Ex-Post Evaluation of Lebanon's Free Trade Agreements

The Cases of the FTA with the European Union and PAFTA with the Arab Countries

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Introduction

Compared with many Arab countries, Lebanon has traditionally had a relatively open trade regime. Efforts towards trade liberalization have focused on the European Union (EU) and the Arab world. The free trade agreement (FTA) with the European Union came into force in April 2006, and was gradually implemented over the period 2008-2014. It provides for reciprocal free trade on most industrial goods, and liberalizes trade on a wide range of raw and processed agricultural goods. In parallel with the FTA with the European Union, Lebanon signed an FTA with the European Free Trade Association (EFTA) in 2004, and an association agreement with Turkey in 2010, to establish a free trade area over the subsequent ten years. The agreement has not yet been ratified. These two agreements, with the EFTA and Turkey, were meant to be aligned with European Union trade policy, which is linked to the members of the EFTA and Turkey through a Customs Union. Lebanon also signed the Greater Arab Free Trade Agreement (GAFTA) with 17 Arab countries.

At a time when Lebanon is being invited to take part in the second phase of deepening the Euro-Med Partnership, national policy makers and private operators are looking at the country's experience, with regard to the agreement with the European Union implemented since 2006, as a learning phase before embarking on effective negotiations to expand the FTA to a Deep and Comprehensive FTA (DCFTA). The DCFTA represents the new wave of partnership initiated by the European Union with most of its partners in the Euro-Med partnership. The DCFTA will be a comprehensive agreement on trade and economic relations, covering a full range of regulatory areas, such as trade facilitation, technical barriers to trade, sanitary and phytosanitary measures, investment protection, public procurement and competition policy. Its main objective will be the progressive integration of the Lebanese economy into the European Union single market. This constitutes a unique opportunity to further open up Lebanon and make it more competitive in global markets. The ultimate objective is for Lebanon to strategically use its preferential partners to break into global markets, particularly in a context where production increasingly takes place in global value chains. However, since its inception, many European observers and analysts have regarded free trade with developing countries like Egypt, Jordan, Lebanon, Morocco, and Tunisia, as a dangerous instrument that boosts the re-allocation of investments from Europe to these countries, despite the fact that the latter already enjoyed free access to European markets for most of their manufacturing exports. They envision European jobs being lost in a flood of goods from countries with an average wage ranging from less than one-tenth to half that of most European countries (mainly France, Germany, and Italy). Others see the Euro-Mediterranean Partnership (EMP) as a boon to European employment and living standards, through greater trade and investment opportunities. For Arab countries, these agreements provide, for the first time, reciprocal treatment of European exports to their markets, which are considered serious competitors for their domestic manufacturing industries, and may contribute to increased unemployment.

Today, the need to strengthen the economic performance of Arab countries has become essential, especially in the aftermath of political upheavals and civil conflicts in the region. In essence, efforts not only to come up with a well-structured agenda of agreements, but also to implement those agreements, could benefit the Arab region on various economic, social, and political levels. In fact, as most national economies progressively move away from import substitution policies to more open regimes, regional integration arrangements have become increasingly important. Regional Integration Agreements (RIAs) not only serve the purpose of gaining market access and ensuring a level playing field, but also constitute important vehicles for achieving other objectives, which notably include strengthening regional cooperation and coordination and locking in domestic reforms. Various theoretical and practical arguments have been put forward in the literature in favor of regional economic integration. According to Baldwin and Venables,[1] three categories of economic effects are generated by RIAs: (a) static allocation of resources; (b) accumulation of productive factors; and (c) spatial allocation of resources.

[1] Baldwin and Venables, 1995.

