

# Policy Perspective

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## THE IMPACT OF NON TARIFF MEASURES THE EXPERIENCE OF MENA COUNTRIES

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*This policy perspective examines why the role of NTMs in explaining trade performance has been devoted increased attention among economists. It argues that this increased attention has been associated with several phenomena including the overall reduction of tariff levels due to the multilateral pressures; unilateral liberalization initiatives of both developed and developing countries; the rising importance of “deep integration” as a necessary element for the success of the proliferating preferential trade agreements (PTAs); as well as the widening scope (in terms of types and numbers) of NTMs in terms of affecting different types of trade.*

### **I**ntroductory Remarks

The role on NTMs in explaining trade performance has been devoted increased attention among economists. Reasons behind this increased attention have been associated with several phenomena including the overall reduction of tariff levels due to the multilateral

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pressures; unilateral liberalization initiatives of both developed and developing countries; the rising importance of “deep integration” as a necessary element for the success of the proliferating preferential trade agreements (PTAs); as well as the widening scope (in terms of types and numbers) of NTMs in terms of affecting different types of trade.

MENA Arab countries have been experiencing several changes in their trade relations over the last ten years with several of them joining the World Trade Organization (WTO) (Oman: 2000, Jordan: 2000, Saudi Arabia: 2005) or are in the process of accession (Yemen, Syria, Libya, Iraq); joining several PTAs (among them or with other trading partners as the US and EU as well as other trading partners); and their exports being subject to NTMs or using them against other trading partners. Hence, the issue of NTMs has become a central aspect where the functioning of the MENA Arab countries’ trade agreements is likely to be highly affected by the presence of such NTMs and whether they act as NTBs or not. The literature review identified that there could be a large number of NTMs, yet not all of them can be considered NTBs. For example, there exists specific requirements related to technical barriers (TBT) in the countries studied, however they do not necessarily hinder trade and act as a burden for traders. Yet the burden on traders is most often revealed in sanitary

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and phyto-sanitary (SPS) measures, as shown in the literature review.

Based on an extensive literature review it was found that NTMs still prevail evidently among MENA Arab countries and negatively affect intraregional trade. The extent of shallowness of intraregional trade among MENA Arab countries is in sharp contrast with the deep PTAs signed between MENA Arab countries and developed countries as EU and US. In the case of the former, it seems that NTMs are intentionally used as NTBs, and especially in regards to SPS measures. This is not the case of deep PTAs where NTMs exist but are not abused as it is the case of shallow PTAs. Moreover, NTMs and NTBs are more evident in specific sectors as processed food, agricultural and agro-industrial products. Areas of standards (TBT) and SPS regulations and related procedures represent the most problematic NTMs, and there is an urgent need for Arab countries to tackle such NTMs.

### NTMs in MENA Countries and their Impact on Trade

The performance of the Arab passengers' airlines in Using the methodology developed by Kee et al. (2009) applied to the new World Bank database on NTMs in selected MENA countries (Augier and Péridy, 2010), this research paper calculates the ad valorem equivalent (AVE) of NTMs in terms of tar-

iffs. Results show that the AVEs are equal to 34% in Tunisia, 37% in Morocco, 39% in Egypt and 49% in Lebanon. Consequently, NTMs correspond to a high level of protection. Indeed, although these countries have progressively reduced their tariff levels, both in multilateral negotiations (especially since the Uruguay Round) and in the framework of PTAs (EU Association Agreements, PAFTA and other PTAs), it is shown that the overall protection level is much more significant than that which is recorded for tariff protection only. As a matter of fact, adding tariffs to NTBs in AVEs, the level of protection increased to 45% in Morocco, 48% in Egypt, 52% in Lebanon and 56% in Tunisia.

