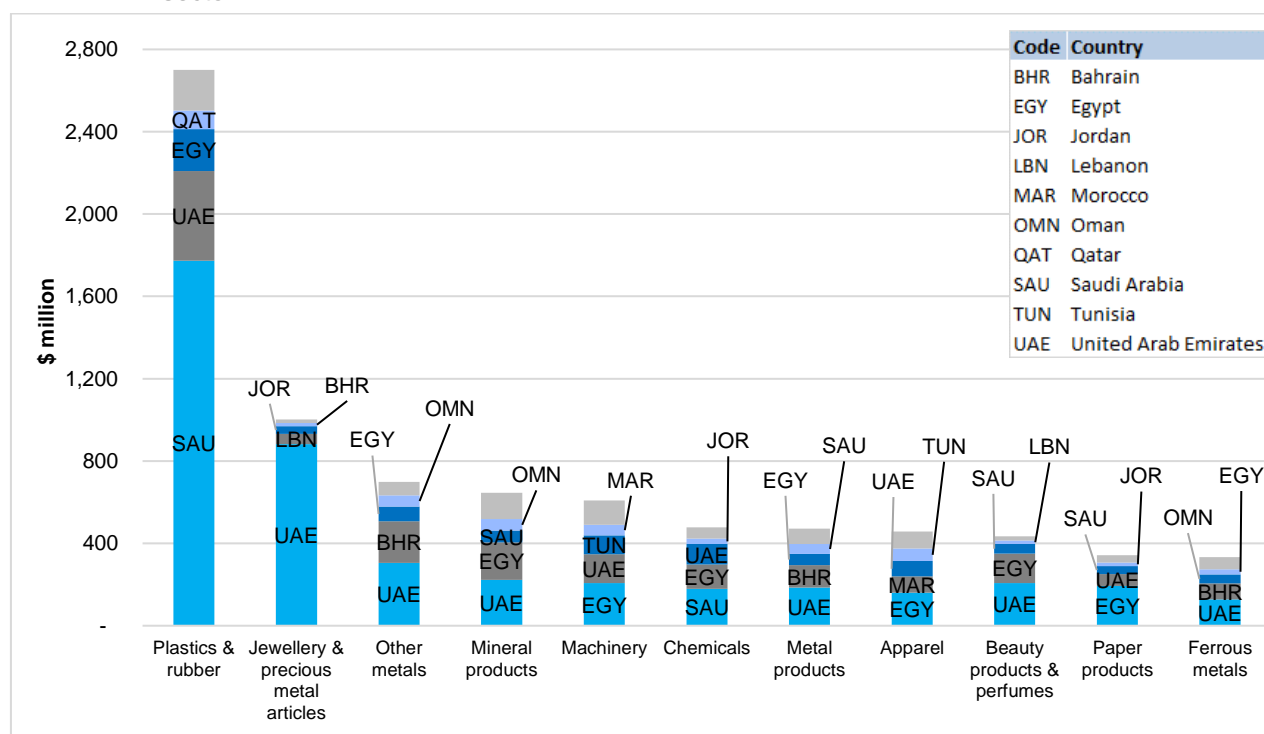
This section focuses on sectors and products with a high regional untapped export potential that is driven by growth dynamics. Supply-side growth will occur whenever the exporting country of a given product grows faster than its competitors. Demand-side growth occurs if import demand reacts strongly to a GDP per capita growth. The responsiveness of import demand is estimated separately by development level and sector. Dynamic untapped potential will materialize if growth is in line with forecasts and if production capacities are set up to leverage this economic growth. Realizing the dynamic untapped potential can help achieving a greater complementarity of exports and imports without the need to engage in coordinated efforts to address frictions.

According to forecasts by the International Monetary Fund (IMF), the largest GDP growth over the next five years across the LAS countries is expected in Djibouti, Libya, Egypt, Mauritania, Morocco, Sudan, Iraq, and Tunisia all of which are expected to grow above the world average GDP growth rate of 24% by 2022. These economic growth prospects will push the countries' export potential across all their products and markets. However, for this growth to translate into trade opportunities, the countries also must be a significant exporter of products for which import demand is expected to grow.

*Growth-dependent untapped potential is significant in Saudi Arabia in oil by-products such as polymers and other plastics.*

Within manufacturing, the rubber and plastics sector is the most traded sector within the region, and also holds with 29% a dominant share of dynamic untapped potential, amounting to \$2.7 billion (Figure 9). A 10% GDP per capita growth in this sector is expected to raise import demand by more than 8%. Saudi Arabia, the largest plastics exporter within the region, accounts for \$1.8 billion of this untapped intraregional export potential. The products where most additional exports seem possible include polyethylene and polypropylene destined for the Egyptian and UAE markets. The UAE itself also holds \$436 million of dynamic untapped export potential in this sector across a diverse array of plastic products to Oman, Egypt, Morocco, Saudi Arabia, Jordan and Iraq, some of the fastest-growing markets in the region. The IMF forecasts that Egypt, for instance, will grow by more than 47% until 2022, which is significantly above the world average of 24%. Established suppliers to this market, such as Saudi Arabia and UAE, can expect additional exports should they manage to build up production capacities to satisfy the surging demand. Other key manufacturing sectors together hold an additional \$5.5 billion in growth-dependent unused potential for intraregional trade.

Figure 9 Distribution of intraregional dynamic untapped potential across countries, by manufacturing sector



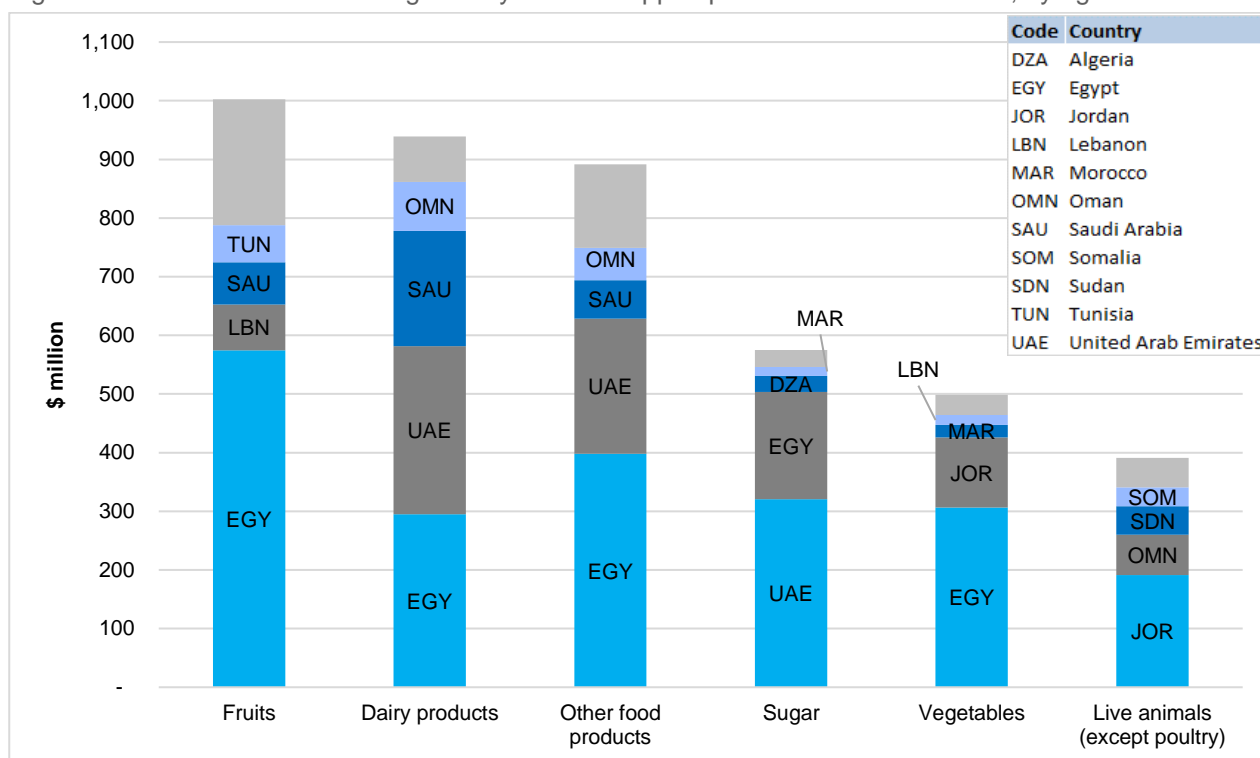
**Note:** sectors in this figure are within the top 75% of the distribution of total untapped intraregional export potential. The figure displays top 4 LAS exporters with untapped potential, the light grey area corresponds to the untapped potential held by other LAS exporters.  
**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

*Strong economic growth forecasts lifts Egypt's dynamic untapped potential up to nearly \$1.8 billion across an array of agro-food sectors.*

While large-scale agricultural production may be limited to the North African countries of the LAS, some Gulf countries benefit from their position as a regional trading hub. Across agricultural sectors, the greatest dynamic untapped potential resides in the fruit sector, offering \$1 billion of additional room for intraregional export growth (Figure 10). Egypt holds more than half of this potential across many LAS markets, mostly in oranges, but also in grapes, dates, guavas and mangos, strawberries, tamarinds, watermelons, lemons and mandarins. This dynamic untapped potential is supported by the strong expected of Egypt's economy which could boost its market share across a wide range of export products, including fruits. Expected market demand in the region is also high, allowing fruit imports to nearly double over the next five years across all LAS markets with the exception of Algeria and the State of Palestine for which the IMF forecasts a significant contraction of GDP for the next five years.

In both, the dairy products and other foods sectors, about \$900 million of additional exports could be possible if countries took advantage of the expected supply and demand growth. Two-thirds of these additional exports could be realized by Egypt and UAE, the latter country benefitting from its role as a trade hub. This untapped potential is driven by the growth prospects of both countries and the estimated response of import demand to GDP per capita growth in key target markets. Nevertheless, each of these sectors also has significant friction-driven untapped potential which will be discussed in the following section.

Figure 10 Distribution of intraregional dynamic untapped potential across countries, by agricultural sector