Regional Arab economic integration is more than just a desirable plan for growth and development. In fact, it has become a necessity for Arab economies to maintain a presence among other world economies. According to a recent ESCWA report,[2] statistics reveal that growth rates in the Arab region have been sluggish over the past few decades. The report also indicates that the Arab region "remains poorly integrated into the global economy, apart from the oil sector". Sincere plans for regional integration could therefore help increase the level of participation of the Arab world in the global economy by enhancing its competitive power. Certainly, competitive power is better achieved when tasks are divided efficiently among countries, with each holding expertise in a specific field, rather than having each country competing on an individual basis at all marketing and production levels. In other words, specialization in production improves efficiency and empowers Arab countries to compete with the rest of the world.

Benefits from regional economic integration would accrue to both high and low-income countries. While rich Arab countries would benefit from lower costs of production and tariffs, poorer countries would diversify their production base and decrease their unemployment rates. In a nutshell, strengthening intra-Arab co-operation would help boost the region's competitiveness and thus encourage foreign investments in local Arab economies. This would greatly help nurture various economic sectors, especially the service sector, which perfectly fits the requirements of the Arab region. More subtly, for many of the poorer Arab countries, the service sector ultimately works better than the trade sector in terms of enriching the economy. Indeed, those investments help create jobs, transfer technology and expertise, and improve equilibrium in the balance of payments for poor countries.

In order to evaluate the *ex-post* implications of the FTAs with the European Union and with Arab countries, it is important to highlight the specific nature of the two agreements and their importance for Lebanon. These FTAs are based on the EMP and the Arab Trade Facilitation Agreement. The FTA with the European Union is a different kind of partnership agreement, as compared with the kind that prevailed within the European Union, and favored the free movement of workers and capital from wealthier countries to the least-advanced nations so as to reduce economic disparities between members. As such, since its effective implementation in 1995, the Euro-Med Partnership has been one of the most debated trade agreements. Conflicting expectations for the Arab countries involved in the Euro-Med Partnership have widely been subject to speculation, as a result of assessments of other trade agreements or of projections generated by simulation models. But since the Free Trade component between the European Union and Lebanon has been fully in operation since 2014, the question is not what this FTA is likely to deliver, but what it has delivered already.

Typically, the debate over FTAs across the world has focused on jobs. However, to really understand the effects of FTAs on employment or living standards, it is important to first answer the most fundamental question: what effect it has had on trade. Changes in trade patterns, caused by a lowering or complete removal of trade barriers, are ultimately the mechanism by which jobs and living standards are affected, through changes in production, specialization and diversification, productivity, investment, etc. This paper examines how the FTAs with the European Union and with Arab countries have affected the Lebanese economy, based on an assessment of what did and did not work for Lebanon. In addition, this paper contributes to the active debate over how to approach current and upcoming negotiations on the DCFTA and the Arab Customs Union (ACU).

This paper is organized as follows. The next section provides some basic background on the in-force FTAs signed by Lebanon, with a special focus on the agreements with the European Union and with Arab countries. The third section presents and discusses the major outcomes of the FTAs with both partners from an *ex-post* perspective. The fourth section analyzes the shortcomings of these FTAs. The last section includes an evaluation of the success of the two FTAs and discusses the way forward.

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[2] E/ESCWA/EDID/2017/6.

I. THE PROVISIONS OF THE TWO AGREEMENTS

A. THE FTA WITH THE EUROPEAN UNION

Except for Libya and the Syrian Arab Republic, all Arab countries that are involved in the Euro-Mediterranean process have signed an FTA with the European Union (table 1). The process involved Algeria, Egypt, Jordan, Lebanon, Morocco, the State of Palestine, and Tunisia.

On the whole, all the FTAs signed by the European Union with Arab partners display the same structure, and include three main parts. The first concerns political and security cooperation, the second deals with trade operations among partners, and the third with economic and cultural cooperation. The latter part of the Euro-Med Partnership between the Arab countries involved and the European Union is dominated by general declarations of principles, and does not include clear commitments. The trade component defines the modalities of trade liberalization between the partners, through a mechanism of gradual tariff dismantlement schemes associated with numerous products. Generally, under these FTAs, the European Union maintains the existing preferences accorded to its Arab partners' exports of manufactured products, with specific treatment of agricultural trade for each country. At the same time, the Arab countries involved in the partnership process commit themselves to eliminating all existing barriers to market access for most non-agricultural products imported from European Union countries. Some Arab countries have gone beyond core product coverage, to the partial liberalization of agricultural imports from the European Union. On a practical level, all the Arab countries involved have chosen to implement tariff dismantlement in a gradual manner over a maximum transition period of 12 years.