Concerning AVEs related to services, there is a lack of data corresponding to NTMs. In order to overcome this problem, the methodology selected is based on Fontagné et al. (2009) following the initial development in Park (2002). Basically, it relies on the estimation of the fixed effects coefficient in gravity models. Results show that AVE for services is equal to 46% in MENA countries. This is above the whole country sample average of 40% (which includes the EU, the USA and Japan). This is also close to the AVE calculated for goods. This means that the protection for goods due to NTBs is similar to that for services. There are however significant differences across countries. As a matter of fact, some Mashrek countries (Jordan, Lebanon and Syria) taken as a single country, exhibit the smallest AVE (23.5%). Egypt and Tunisia also show below average AVE, respectively 35% and 39%. On the other hand, Morocco, other Maghreb countries (Algeria and Libya) and Turkey show above average AVEs, respectively, 50%, 58% and 73%.

There are also significant differences across service categories. In the full country sample, the categories which show the lowest AVEs are goods, transport (except maritime transport), business, communication and other services. On the other hand, electricity, gas, water, finance, insurance, and sea transport exhibit the highest AVEs. MENA Arab countries generally follow this ranking with the following specificities: AVEs are much greater than the whole country sample average for business, communication, trade, sea transports and finance whereas they are well below average for gas only.

Using the new gravity model approach (Anderson and van Wincoop, 2003), it was possible to estimate the trade impact of NTMs. Results show that NTMs are generally significantly trade reducing in all MENA countries, especially for the most important NTMs (SPS, Pre-shipment, price control, quantitative restrictions, and export related measures). One exception is TBTs which are frequently applied in MENA countries but not always significantly trade-reducing, especially in Morocco and Tunisia. In other words TBT are NTMs that do not necessarily act as NTBs.

A comparison across countries shows that Egypt generally shows the greatest trade effects (in terms of parameter estimates), especially for pre-shipment inspection, quantitative restrictions and charges, taxes and para-tariff measures. Lebanon shows the greatest effects for SPS measures. This remark applies as well to Syria for TBTs.

In terms of product categories, NTMs have a negative impact on trade for key product categories. This mainly concerns Machinery and Electrical, Stone, Glass and Metal and chemical products. Some other import products are also negatively affected by NTMs but in a limited number of countries. This concerns first agriculture for Morocco and Tunisia. In this regard, it must be observed that these two countries concentrate most of their NTMs in his sector, i.e. 42% and 44% respectively. Secondly, leather and wood are also negatively impacted by NTMs for Egypt and Tunisia. Finally, textile and wearing exhibit negative effect for Morocco and Syria only. On the other hand, foodstuffs, mineral products and transportation imports do not seem to be harmed by NTMs. These products are generally not concerned by a lot of NTMs in MENA countries, except foodstuffs in Morocco and Tunisia.

With regard to services, it is shown that the countries with the highest AVEs also show the greatest negative trade impact (Turkey, Morocco and other Maghreb countries), whereas the countries with the lowest AVEs (Egypt and other Mashrek countries) exhibit the smallest negative trade impact.

A breakdown by service categories shows that the most liberalized categories are goods, business services, air transport and other transports, communica-

tion and business services. This finding is consistent with the results found previously, which suggested that these sectors exhibited the lowest AVE. On the other hand, gas, electricity, water, finance, insurance, and public services are the service sectors with the highest AVE and thus the most negative trade impact.

## Policy Implications

The policy implications of these results are the following. First, if the objective of the governments in MENA countries is to further integrate into the world economy so as to grasp additional trade gains, then these governments must think of progressing toward reduction in NTBs. Not all NTBs must necessarily been reduced or removed, but the ones which are particular trade-reducing must be paid particular attention. In addition, the governments should also progress toward either mutual recognition, especially concerning technical standard, or the adoption of international standards, e.g. EU standards. Eventually, further progress toward NTM liberalization should make it possible to increase firm's competitiveness since the firms will be more exposed to international competition.

In any case, to overcome the negative role of NTBs, the nature of governmental action needed differs where in some cases technical and financial assistance is highly needed to strengthen the capacity of Arab countries as in the area of standards and SPS measures to upgrade the level of conformity assessment procedures and infrastructure, whereas in other areas the political will is highly needed, and in other areas it is a matter of changing related rules and regulations and rightly enforcing them. This will enable mutual recognition agreements (MRAs) to be concluded and hence will enhance the market access of MENA Arab countries products to each other markets. MENA Arab countries should also establish some monitoring mechanisms for NTMs affecting their intra-regional trade.

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