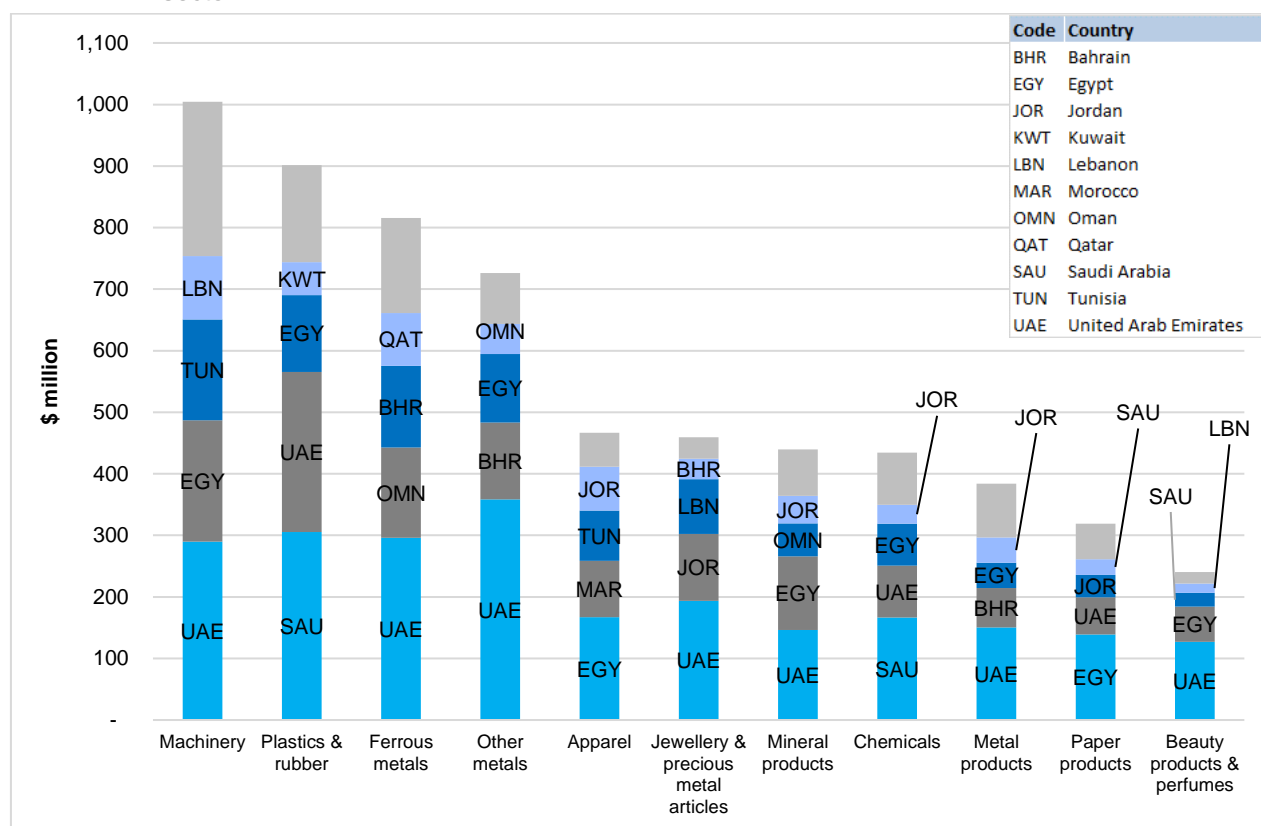


**Note:** sectors in this figure are within the top 75% of the distribution of total untapped intraregional export potential. The figure displays top 4 LAS exporters with untapped potential, the light grey area corresponds to the untapped potential held by other LAS exporters.  
**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

### Sectors and products with current untapped intraregional export potential: market friction-hindered trade opportunities

Moving beyond growth-dependent potential, this section highlights opportunities in which market frictions play a more significant role in hindering intraregional trade. Overcoming these frictions, which can include burdensome NTMs and related procedural obstacles, mismatches with consumer preferences or lack of business contacts, all leading to a suboptimal allocation of trade across markets, can help LAS exporters realize this intraregional trade potential independent of time and growth.

Figure 11 Distribution of intraregional current untapped potential across countries, by manufacturing sector



**Note:** sectors in this figure are within the top 75% of the distribution of total untapped intraregional export potential. The figure displays top 4 LAS exporters with untapped potential, the light grey area corresponds to the untapped potential held by other LAS exporters.  
**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

*Unlocking the current intraregional potential could give rise to \$7.8 billion additional exports in manufacturing sectors.*

The current untapped potential for intraregional trade in manufacturing totals \$7.8 billion (\$6.2 billion for the sectors in Figure 11). The sectors holding the greatest friction-related untapped potential include machinery, plastics and rubber, ferrous and other metals. In the machinery sector over \$1 billion of additional exports would be possible if market frictions were fully addressed. The largest shares of this export growth potential can be found in UAE (\$290 million), Egypt (\$197 million), Tunisia (\$164 million) and Lebanon (\$103 million). This unused potential arises from a suboptimal allocation of exports across markets, possibly driven by difficulties in serving regional rather than international markets. Although regional imports of products including air conditioning machines, and electric conductors and transformers are significant, regional exporters are not effectively targeting the LAS markets for these products.

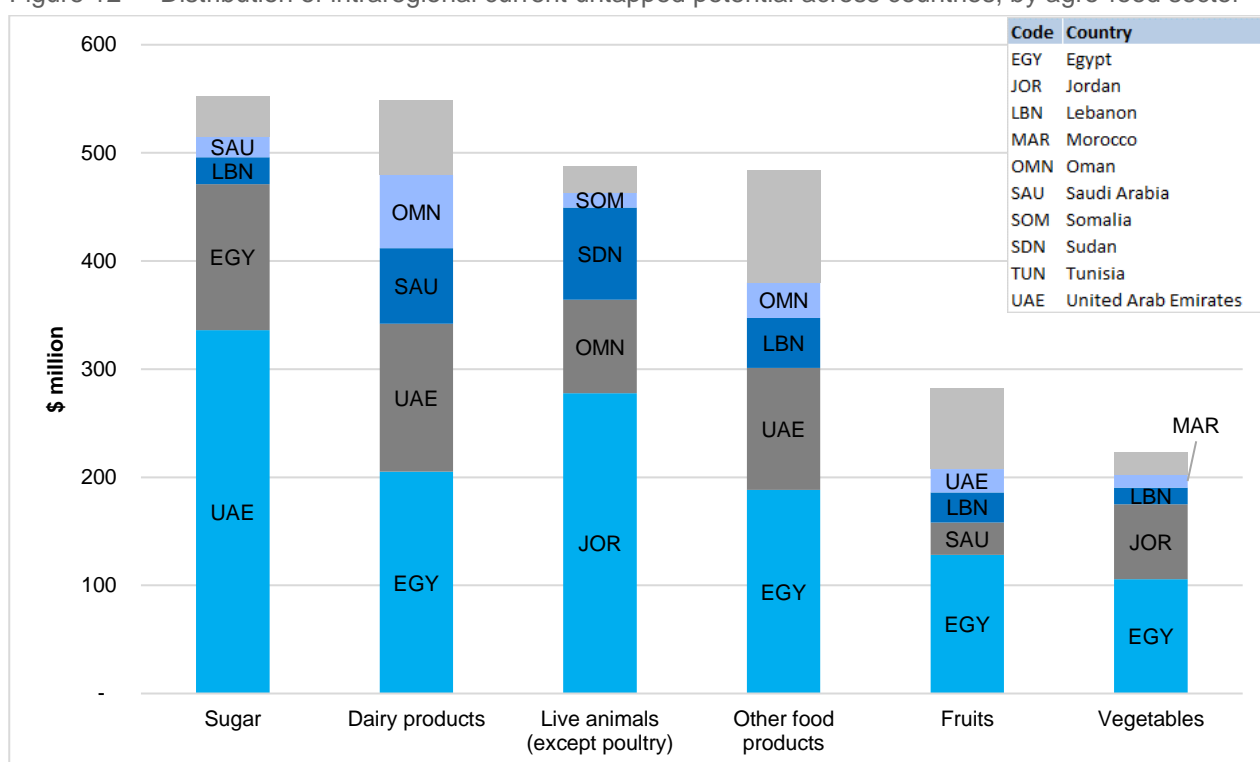
While the majority of unused export potential in the plastics and rubber sector is dynamic (\$2.7 billion), an additional \$901 million is market friction-driven. This untapped potential is greatest in Saudi Arabia (\$305 million) and UAE (\$260 million), which together account for nearly two-thirds of the export growth opportunities in this sector. Certain products in this sector are currently directed to export markets outside of the region, although demand for these products also exists within the region. For example, Saudi Arabia has \$125 million of current unused potential in polyethylene to the UAE, yet most of its current exports go to partners outside of the region including Singapore, China, India and Belgium.

Current unrealized potential in ferrous metals reaches \$816 million across LAS members, a level that is more than twice higher than that of the growth-dependent untapped potential in this sector. UAE holds most of it (\$296 million), driven by unrealized opportunities in Egypt, Jordan and Iraq who satisfy most of their demand

through imports from Turkey, Ukraine, Iran, China, and India. UAE’s ferrous metals exports, in turn, currently target Saudi Arabia, Oman, Iran, and the United States. Oman (\$147 million), Bahrain (\$132 million), and Qatar (\$86 million) together roughly account for another 45% of the growth-independent unrealized export potential in this sector.

In the other metals sector, room for an additional \$726 million in intraregional exports exists independent of economic growth. As for ferrous metals, the largest current untapped potential for this sector is in the UAE with \$118 million. The UAE and Bahrain focus their exports already primarily to other LAS countries, but \$483 million exports would be possible on top across LAS partners if the entire friction-based potential was realized. For Egypt, Italy and Algeria are the two most important markets in this sector, but current exports to these markets already exceed the potential benchmark value. Further growth will thus require a reorientation of exports, for instance, to regional markets like Saudi Arabia, Morocco, Jordan and Sudan. Apparel, jewellery and precious metals, mineral products, metal products, chemicals, beauty products, and paper products finally offer an additional \$2.3 billion in room for intraregional export growth if all of the relevant frictions were eliminated.

Figure 12 Distribution of intraregional current untapped potential across countries, by agro-food sector



**Note:** sectors in this figure are within the top 75% of the distribution of total untapped intraregional export potential. The figure displays top 4 LAS exporters with untapped potential, the light grey area corresponds to the untapped potential held by other LAS exporters.  
**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

*The LAS region holds over \$4 billion in current untapped potential across agro-food sectors that could be realized if relevant market frictions were removed.*

Within agriculture (Figure 12), sugar is the sector with the highest value of current untapped potential in the region totalling \$552 million. The UAE alone holds over 60% of this unused potential as home to the world’s largest sugar refinery Al Khaleej Sugar. Currently, the UAE exports sugar in values beyond the expected benchmark level to Iran and Tanzania, while underusing its potential in LAS markets including Saudi Arabia, Oman, Sudan, and Somalia.

Dairy products is the second highest sector with over \$548 million of current untapped potential. Egypt and UAE together account for nearly two-thirds of this potential. Again, UAE’s role as a regional trade hub drives the export potential in this sector. Around three-quarters of UAE’s milk imports originate in New Zealand and are then further distributed to regional partners, including Saudi Arabia and Oman. In the case of Egypt, the

gap between intraregional potential and actual exports results from a suboptimal allocation of exports across markets. For instance, Egyptian cheese is hardly exported to Algeria despite significant demand, while exports to Saudi Arabia, Jordan and Lebanon among others already exceed the benchmark level and may thus face fiercer competition in the future.

The live animals sector holds an additional \$487 million in unused current potential. Live animals however often are subject to temporary import bans levied on specific suppliers that drive a wedge between actual and potential exports that would be possible if only supply, demand and tariff conditions were considered. This is also true for Jordan, which accounts for more than half of the sector's current untapped potential. Kuwait, for instance, Jordan's second largest market with untapped potential, currently prohibits live animal imports from this country for SPS reasons. Until this ban is lifted, Jordan will not be able to unlock this export opportunity regardless of its significant market share of 7.2% in live sheep and Kuwait's imports amounting to over \$136 million on average between 2013 and 2017.<sup>14</sup>

Other food products offer an additional \$484 million of intraregional export growth potential, should it be possible to target those markets that offer the best demand and market access conditions to regional suppliers. For instance, Egypt's potential to export chewing gum remains almost entirely unused in UAE and Iraq, although these markets are the largest importers in the region with demand of respectively \$43 million and \$39 million and offer Egypt a tariff advantage over competitors.

The untapped potential in fruits is dynamic to a larger extent, but \$208 million of current potential also remains across Egypt, Saudi Arabia, Lebanon and UAE. This current untapped potential is particularly high in oranges and dates. The fruits sector is one in which NTM-related market frictions play a strong role. In addition, intraregional markets are not always prioritized. For instance, Egypt exports over \$380.5 million in fruit to the Russian Federation, the United Kingdom and the Netherlands, while underserving demand across regional markets including UAE, Iraq, Jordan, Sudan and Oman.

In addition to achieving greater trade integration by using existing export opportunities, LAS members can also seek to trade more with each other by increasing the complementarity of export and import patterns. In the following section we explore strategies for enhancing the complementarity by strategically altering the structure of LAS exports in line with regional demand. In Chapter 4, we look in closer detail at how to unlock the current untapped potential across key sectors by identifying burdensome NTMs in key agro-food and manufacturing sectors.

### **Increasing complementarity: diversifying the regional export basket in line with demand**

Deepening regional trade integration beyond what can be achieved by making full use of currently untapped export opportunities hinges on expanding the export structure in line with demand. Arab States can work towards this objective through targeted diversification programs. Extending the export offering to respond to regional demand which is currently satisfied through imports from non-LAS suppliers would make trade structures more complementary in the long run. The ITC export potential and diversification assessment methodology identifies products for export diversification based on supply capacities of the exporting country and demand and market access conditions in target markets. The resulting opportunities for product diversification could offer promising avenues to support an improved match between regional exports and imports, should policymakers choose to devote the resources to developing these new production and export capacities.

To identify relevant opportunities, we compute an indicator for product diversification for each country targeted towards the Arab region. This indicator measures the relative feasibility of exporting new products based on the proximity between products which the country already exports competitively and new products for diversification; it also accounts for the demand and relative market access conditions in the Arab States to ensure that efforts to diversify only go into products that can be successfully exported to regional partners. The relative feasibility employs the Product Space method (Hidalgo et. al, 2007), which maps the distance between a country's current export basket and a new product, based on how often countries export these

<sup>14</sup> Average imports between 2013 and 2017 are calculated with higher weights for more recent years, to put more emphasis on the recent trend.

products simultaneously. This method relies on the assumption that products which are often found together in the export baskets of countries require similar capabilities. A country already possessing a large set of the required capabilities should find it easier to diversify into a given new product. These results are also adjusted to take into account the land types available across countries, as well as access to the sea, in order to better match products proposed for diversification with available resources.

### Box 3 Identifying diversification opportunities

Diversification opportunities are...

- Within the top 100 PDI products for each country: "the opportunity is feasible and has good chances for regional export success".
- Products for which the share of intraregional in total imports of the LAS group is below average: "trade integration is low".
- Products for which the "missing" trade (see below) is larger than the total untapped export potential of existing LAS suppliers: "this low level of trade integration cannot be addressed by other LAS countries based on their current performance".

Missing trade: on average, 12% of LAS imports originate from regional suppliers. To compute missing trade, a given product's intraregional import share is compared to this average. Whenever lower, missing trade is defined as the distance between actual intraregional trade in the product and a hypothetical level of intraregional trade if 12% of the product's imports were sourced from regional suppliers.

*Diversification opportunities should be feasible for new suppliers without displacing existing ones for improving complementarity and intraregional trade.*

Among the feasible diversification opportunities, we only consider those that could help achieve greater integration while avoiding intraregional competition. This is done by focusing on products for which the share of intraregional imports is below the current 12% average intraregional import share (see Table 1). An indicator called "missing trade" is defined as the gap between the actual value of intraregional imports and what it would be if the share of intraregional imports was the same as the one observed on average for all products.<sup>15</sup> We only indicate diversification options for which this gap cannot be filled by current suppliers if they manage to fully exhaust their trade potential. This allows us to capture the relative feasibility of reaching new products while also choosing products that will have the greatest impact on enhancing the complementarity of intraregional trade, nevertheless avoiding intraregional competition.

Results are presented in Tables 5 and 6, providing a summary of relatively feasible products by country. The darker the colour, the more feasible products a country has in a given sector. The missing potential trade indicator aggregates missing trade values across all the identified diversification options in this sector. The total untapped potential indicates to which extent this trade gap can be filled by current exporters of these products. The higher the remaining difference, the more important successful diversification into these products will be for achieving a better match of the region's export with its import structure.

*Motor vehicles offer the largest scope for enhancing complementarity by targeted diversification.*

Figure 3 showed that regional exports of vehicles significantly fall short of regional imports. In fact, among all sectors in which diversification is feasible, the motor vehicles sector has the largest gap between "missing" trade of \$4.8 billion and total untapped potential of \$276 million. Thus, even if current LAS suppliers like Egypt, Morocco, Saudi Arabia, Tunisia and UAE fully exhausted their trade potential, supply of products in the motor vehicles sector would remain strongly below demand. Targeted efforts to diversify could help close this gap by enhancing trade complementarity. Saudi Arabia, for instance, could build on its capacities in producing and exporting motor vehicles, diesel trucks and tanker trailers and diversify into new products such as road tractors for semi-trailers and motor vehicles for transport of more than ten passengers. Tunisia could also build on its experience in special purpose vehicles, trailers and vehicle parts and diversify into

<sup>15</sup> The average considered is the one computed for all products in the ITC positive list, which excludes oil and minerals, tobacco, ammunitions and a few other products. The share of intraregional imports is 12%.



passenger vehicles. Based on its current export structure, Iraq may pursue diversification activities to develop export capacities in vehicles for goods transport.

Other sectors that offer strong incentives for diversification to boost regional trade complementarity are apparel and jewellery. The apparel sector has the second largest gap between missing trade and total untapped potential: of the \$1.1 billion that are “missing” for the identified diversification options to be imported from regional partners at the average share of intraregional imports, only \$273 million would be covered if current suppliers fully unlocked their intraregional export potential. Results vary across countries in line with the distinct export structures and inherent capabilities of national export baskets. For instance in the case of apparel, Egypt, Jordan, and Tunisia, some of the biggest apparel exporters in the region, have many opportunities to further expand their product range in apparel. At the same time, the State of Palestine could envisage newly developing a garment industry.

In the jewellery sector, regional “missing” trade totals nearly \$850 million, and only \$14 million of this gap could be filled if all of the remaining potential was realized by current LAS suppliers. Resources permitting, this sector could provide diversification opportunities for almost all of the LAS members. Top diversification opportunities include worked diamonds, rubies, sapphires, semi-precious stones and articles of silver jewellery.

*In agro-food, meat and vegetable oils offer feasible options for product diversification that could strengthen regional integration.*

Across agricultural sectors, the gap between missing trade in the region and remaining untapped potential by current LAS suppliers is largest in meat and vegetable oils and fats reaching \$358 million and \$334 million, respectively. Thus, diversification into products in these sectors would have the greatest impact for increasing regional integration through enhanced complementarity. In both sectors, intraregional supply already is important and products that are feasible for diversification have an export growth potential of about \$8 million and \$33 million in meat and vegetable oils, respectively. The remaining gap may be closed by new suppliers: frozen fowls, bovine meat and a range of edible oils rank high in the regional PDI of several LAS countries. While Egypt and Somalia are already successful meat exporters, Iraq, Djibouti, Mauritania, Yemen, and the State of Palestine could try to create a meat industry. In vegetable oils and fats, regional exporters can build on existing sector capacities and move into new products in Kuwait, Oman, Sudan, UAE, and Yemen. Other regional partners can newly develop oil production and export capacities in Comoros, Djibouti, Libya, Somalia and Qatar. Other attractive diversification opportunities in agro-food sectors include products in the fish and shellfish sector. Current suppliers are unable to meet regional demand and the sector presents feasible and prevalent opportunities for product diversification for Comoros, Djibouti, Mauritania, Yemen and Sudan.

Table 5 Diversification options in manufacturing sectors, by country

Sector	Country	Iraq	Saudi Arabia	Comoros	Djibouti	Mauritania	Somalia	Yemen	Egypt	Jordan	Lebanon	Morocco	Oman	Palestine	Sudan	Syria	Tunisia	UAE	Bahrain	Kuwait	Algeria	Libya	Qatar	Missing trade indicator (\$ thousand)	Untapped potential of current suppliers (\$ thousand)
		Motor vehicles & parts																							
Apparel																								1,142,503	273,071
Jewellery & precious metal articles																								849,138	13,553
Precious metals																								558,593	13,165
Other metals																								522,551	1,127
Electronic equipment																								305,098	113
Optical products, watches & medical instruments																								294,959	10,503
Plastics & rubber																								279,108	28,639
Machinery																								378,160	134,564
Miscellaneous manufactured products																								196,502	11,242
Ferrous metals																								179,010	13,135
Wood products																								175,288	13,852
Footwear																								138,425	20,634
Home textiles																								128,238	11,643
Aircrafts, spacecrafts & parts																								113,827	7,909
Carpets																								104,362	6,019
Chemicals																								83,616	5,238
Synthetic textile fabric																								78,146	3,025
Ceramic articles																								59,256	2,869
Mineral products																								44,529	1,662
Other textile products																								50,261	8,572
Boats & parts																								27,163	3,897
Metal products																								28,433	5,318
Beauty products & perfumes																								23,786	2,054
Other vehicles & parts																								19,389	637
Paper products																								12,523	4,026
Pearls & (semi-)precious stones																								8,434	3,199
Natural latex & rubber																								2,794	69
Other textile fabric																								2,295	192
Skins, leather & products thereof																								2,190	171
Other natural fabric (flax, hemp, etc.)																								2,168	370
Wool & animal hair (fabric)																								1,969	442

Note: darker colours indicate a larger number of diversification opportunities ranging from 1 to 39.

Source: ITC staff calculations based on the ITC export potential and diversification assessment methodology.

Table 6 Diversification options in agro-food sectors, by country

Sector	Country																		Missing trade indicator (\$ thousand)	Untapped potential of current suppliers (\$ thousand)						
		Iraq	Saudi Arabia	Comoros	Djibouti	Mauritania	Somalia	Yemen	Egypt	Jordan	Lebanon	Morocco	Oman	Palestine	Sudan	Syria	Tunisia	UAE			Bahrain	Kuwait	Algeria	Libya	Qatar	
Meat (except poultry)		■		■	■	■	■	■			■	■		■	■							■	■		366,206	8,048
Vegetable oils & fats				■	■		■	■						■					■			■	■		367,290	32,974
Meat (poultry)											■											■	■		299,801	6,149
Vegetal residues & animal feed					■	■	■		■						■							■	■	■	293,510	5,087
Beverages (alcoholic)		■	■	■																					52,524	4,632
Fish & shellfish		■	■	■	■	■	■	■	■	■	■	■		■	■	■	■		■		■	■	■	69,382	24,267	
Nuts											■			■	■	■	■							49,266	5,062	
Wood & vegetable material		■				■				■	■	■			■	■	■					■	■	39,156	1,380	
Fruits									■	■	■	■			■	■	■		■				■	23,143	1,728	
Cotton (fabric)		■		■						■	■				■	■	■						■	29,314	8,951	
Other food products				■			■												■				■	21,027	1,882	
Cocoa beans & products				■	■		■																■	12,310	455	
Spices														■									■	9,942	159	
Rice*								■	■	■	■	■			■	■	■						■	8,217	57	
Beverages (not alcoholic)				■	■	■	■	■	■	■													■	6,178	806	
Other animal products (edible)															■								■	12,405	9,681	
Crops nec																■							■	846	107	
Animal products (not edible)				■	■	■	■	■															■	308	28	

\*all diversification possibilities relate to processed rice.

**Note:** darker colours indicate a larger number of diversification opportunities ranging from 1 to 8. In the agro-food sector, products must comply with an additional criterion to ensure export diversification only takes place in countries that do not run large current trade deficits in these products. This criterion is defined as  $\frac{X_{ik} - M_{ik}}{X_i - M_i} > -0.5\%$ .

**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

## CHAPTER 4 ADDRESSING FRICTIONS TO UNLOCK REGIONAL EXPORT OPPORTUNITIES

The LAS region has a high number of NTM-related market frictions that are hindering regional exporters. Addressing both crosscutting and sector-specific challenges will require targeted action. In this chapter, we examine trade obstacles as reported in the ITC business survey on NTMs implemented in five Arab States.<sup>16</sup> We have selected eight sectors in which intraregional NTMs play a strong role and that have considerable friction-related untapped export potential. Each highlighted sector offers an export growth potential of at least \$200 million. In total, an additional \$4 billion in intraregional exports would be possible if all frictions in these sectors, including those related to NTMs, were overcome.

The remainder of this chapter outlines for each of the selected sectors, the exporter-market combinations with the highest current untapped potential for intraregional exports and summarizes some of the challenges related to NTMs as captured through the ITC business surveys in five Arab countries.

### Manufacturing sectors

In manufacturing, we focus on four key sectors in which removing NTM-related market frictions may give a considerable boost to intraregional trade. Machinery, plastics and rubber and mineral products are the manufacturing sectors with the highest number of burdensome NTMs in intra-LAS trade. Apparel also has a significant number of reports of difficult NTMs and holds more than \$450 million in unrealized current potential for intraregional exports. Realizing the potential in these four key sectors would result in \$2.8 billion of additional exports within the Arab region.

#### Machinery

The machinery sector holds over \$1 billion of current untapped potential for intraregional exports, implying that nearly two-thirds of export growth opportunities could be realized if market frictions were fully addressed. Almost half of this current untapped potential is distributed across the top 10 exporter-importer pairs (Figure 13). Key products in this sector for fostering intraregional trade are ignition wiring sets, electrical conductors, air conditioning machines, refrigerators, water heaters, wires, among others. As mentioned in Chapter 3, although regional demand for some of these products is significant, regional exporters are not effectively targeting the LAS markets for these products.

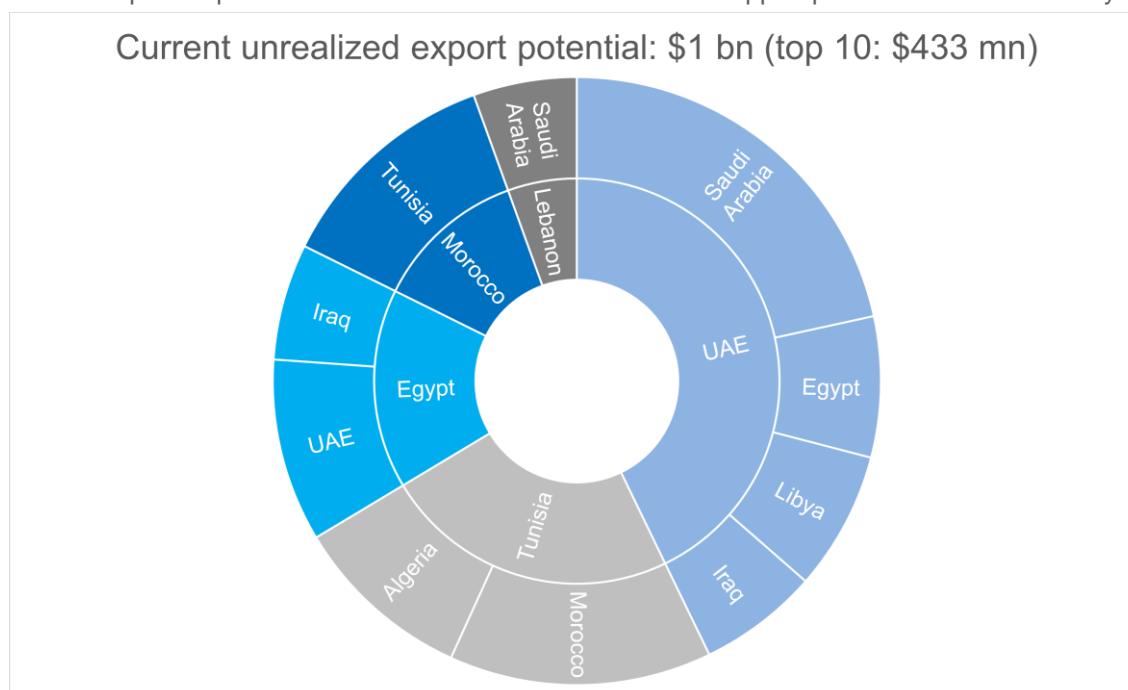
Realizing the significant current potential in machinery will require importers and exporters to work together to overcome diverse market frictions. The complexity and technically sophisticated nature of products in this sector results in considerable difficulties for regional exporters in meeting product conformity assessment requirements, and in obtaining and the recognition of certificates of origin. Overall, Arab exporters reported 133 NTMs as burdensome in intraregional trade in this sector.

28 of these problematic NTMs concern difficulties regarding exports to the Saudi Arabian market, which is also the largest market both in terms of current exports (\$1.2 billion) as well as in terms of untapped potential for intraregional exports (\$210.9 million). An additional 25 burdensome NTMs were reported pertaining to machinery exports to the Sudanese market, with a currently unused import potential of nearly \$23 million. Machinery exporters also reported difficulties when exporting to Algeria (14), Iraq (10), Libya (8), Tunisia (7), Yemen (5), Lebanon (5), Morocco (4), Jordan (4), Kuwait (3), UAE (3), Oman (2), Qatar (2), Mauritania (1), and Egypt (1).

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<sup>16</sup> Egypt, Jordan, Morocco, Tunisia, State of Palestine.

Figure 13 Top 10 exporter-market combinations with current untapped potential in the machinery sector



**Note:** the figure shows exporters in the inner circle with respective key importing markets in the outer circle.

**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

*Machinery exporters are burdened by differing regulations and challenging conformity assessment procedures.*

Regarding technical regulations, product conformity assessment and the related procedures, exporters commented on the heterogeneity and strictness of energy consumption regulations on machinery. This was reported on exports to Tunisian and Saudi Arabian markets. For instance, exporters from Jordan noted specific challenges with the restrictions on the use of freon, a cooling gas, in refrigerator production, as well as demanding energy efficiency standards. Jordanian exporters also noted challenges with the recognition of their local conformity certificates in Saudi Arabia, and the re-testing that took place in Saudi Arabia incurring additional costs and delays. Furthermore, exporters also expressed their frustration with the procedural obstacles related to these assessments. For instance, Egyptian exporters noted that the Saudi Customs Authorities require a conformity certificate for the product according to European standards, however this certificate is only accepted from a private company located in Alexandria. The specificity of this inspection and certification requirement brings with it weeks of delay and elevated costs. Similar inspection requirements by private firms at high costs were encountered as well by exporters to Lebanon and Algeria. Challenges related to the recognition of certificates of conformity were also noted by exporters to Saudi Arabia, Iraq, and Egypt.

*“All details in the GAFTA Certificate of Origin are required to be written in Arabic language, which is difficult as some specs and numbers can’t be and are not recommended to be translated.”*

*Egyptian exporter of air conditioning machines to UAE*

*The sophisticated nature of machinery with numerous components creates challenges for proving its origins.*

Exporters across nearly half of products in the machinery sector expressed difficulties in obtaining certificates of origin, the recognition of these certificates, as well as the procedural obstacles involved in the process particularly related to the number of documents that need to be furnished. This was reported by numerous exporters serving the Algerian, Mauritanian, Egyptian, Iraqi, Libyan, Moroccan, Sudanese, Tunisian, UAE, and Saudi Arabian markets. In addition, linguistic requirements cause impediments. In Iraq, certificates of origin were required in English, and the certificate in Arabic was refused for Jordanian exporters. Conversely, in many Arab States, requirements demand that all details in the GAFTA certificate of origin be written in

Arabic language, which creates challenges for some technical specifications. This has been reported as problematic by machinery exporters to Saudi Arabia, Sudan, Tunisia, UAE, Bahrain, Jordan, Kuwait, Lebanon, Oman, Qatar, Algeria, Morocco, Syria, and Libya.

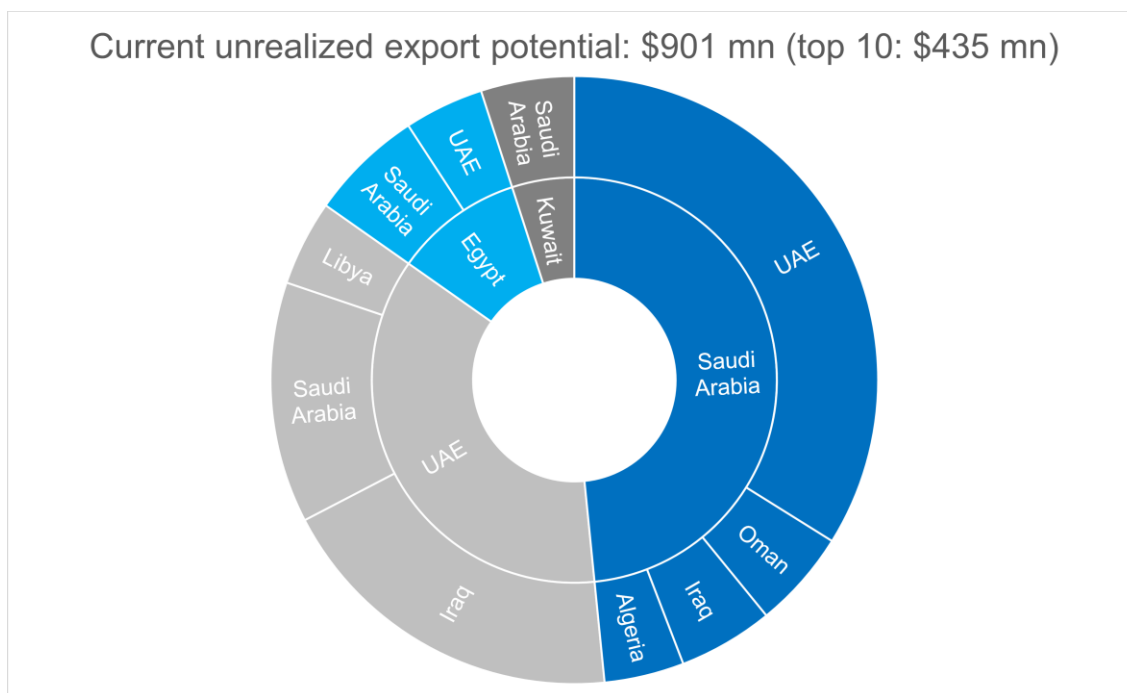
*Inefficiencies at the border cause further delays and problems for machinery exporters.*

In addition, customs-related challenges pose hurdles for exporters in the machinery sector. Regional exporters lamented tedious, long, and exceedingly rough inspection procedures, the misclassification of products, and the solicitation of additional payments to expedite processes, and burdensome legalisation procedures for documents across multiple institutions. Exporters also noted challenges with the rigorous documentation needed to prove that no components were sourced from Israel.

**Plastics and rubber**

Even though in plastics and rubber the share of current export potential that remains untapped is relatively small at 18%, the sheer size of the sector gives rise to significant export growth opportunities, worth about \$901 million. At the same time, survey evidence for five Arab countries reveals that 54 NTMs represent bottlenecks in intra-LAS trade. Saudi Arabia alone accounts for more than a third of the untapped intra-LAS potential in this sector on account of its strong export performance in previous years, that has helped the country attain a 21% global market share in key products. The products with the greatest current untapped potential in this sector include polyethylene, pneumatic tyres, polypropylene, plastic bottles, plastic tableware, and plastic film. Some of the key regional importers with current untapped potential for this sector are UAE, Egypt, Saudi Arabia, Algeria, Iraq, and Jordan. On the demand side, rapid import growth is driving the potential. In UAE, which accounts for the largest share of imports, demand is expected to grow by over 65% on average over the next five years. In Egypt, import growth is expected to exceed 80% in some products in this sector over the next five years.

Figure 14 Top 10 exporter-market combinations with current untapped potential in the plastics and rubber sector



**Note:** the figure shows exporters in the inner circle with respective key importing markets in the outer circle.  
**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

*Obtaining certificates of origin presents considerable challenges for plastic exporters across LAS states.*

To effectively realize the substantial current potential in this sector, exporters and importers will need to confront the prevailing sector-specific market frictions. Key constraints relate to obtaining certificates of origin. For instance, Egyptian exporters of rubber tubing to Algeria reported that the requirements for the issuance of a GAFTA certificate of origin required the name and contact details of the producer, which is considered to be confidential information. Exporters also highlighted concerns with the procedural obstacles they faced in the process of obtaining a certificate of origin, including elevated costs when exporting to Saudi Arabia, Tunisia, Algeria and Iraq. For instance, Jordanian exporters of plastic tubes to Iraq reported a requirement for the authentication of the certificate of origin by both the Ministry of Foreign Affairs of Jordan and the Iraqi Embassy resulting in high additional fees. Jordanian exporters of plastic articles to the UAE have also voiced concern regarding the relevant costs and long waiting periods for certificates of origin.

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*“The company has branches in other countries, and sometimes re-exports the previously imported goods that are not originated in Egypt to the company branches abroad. The importing countries require a source certificate which is very difficult to get.”*

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*Egyptian plastics exporter*

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*Conformity assessment and product testing requirements prove burdensome to regional plastics exporters.*

Plastics exporters from Egypt, Jordan and State of Palestine noted exceedingly stringent testing standards on the colouring used in their products, as well as the administrative challenges and costs related to obtaining conformity certificates for their products. These challenges created additional costs and time delays for exporters due to the differing standards and procedures across regional markets.

Other factors causing additional costs and delays for exporters in this sector included problems related to pre-shipment inspections, particularly in Saudi Arabia. In addition, regional plastics exporters noted particular difficulties in exporting to the Sudanese market due to temporary prohibitions on imports, as well as foreign exchange restrictions.

**Mineral Products (excluding oil)**

In the mineral products sector, which excludes oil, regional exporters could realize an additional \$440 million of intraregional exports if the market frictions hindering trade in this sector were resolved. Significant export growth opportunities in this sector are available in UAE, Egypt, Jordan and Oman (Figure 15), together accounting for 83% of the region’s total current untapped potential in this sector. Most additional exports seem possible in cement products, marble, and building stones. The share of current untapped in total export potential is especially high across certain markets such as Saudi Arabia and Iraq. This suggests that these exports currently do not take place in quantities that would be expected based on supply, demand and tariff considerations as well as the overall ease of exporters to trade with these markets. NTMs may partially explain this: 53 NTMs have been reported as burdensome for intraregional trade in this sector.

*Differences in labelling requirements and challenges related to certificates of origin hinder regional exports in mineral products.*

Labelling requirements as well as the process of obtaining and recognizing certificates of origin often pose problems for exports in this sector. Regional exporters have highlighted the heterogeneity of labelling across Arab countries for products in this sector. For instance, Egyptian cement exporters to Jordan have mentioned a specific production date that needs to be indicated in addition to the expiration date, whereas in Syria there seem to be strict limits to the length of maximum expiration dates for the same product. In addition, Syria requires that all labels be made of paper, refusing the polypropylene labels accepted by other markets in the region. Exporters of marble and granite to Saudi Arabia also have noted a lack of transparency in specific origin labelling requirements on individual slabs of materials, which is not the case in other markets.

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*“The Saudi Customs Authorities refuse to apply the GAFTA preferential rules of origin. They also require a clear mark of origin “Made in Egypt” on each exported group of slabs.”*

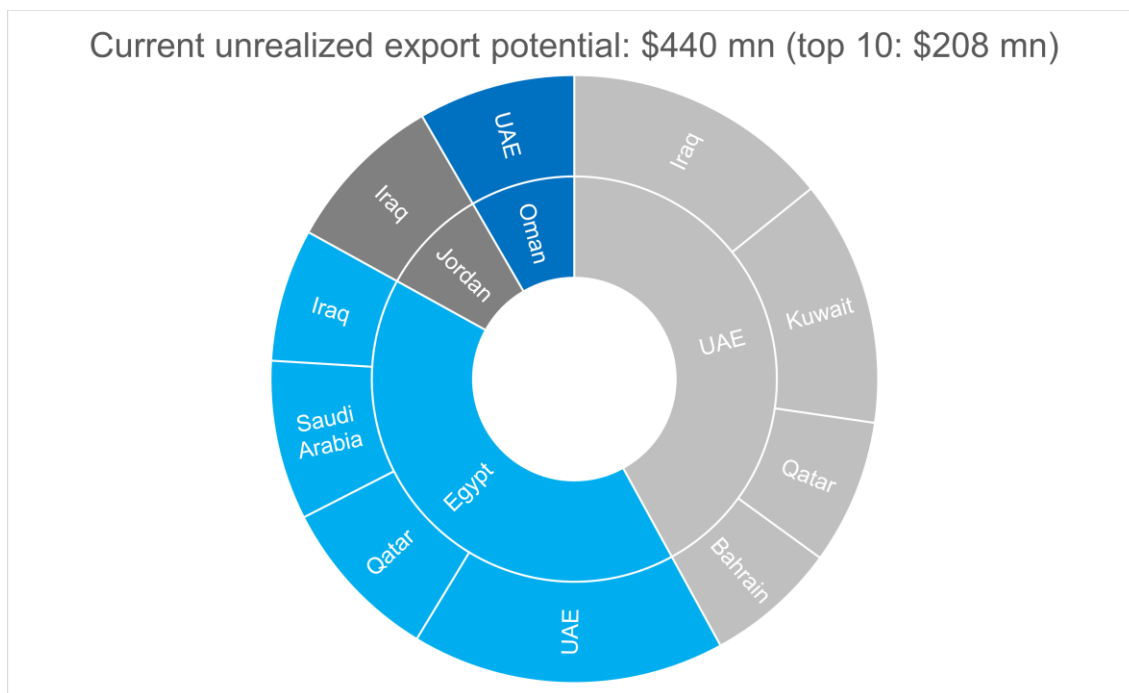
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*Egyptian exporter of marble to Saudi Arabia*

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The labelling requirements are further complicated by language specifications. Egyptian exporters of asphalt products to Algeria, Morocco, Oman, Qatar, Saudi Arabia and Libya have indicated that all entries required in the GAFTA certificate of origin must be written solely in Arabic, otherwise the certificate is refused. Regional exporters have also mentioned obstacles related to obtaining and recognition of certificates of origin when exporting to Morocco, Saudi Arabia, Jordan, Bahrain, Kuwait, Qatar and UAE.

Figure 15 Top 10 exporter-market combinations with current untapped potential in the mineral products sector



**Note:** the figure shows exporters in the inner circle with respective key importing markets in the outer circle.  
**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

*Conformity assessment and testing requirements create challenges for exporters of mineral products.*

The difficulties in obtaining certificates of conformity and different testing requirements across regional markets complicate export procedures for regional exporters. For instance, Palestinian marble exporters noted the difficulties in testing procedures across Kuwait, Bahrain, Qatar and Saudi Arabia.

**Apparel**

The apparel sector holds nearly \$467 million of current untapped potential for intraregional exports. The largest share of this potential is held by Egypt, accounting for 36% of the intraregional total. The products with most export growth potential are men’s cotton trousers and T-shirts. These products are currently not being exported to LAS markets in quantities that would be expected based on supply, demand and tariff considerations as well as the overall ease of exporters to trade with regional markets. Currently, the largest exports of these products are targeting the United States and European markets, giving less attention to intraregional trade. At the same time, Chapter 3 has shown that even a full realization of the export potential would fall short to close the missing trade gap and that diversification into additional garment products would be needed to satisfy regional demand.



NTMs may partially explain the comparably low intraregional trade levels: 20 NTMs have been reported as burdensome for intraregional trade in apparel products. The top 10 market and exporter combinations in this sector account for nearly half of the total intra-LAS current untapped potential in this sector (Figure 16), indicating considerable room for intraregional export growth if efforts to address market frictions in this sector prove effective.

*“The Sudanese Customs Authority don’t fully apply preferential treatment within the framework of the COMESA agreement, although the products comply with rules of origin requirements.”*

*Egyptian exporter of men’s pyjamas*

To unlock this potential, targeted action will be needed to confront challenges related to rules of origin and certificates of origin, testing and product certification, as well as other finance-related measures.

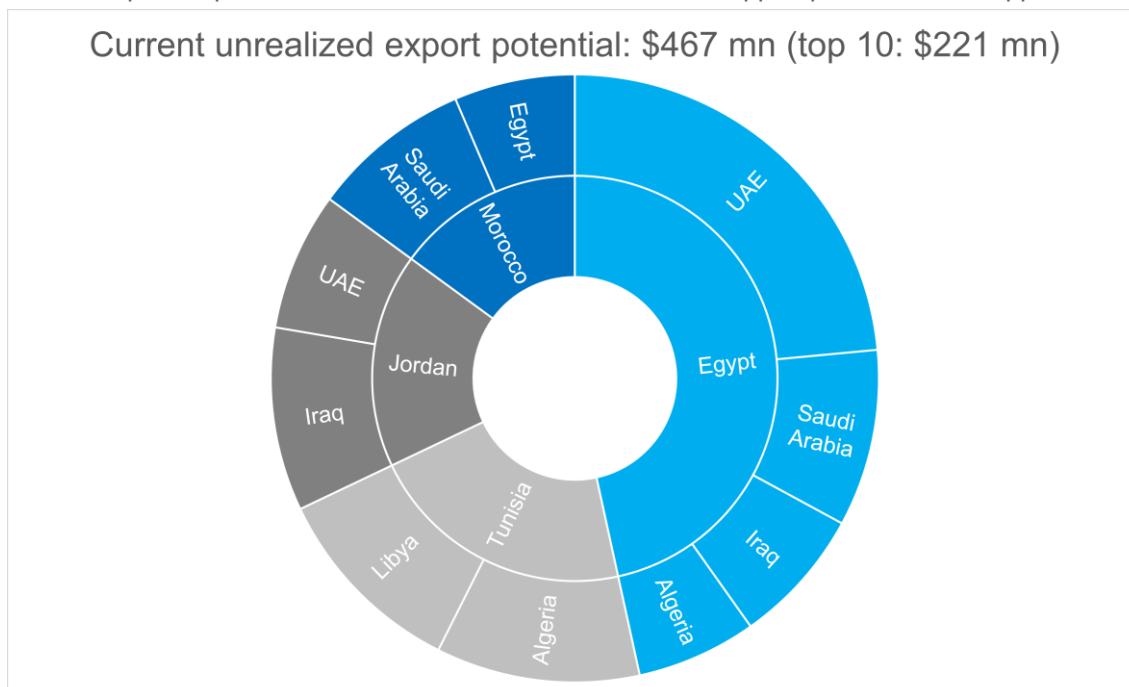
*Problems related to rules of origin and certificates of origin are a key constraint for intraregional apparel exporters.*

Of the 20 NTMs reported in this sector, 15 relate to concerns regarding rules of origin, and the documentation needed to prove the origin of goods. Regional exporters expressed concerns about not receiving preferential treatment despite providing the required documentation when exporting to the Sudanese market. In addition, exporters expressed frustration with changing certificate requirements and delays when exporting to Iraq, Saudi Arabia, UAE, Sudan and the State of Palestine.

*Diverging and complex conformity assessment measures create challenges for regional exporters.*

The process of assessment and recognition of product conformity is not harmonized across products and countries in the region, creating unexpected hurdles for exporters. For instance, Jordanian apparel exporters to the Saudi Arabian market expressed concern about the difficulties they experienced throughout the conformity assessment process. Other exporters to this market also noted elevated costs and delays associated with this process.

Figure 16 Top 10 exporter-market combinations with current untapped potential in the apparel sector



**Note:** the figure shows exporters in the inner circle with respective key importing markets in the outer circle.  
**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

### Other manufacturing sectors

While both, the ferrous and the other metals sectors hold a current untapped potential for intraregional exports exceeding \$700 million, only few NTMs have been reported. Egypt is the only among the key exporters in these sectors in which the ITC survey was run. While Egypt may increase intraregional exports by \$111 million should frictions be removed, these frictions seem to relate to factors other than NTMs. The only reported trade obstacle relates to challenges in the recognition of certificates of origin in the Sudanese market.

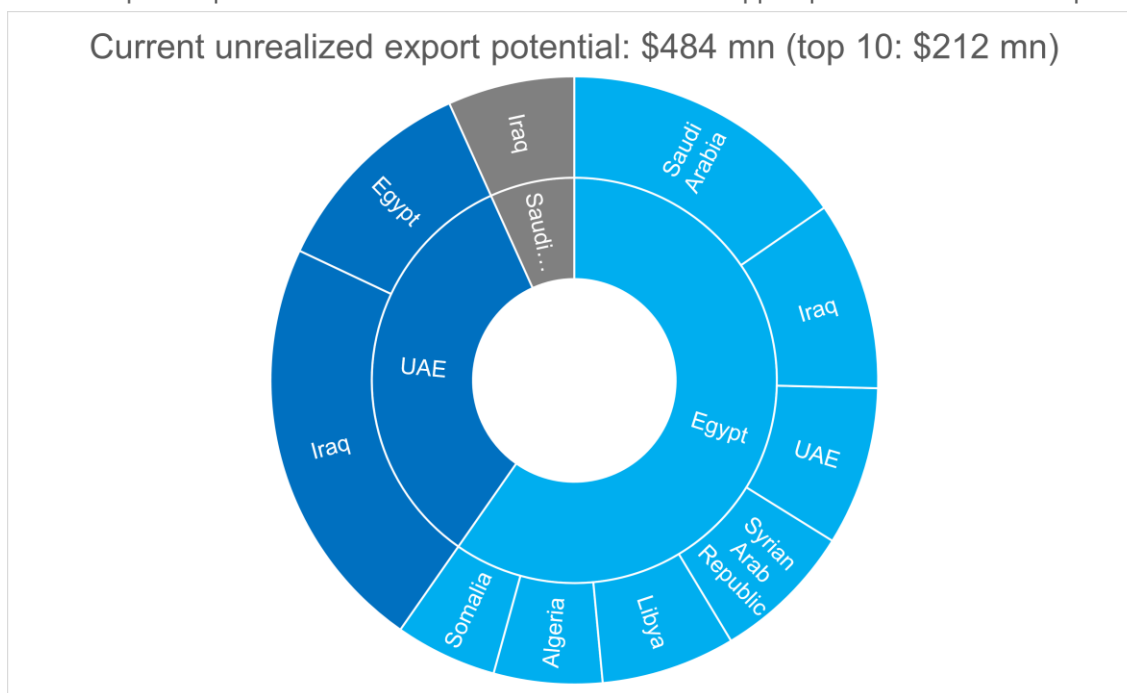
### Agro-food sectors

In agriculture, the sectors with a significant number of burdensome intraregional NTMs include other food products, vegetable oils and fats, fruits and non-alcoholic beverages with a combined current untapped potential exceeding \$1.2 billion. To unlock some of this potential and strengthen regional trade integration, it is important to understand the NTM-related frictions hindering specific exporters in the regional market by sector.

#### Other food products

The other food products sector holds \$484 million in current untapped potential, across a range of products including bread, pastries, cakes, sweet biscuits, ice cream, prepared vegetables, sauces, uncooked pasta, chewing gum, cereals, olives, and soups. Given this wide product range, exporters and importers with untapped potential are sometimes the same. For instance, Egypt may increase its chewing gum exports to UAE by \$5.5 million, while UAE in turn, has an untapped potential worth \$22 million for exporting food preparations to Egypt, should market frictions be removed. The top 10 market-exporter combinations for this sector account for 44% of current untapped potential in this sector.

Figure 17 Top 10 exporter-market combinations with current untapped potential in other food products



**Note:** the figure shows exporters in the inner circle with respective key importing markets in the outer circle.

**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

Regional exporters in the other food products sector reported 113 burdensome NTMs hindering intraregional trade. Saudi Arabia is the market with the highest prevalence of NTMs (21), and at the same time it is the largest import market. The country holds an intraregional import potential of \$59 million in other food products that could be tapped subject to the removal of all frictions. Other markets with prevalent NTMs in this sector

include Libya (9), Iraq (9), Jordan (9), Algeria (8), UAE (8), Bahrain (7), Lebanon (7), Sudan (6) and Morocco (6).

*Diverse technical regulations and challenging conformity assessment requirements hinder intraregional exports in other food products.*

For the friction-based potential to be realized in this sector, diverse obstacles need to be overcome. Given the prevalence and the diversity of national SPS regulations among Arab countries, one of the key constraints is the recognition of conformity assessment. The costs related to certificates of conformity have been highlighted by exporters from Jordan to Iraq and Libya. For instance, exporters have expressed difficulties in obtaining and the recognition of health certificates when exporting to Saudi Arabia, UAE, Jordan, Kuwait, Bahrain, Qatar, and Syria. The heterogeneity of regulations across countries with regards to product composition also poses challenges. For instance, exporters of tahini, a sesame paste, to Saudi Arabia have noted that regulations concerning the proportion of permitted calcium in the product standard differ from those in all other Arab countries. Furthermore, traceability-related certification requirements cause additional obstacles to exporters serving the Jordanian and Saudi Arabian markets. Furthermore, limited access to testing facilities for mandatory tests, divergent testing requirements and the high costs for tests have been reported as problematic when exporting to Yemen, Iraq, Lebanon, Tunisia, Libya, and Oman. The nature of required tests also varies across markets, with some importers demanding radiation testing.

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*“Although the products are complying with the GAFTA agreement rules of origin, the company always pays tariffs when exporting to those markets and are not granted the promised preferential treatment.”*

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*Tunisian confectionary product exporter*

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*Rules of origin and certificate of origin recognitions pose additional challenges to food product exporters.*

The difficulties in obtaining and the recognition of certificates of origin is another key concern reported across exporters to Morocco, Algeria, Tunisia, Sudan, Iraq and Libya. Numerous exporters complained about not receiving preferential access through GAFTA and being forced to pay tariffs. In addition, intraregional exporters expressed frustration with the associated procedural obstacles in terms of delays and added costs at the border when exporting to Bahrain, UAE, Saudi Arabia, Qatar and Kuwait.

*Procedural obstacles increase the time and cost of exporting.*

Procedural obstacles such as the mandatory legalization of documents requirements and related fees were another concern when exporting to Saudi Arabia, Kuwait, Iraq and UAE. Very strict labelling requirements regarding product description, font size, and language-related aspects were reported by exporters to Jordan, Saudi Arabia, Lebanon and Kuwait.

## Vegetable oils and fats

The LAS region holds \$229 million of current untapped potential in the vegetable oils and fats sector. Some of the key intraregional exporters include UAE, Saudi Arabia, Tunisia, and Egypt. The UAE alone accounts for \$80 million of the current untapped potential, across products such as maize oil, crude soy bean oil, palm oil, and crude sunflower oil. The top 10 exporter-market combinations in the LAS account for 51% of the sector's current untapped potential in the region (Figure 18).

Although coming only 8<sup>th</sup> in terms of unrealized current export potential across agro-food sectors, the vegetable oils and fats sector is the agro-food sector with the second highest prevalence of burdensome intraregional NTMs. 54 NTMs have been reported as problematic in this sector by exporters from Egypt, Tunisia and the State of Palestine. It is thus likely that market frictions often relate to NTMs in this sector and that addressing them will help realize a significant part of this potential. Exporters reported facing challenges related to product conformity and testing, rules of origin and related certificates, as well as merchandise handling and storing fees. Most burdensome NTMs were

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*“Qatar requires two supplementary certificates not required in other countries for product certification.”*

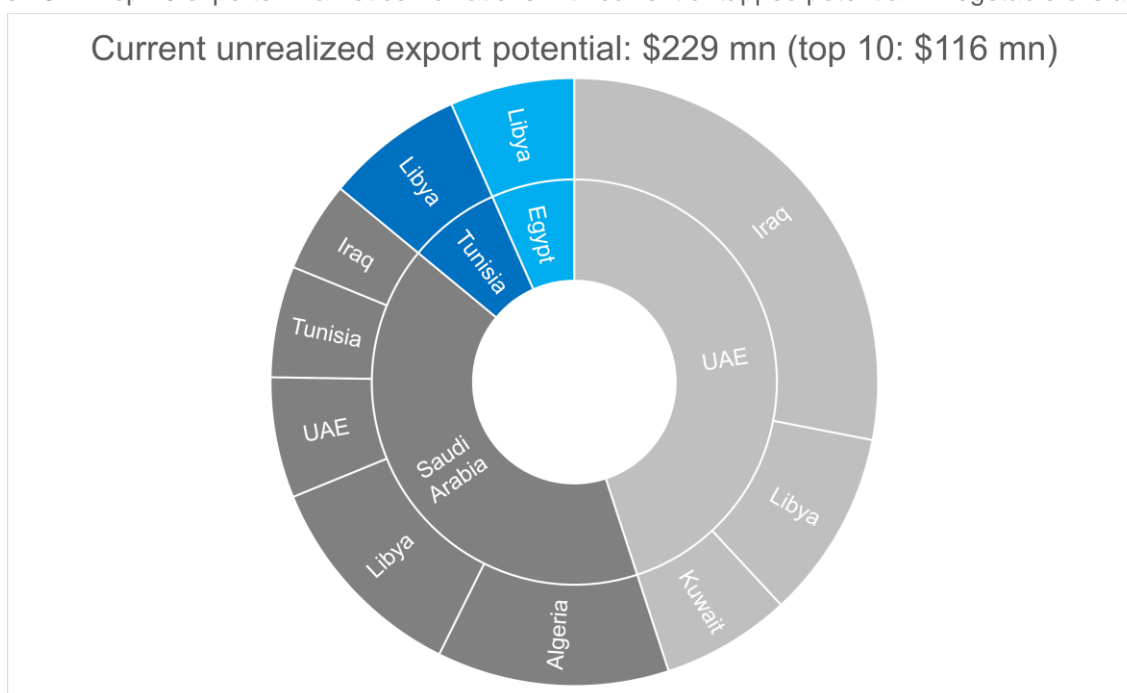
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*Tunisian confectionary olive oil exporter*

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mentioned by exporters serving the Algerian (9) and Saudi Arabian (7) markets. These markets collectively hold nearly \$30.2 million for additional intraregional trade should frictions be overcome.

Figure 18 Top 10 exporter-market combinations with current untapped potential in vegetable oils and fats



**Note:** the figure shows exporters in the inner circle with respective key importing markets in the outer circle.

**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

#### *Testing and product conformity requirements constrain exports in vegetable oils.*

Exporters across several LAS markets reported problems in meeting conformity requirements and receiving recognition of conformity by target market institutions for their products. These measures accounted for over one-third of all NTMs reported as burdensome in this sector. For instance, Tunisian vegetable oil exporters reported that numerous certificates were required when exporting to Libya, Morocco, Qatar and UAE, and Morocco. Obtaining these certificates was subject to multiple tests for their products, resulting in additional charges and time for their completion.

#### *Certifying the origin of products remains burdensome for exporters across LAS markets.*

Difficulties in obtaining and the recognition of certificates of origin accounted for over one-fourth of all problematic NTMs in the vegetable oils and fats sector. Exporters reported not being granted preferential tariffs despite presenting the required documents when exporting to Algeria, Iraq, Libya, Sudan, Tunisia and Lebanon. Delays with certificates were also frequent to Jordan, Lebanon and Saudi Arabia.

#### *Handling and storage fees hurt exporter profit margins.*

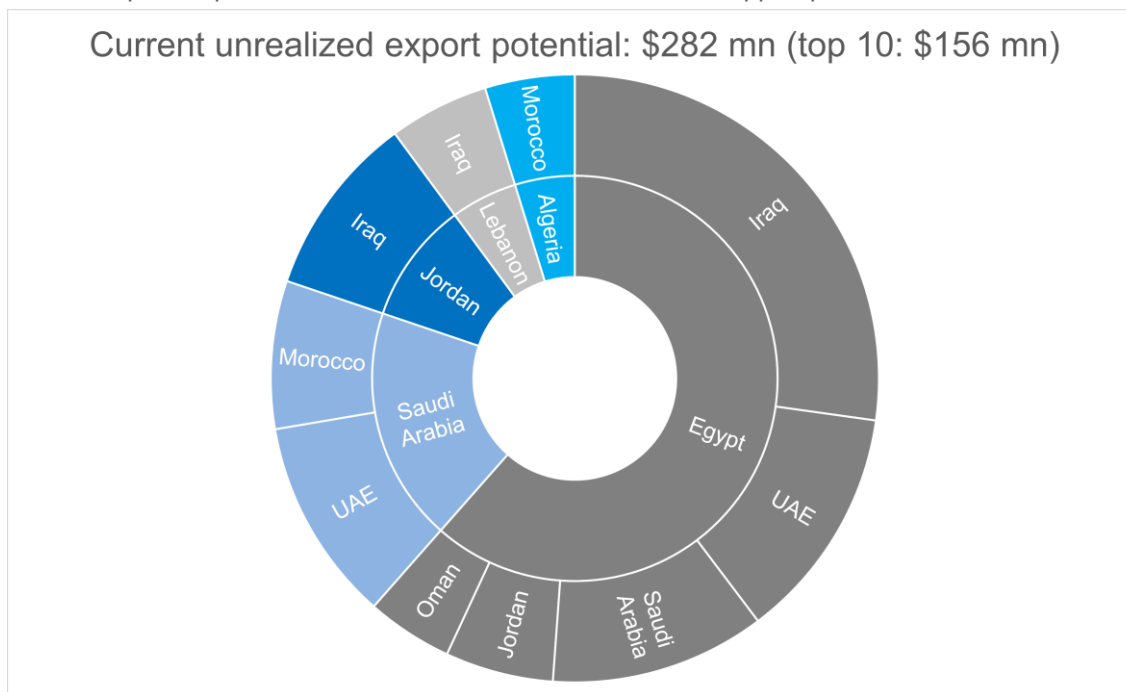
High costs associated with export procedures hurt firm competitiveness. Exporters noted elevated export terminal handling charges for their products when exporting to Algeria, Iraq, Jordan, Libya, Saudi Arabia, Sudan, Tunisia, and Yemen.

## Fruits

While the majority of untapped potential in this sector is dynamic and depends on the continued growth of supply and demand, there is also room to unlock further friction-based potential. The fruit sector holds \$282 million of potential for additional intraregional exports if all relevant market frictions were addressed. Among the key intraregional exporters with growth potential in this sector are Egypt, Saudi Arabia, Jordan, Lebanon, and Algeria. Egypt alone accounts for over 45% of it: while Egypt exports \$380.5 million in fruit to the Russian

Federation, the United Kingdom and the Netherlands, it does not cater demand in regional markets including UAE, Iraq, Jordan, Sudan and Oman. Egypt's current untapped potential is particularly high in oranges and dates.

Figure 19 Top 10 exporter-market combinations with current untapped potential in fruits



**Note:** The figure shows exporters in the inner circle with respective key importing markets in the outer circle.

**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

The fruits sector ranks third among agro-food sectors in terms of the prevalence of reported intraregional NTMs. Regional exporters mentioned 34 burdensome NTMs in this sector with the highest prevalence of obstacles encountered when exporting to the Saudi Arabian (9) and UAE (7) markets. These two markets hold a combined intraregional import potential of nearly \$82 million.

Targeted interventions to overcome frequent challenges with seasonal quotas, product certification, testing, rules of origin and certificates of origin, labelling requirements, and pre-shipment inspections in key target markets could thus give a significant boost to intraregional fruit exports.

*“When exporting to Iraq, a certification is required to be obtained from SGS. The certification procedures are very complicated as SGS requires testing from an ISO certified lab, testing from the Egyptian Atomic Energy Organization.”*

*Egyptian lemon exporter*

*Product certification, testing requirements and pre-shipment inspections are burdensome for LAS fruit exporters.*

Regional fruit exporters felt that the numerous differences in the tests and specific requirements for product conformity assessment across LAS markets were burdensome. For instance, Egyptian fruit exporters noted the difficult and expensive residue testing at the Saudi Arabian border, which also resulted in delays. Tunisian fruit exporters to Morocco noted the exigent requirements for receiving the required phytosanitary certificate. Fruit exporters also lamented damage and reduced shelf-life due to product mishandling during pre-shipment inspections. Jordanian fruit exporters reported problems with pre-shipment inspections when exporting to Kuwait, Saudi Arabia and the UAE.

*Diverse labelling requirements across countries frustrate regional exporters.*

Tunisian fruit exporters noted the difficulties in standardizing their labels due the diverging requirements across regional markets. Labels have to be printed with specific printers, and the date must be included in

Arabic for exports to Morocco. Fruit exports to the UAE and Saudi Arabia must contain specific company information in order to be permitted to enter these market. These differences complicate business processes for exporters, who are forced to create custom labels for each market.

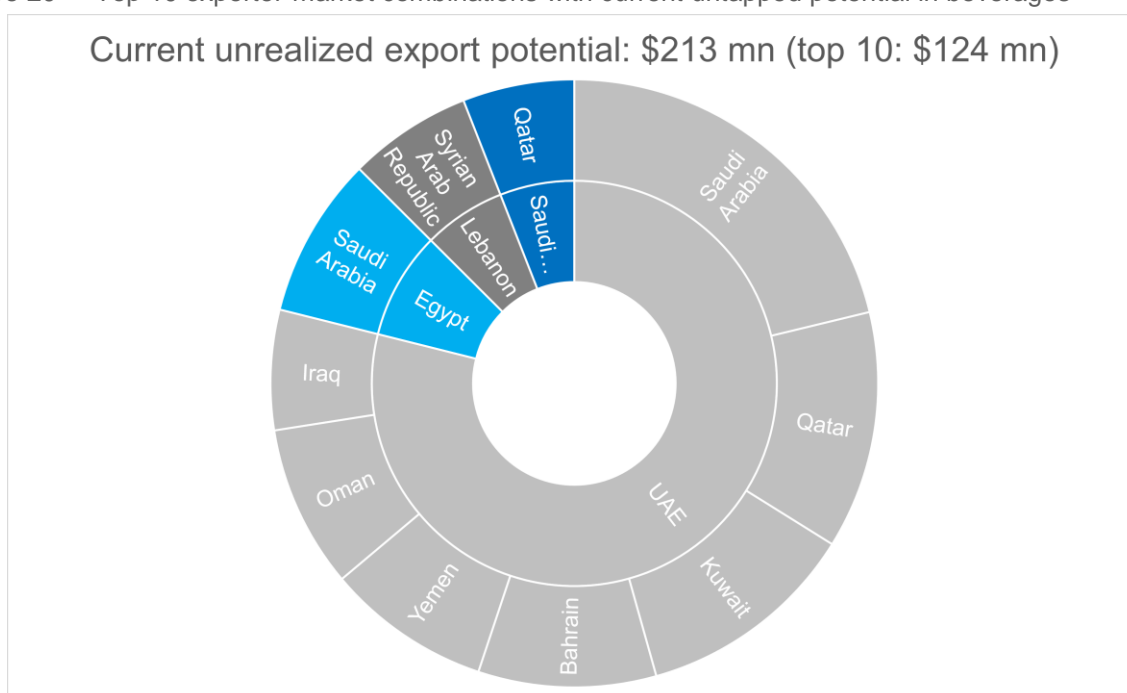
*Seasonal quotas hinder LAS fruit exports.*

Extra charges and duties levied on fruits during certain periods of the year weigh on the competitiveness of LAS exporters in certain regional markets. For instance, Tunisian peach exporters reported paying additional duties related to seasonal quotas when exporting their products to Qatar, Saudi Arabia, UAE, Kuwait and Libya.

**Beverages (non-alcoholic)**

LAS members could realize an additional \$213 million in intraregional beverages exports subject to the removal of frictions. Key exporters in terms of current untapped potential include UAE, Egypt, Lebanon and Saudi Arabia. The UAE accounts for 24% of intraregional beverage exports but holds 51% of the current untapped intraregional potential in this sector. This disproportionate export growth potential partially may be driven by the country’s role as a regional trade hub which boosts its potential to trade many products. Key products include mixtures of fruit and vegetable juices and water. The top ten regional exporter and importer combinations account for 58% of the total current intraregional untapped potential in this sector.

Figure 20 Top 10 exporter-market combinations with current untapped potential in beverages



**Note:** The figure shows exporters in the inner circle with respective key importing markets in the outer circle.  
**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

In the beverages sector 34 NTMs have been reported as burdensome by exporters from Egypt, Tunisia and Jordan. Most problematic NTMs in this sector were encountered in the Libyan (12) and Algerian (9) markets. The combined import potential for these two markets exceeds \$7 million. Unlocking the current untapped potential hinges on addressing a few key recurring measures. The predominant concerns raised by intraregional exporters of beverages included challenges with the number of tests required for conformity assessment, differing technical regulations

*“The Sudanese standards for imported beverages are very strict. The remaining shelf life of the imported products should not exceed quarter the total shelf life of the product.”*

*Egyptian beverage exporter*

regarding product shelf-life, difficulties related to certificates of origin, as well as heterogeneous labelling requirements.

*Testing and conformity assessment procedures prove burdensome for regional exporters.*

According to the interviewed exporters, testing and product conformity assessment represented 14 of the 34 burdensome NTMs reported in this sector. For instance, exporters to Libya, Morocco, and Algeria expressed concerns over the quantity of tests required for their products in the conformity assessment procedures. Several exporters also expressed frustration with the challenges related to obtaining and the recognition of certificates of conformity.

Obtaining certificates of origin causes significant hurdles for intraregional exporters of beverages. Tunisian firms reported too stringent requirements for receiving certificates of origin when exporting their products to Morocco, Libya, and Algeria. The recognition of certificates by border authorities posed an additional challenge.

*Differences in labelling requirements pose challenges to beverage exporters.*

LAS members require different types of information on product labels, making it difficult for producers to make universal labels valid for all regional markets. For instance, Tunisian exporters to the Algerian market noted the special requirement to include the importing companies' names on the product label. These differences create additional costs and time delays for companies who find it difficult to customize their packaging for the specific needs of every market.

### Other agro-food sectors

The sugar and dairy sectors have considerable current untapped potential for intraregional exports as well, yet regional exporters reported only 18 burdensome NTMs through ITC surveys. Other factors, such as import bans, may explain the gap between potential and actual exports in the sugar sector. Since the ITC business surveys on NTMs enquire in the face-to-face stage only about existing exports, trade relationships that are wiped out through bans are not covered albeit having a potential. In the dairy sector, the few NTM reports reveal that testing requirements and product certification are problematic factors for Egyptian exporters who hold with 37.5% the greatest share of the sector's intraregional trade potential that is currently underutilized due to frictions. In particular, Egyptian cheese exporters to Jordan noted the re-testing done by customs authorities despite having presented the required conformity certificates from Jordan. Egyptian cheese exporters to the Saudi Arabian market expressed difficulties regarding the stringency of the conformity standards that exceed those of other countries in the region.

## SUMMARY AND RECOMMENDATIONS

This paper sought to take stock of regional integration among Arab States and to identify opportunities for strengthening intraregional trade. It suggests two ways of achieving that objective: first, countries can tap into currently unexplored trade opportunities by addressing relevant market frictions that are hindering greater intraregional trade. Second, they can aim to enhance the complementarity of regional exports and imports by strategically diversifying into products for which regional suppliers fall short of meeting demand.

We employed the ITC export potential and diversification methodology to compare unused trade potential across sectors, to reflect the shares of intraregional potential associated with market frictions, as well as to identify diversification opportunities for targeted efforts to increase complementarity of regional export and import patterns. By combining business perspectives on problematic NTMs and export potential analysis in selected sectors, the paper has identified priorities for regulatory and export procedure harmonization to ensure that efforts are allocated to those sectors that promise the largest impact on regional integration. The key findings and messages from this work are as follows:

*Despite efforts towards lowering tariffs through GAFTA and other agreements, regional integration remains moderate and uneven throughout the region.*

Average tariffs across LAS members have dropped to virtually zero, yet intraregional exports as a share of total exports remain at 33%, less than half of the level of Europe. Intraregional imports account only for 12% of total imports, less than a fourth of the intraregional import shares found in most other regions. Levels of integration, however, vary considerably across countries and sectors. The shares of intraregional exports by country range from 1% in Mauritania to 72% in Libya, and stand at 54% in agriculture and at 31% in manufacturing.

*The limitations in complementarity between regional exports and imports as well as the presence of market frictions hindering trade diminish progress towards greater integration in the LAS region.*

There is a mismatch between exports and imports due to the many predominantly oil-based export profiles in the region, relative to the high shares of imports in machinery, vehicles and other manufactured products. Given that the agro-food sector only accounts for 4% of the region's total exports, the overwhelming share of food imports comes from outside the region, financed by oil revenues. But even at the currently moderate level of complementarity, intraregional trade opportunities are far from being exhausted: after Africa, the Arab region holds the highest share of unrealized intraregional trade opportunities across all world regions, explained to a lower extent by growth effects. Market frictions and other factors leading to a suboptimal allocation of exports are estimated to impede intra-LAS trade worth \$12 billion.

*Better leveraging existing complementarities requires policies aimed at addressing market frictions, including NTMs, as well as an expansion of production capacities.*

Part of the intra-LAS untapped potential depends on growth in supply and demand within the region, while another part is hindered by market frictions including NTMs, price and quality mismatches or a simple lack of market intelligence. Taking advantage of these opportunities for additional intraregional exports requires an expansion of production capacities that would allow leveraging the economic growth forecasts as well as targeted and coordinated efforts to harmonize regulations and procedures in intraregional trade.

*The plastic and rubber and the fruit sector have the highest levels of dynamic untapped potential making over \$3.7 billion of additional exports possible, should it be possible to build supply capacities to leverage the growth-dependent potential.*

The region holds over \$3.7 billion of dynamic untapped potential in plastics and rubber and fruit sectors alone, which are likely to be realized in the next five years if supply capacities can be augmented and demand continues to grow in line with forecasts. Exporters can continue to invest in supply capacities in these and other sectors to reap a total of \$16 billion in growth-dependent untapped export potential across regional markets.



*Addressing market frictions to unlock current potential can provide substantial gains in intraregional exports. More than \$4 billion of additional intraregional exports could be possible if NTMs and other relevant market frictions in eight key sectors were resolved.*

Focusing on sectors with significant current untapped potential and a high prevalence of NTMs and working specifically with key export countries and import markets across these sectors can help maximize the impacts of regulatory and procedural harmonization in the region. The agro-food sectors with the highest unrealized potential for regional trade independent of growth effects are sugar, dairy products, live animals and other food products. In the ITC business survey on NTMs, exporters reported most difficulties in the other food products, fruits, vegetable oils and fats, and non-alcoholic beverage sectors. Realizing the potential in these sectors would give rise to \$1.2 billion additional exports. Across manufacturing sectors, friction-based potential is greatest in machinery, plastics and rubber, ferrous metals and other metals. In addition to machinery and plastics and rubber, many NTMs were reported as problematic in the minerals sectors. The apparel sector has a relatively high number of intraregional NTMs and holds a current untapped potential of \$467 million. In these four manufacturing sectors, additional exports worth \$2.8 billion would be possible, should frictions be overcome.

*In agricultural sectors, issues related to product conformity are a key constraint.*

To leverage the current untapped export potential in key agricultural sectors, non-tariff measures related to TBT and SPS regulations and specifically product standards, quality, and conformity assessments will need to be resolved. Regional exporters voiced concerns over the heterogeneity of requirements, including for product labelling, and testing procedures. These factors increase trade costs and create uncertainty for regional exporters, making it more difficult for them to make use of the abundant intraregional potential. A previous ITC study<sup>17</sup> already suggested the implementation of a regional standard-setting mechanism to harmonize and develop regional Arab standards as well as technical requirements. This could significantly alleviate the concerns expressed by exporters across key agricultural sectors and help unlock the remaining potential for intraregional trade.

*In key manufacturing sectors, exporters reported a high incidence of problems related to the recognition of rules of origin and as well as the heterogeneity of labelling requirements.*

Making use of current untapped potential in machinery, plastics and rubber, minerals and apparel will hinge on resolving the prevalent issues related to rules of origin and their certification. Across manufacturing sectors, 40% of reported NTMs concern complex rules of origin or difficulties in obtaining the certificate of origin or having it recognized. This indicates how hard it can be for firms to benefit from the preferential tariffs agreed under GAFTA and the other regional or bilateral FTAs, especially in manufacturing where cross-country value chains can make it difficult to provide proof of origin of diverse components. Persistent failures to grant preferential treatment, language issues, and inefficiency in issuing certificates of origin create an environment of uncertainty for regional exporters. In addition, the manufacturing sector suffers from a considerable heterogeneity in labelling requirements in the region with regards to language, details required or permitted on the labels, as well as the nature of materials used within the labels.

*Targeted diversification efforts could enhance regional trade complementarity. Diversification opportunities that could boost regional integration comprise motor vehicles, apparel, jewellery, meat products, and vegetable oils.*

Diversification will be particularly important in those sectors where regional integration is relatively weak and where current LAS suppliers do not have enough untapped export potential to significantly strengthen it. In the agro-food sector, diversification into meat and vegetable oils could offer promising opportunities across several LAS countries that would also enhance the complementarity of regional trade. In manufacturing, the motor vehicles, apparel and jewellery sectors offer many options to enlarge LAS countries' export baskets in line with regional demand. Building up a stronger and more diversified motor vehicles sector to serve regional markets could be an interesting option for Saudi Arabia and Tunisia.

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<sup>17</sup> ITC (2015): Making Regional Integration Work – Company Perspectives on Non-Tariff Measures in Arab States, <http://www.intracen.org/publication/Working-towards-regional-integration---Company-perspectives-on-non-tariff-measures-in-Arab-States/>.

*Deeper integration requires a coherent enabling environment and efforts towards making trade more transparent and predictable across all sectors and regional partners.*

Removing tariffs is insufficient to create the enabling environment needed for stronger integration. The ITC business surveys on NTMs and related publications have elaborated a number of recommendations to facilitate intraregional trade. In light of the significant remaining potential for intraregional exports, these recommendations retain their validity:

First, the standardization of certificates of origin, and an agreement on accumulation of local content could address confusions resulting from overlapping trade agreements with differing rules of origin and certification requirements. This could create certainty along the export process especially in the machinery and mineral sectors where these issues accounted for roughly half of all reported burdensome NTMs. While not all frictions in these sectors are NTM-related, it is important to note that together, machinery and non-oil mineral products hold a current potential for intraregional exports worth \$1.4 billion that is yet to be tapped.

Second, the implementation of a regional standard-setting mechanism to harmonize standards and technical requirements and develop regional Arab standards could alleviate the concerns expressed by exporters across key manufacturing and agricultural sectors. This is particularly relevant in the other food products sector, where 52 of 116 NTMs relate to difficulties with standards, testing and conformity assessment. In light of the \$484 million additional intraregional exports that the food sector promises subject to the removal of frictions, action to address these issues could indeed be important for strengthening intraregional trade. Across manufacturing sectors, issues related to the heterogeneity of product regulations and standards were particularly prevalent in the plastics and rubber sector (\$901 million in current untapped potential), accounting for over 30% of reported NTMs in this sector.

Third, the creation of a standardized 'Arab label' in Arabic, French, and English could reduce the costs of label customization and facilitate intraregional trade, especially in other food products, fruits, vegetable oils and fats, metal products, and minerals, where exporters expressed difficulties with the heterogeneity of labelling requirements in terms of language, informational content and even permitted materials to produce the labels.

Finally, to prioritize action in countries and sectors where the greatest benefits can be achieved, reliable trade and market access information is key. Regional exporters across all sectors covered in the NTM business surveys noted the difficulties in finding relevant regulatory and procedural information for target markets within the region. The ITC Euromed Trade Helpdesk provides relevant trade, market and procedural information and effectively links institutions in the Mediterranean countries of the region to solve recurrent issues in export and import processes. A similar portal covering the entire LAS region could help unlocking the intraregional trade potential by targeting problem-solving efforts towards those sectors and partners that promise most growth.

## APPENDIX

Figure A Trade balance by country and by product group

Country	Agro-food products			Manufacturing products			ITC excluded products		
	Exports (\$ million)	Imports (\$ million)	TBI	Exports (\$ million)	Imports (\$ million)	TBI	Exports (\$ million)	Imports (\$ million)	TBI
Algeria	347	8,362	-0.92	620	36,512	-0.97	38,406	3,765	0.82
Bahrain	444	1,418	-0.52	5,096	9,054	-0.28	4,693	2,608	0.29
Comoros	49	117	-0.41	16	229	-0.87	7	36	-0.69
Djibouti	55	903	-0.88	40	3,181	-0.98	47	246	-0.68
Egypt	4,861	11,630	-0.41	15,058	43,774	-0.49	6,434	12,688	-0.33
Iraq	143	9,087	-0.97	1,827	35,395	-0.90	62,581	3,655	0.89
Jordan	1,024	3,486	-0.55	5,177	13,093	-0.43	1,323	3,331	-0.43
Kuwait	417	4,185	-0.82	4,986	24,767	-0.66	57,265	1,682	0.94
Lebanon	760	2,984	-0.59	2,185	12,027	-0.69	346	4,113	-0.84
Libya	36	3,069	-0.98	2,017	7,471	-0.57	14,908	2,011	0.76
Mauritania	802	799	0.00	426	1,866	-0.63	1,123	294	0.58
Morocco	5,225	4,342	0.09	16,435	28,027	-0.26	3,465	7,692	-0.38
Oman	1,192	3,116	-0.45	6,252	20,668	-0.54	21,549	4,899	0.63
State of Palestine	95	285	-0.50	162	587	-0.57	31	56	-0.29
Qatar	38	2,671	-0.97	8,119	23,205	-0.48	69,285	4,287	0.88
Saudi Arabia	3,574	18,480	-0.68	44,456	111,359	-0.43	90,763	9,713	0.81
Somalia	509	1,363	-0.46	75	1,243	-0.89	18	188	-0.83
Sudan	1,559	1,897	-0.10	1,972	5,955	-0.50	1,036	306	0.54
Syria	503	1,669	-0.54	336	3,602	-0.83	55	617	-0.84
Tunisia	1,455	1,980	-0.15	11,474	14,696	-0.12	1,723	3,547	-0.35
UAE	6,488	16,094	-0.43	104,339	194,702	-0.30	59,346	19,935	0.50
Yemen	254	2,794	-0.83	270	4,322	-0.88	2,489	1,662	0.20

**Note:** the trade balance indicator (TBI) is calculated as  $(x_{ik} - m_{ik}) / (x_i + m_i)$ . Oil is part of ITC excluded products.

**Source:** ITC staff calculations based on the ITC export potential and diversification assessment methodology.

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International  
Trade  
Centre

**Street address:** ITC,  
54-56, rue de Montbrillant,  
1202 Geneva, Switzerland

**Postal address:** ITC,  
Palais des Nations,  
1211 Geneva 10, Switzerland

**Telephone:** +41-22 730 0111  
**Fax:** +41-22 733 4439  
**E-mail:** [itcreg@intracen.org](mailto:itcreg@intracen.org)  
**Internet:** [www.intracen.org](http://www.intracen.org)

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**Street address:** U.S. Agency for International  
Development (USAID)  
Ronald Reagan Building  
Washington, D.C. 20523-1000