Depending on the specific level of sensitivity to European competition, the Arab countries involved have organized their imports into various categories. In the case of Lebanon, under the previous trade and cooperation agreements in effect since 1976, almost all Lebanese industrial exports had free access to European Union markets. The FTA with the European Union stipulates that all Lebanese industrial products entering the European Union should be allowed in free of customs duties and charges having equivalent effect (annex I, table annex I.2), and that customs duties and charges having equivalent effect on imports into Lebanon of products originating in the European Union should be progressively eliminated, in accordance with the schedule adopted, with periods ranging from 5 to 12 years after the entry into force of the agreement (annex I, table annex I.2). Quantitative restrictions and tariffs on numerous items, mainly equipment goods, are eliminated immediately upon the agreement's entry into force. However, the gradual implementation of the agreement was later revised, and tariff dismantling was implemented during the period 2008-2014.

The provisions concerning agricultural products do not stipulate the full liberalization of trade in agricultural, fisheries and processed agricultural products, but aim to strengthen the relationship in the future. Under the agreement, all tariffs and quotas on Lebanese agricultural products entering the European Union should be eliminated immediately upon its entry into force. However, several exceptions, listed in Protocol 1 of the FTA, do not fall within the scope of the agreement. Such exceptions include mostly vegetables, fruits, nuts and wine from fresh grapes. Meanwhile, Lebanon commits to completely removing duties on some agricultural and processed agricultural products, and to cut tariffs on others. Tariff cuts range from 20-50 per cent reductions in customs duties (annex I, table annex I.3).

Since 2012, the European Union has been ranked the top trading partner for Lebanon, covering 36.4 per cent of the country's total trade in 2017. Trade provisions in the agreement not only confirm that free trade in manufactured goods was already taking place, but also seek to reinforce it through dialogue in several related areas. Notably, these include provisions for the freedom of establishment, free movement of capital, trade facilitation and the approximation of legislation (annex I). The FTA also covers the liberalization of services, the right of establishment, and an effective protection of commercial and intellectual property rights (annex I). In addition, it goes well beyond the previous cooperation framework, and calls for the comprehensive harmonization of the regulatory framework, with plans to phase out any practices that might disrupt trade between the two parties. This includes monopolies, government subsidies, and privileges granted to public enterprises. The agreement strengthens economic and financial cooperation, particularly in support of industries that have faced difficulties in adjusting to trade liberalization, and with the aim to enhance environmental protections. It also calls for the harmonization of standards and norms (in telecommunications, transport, etc.), as well as rules and regulations concerning accounting and financial services, customs, and statistics.[3] Regarding trade in services, there are no specific provisions (annex I, table annex I.5). In fact, European Union offers under the FTA usually go hand in hand with multilateral commitments made under the General Agreement on Trade in Services (GATS). With the non-conclusion of the Doha Round, the DCFTA initiative represents a second chance to boost bilateral cooperation between the European Union and Lebanon, through the inclusion of all agricultural products and services.

B. The PAFTA

On 3 June 1957, the League of Arab States[4] signed the Arab Economic Unity Agreement, which sought to achieve economic advancement and gains for its member States. The agreement included in its terms the following items: regulations on tariff reduction; intra-Arab facilitation of capital and labor mobility; unification of economic legislations on Arab trade, agriculture and service sectors, as well as ownership rights; coordination of foreign trade policies; and promotion of foreign investments internally (annex II). Beginning on 1 January 1998, tariff rates, fees, and taxes began to be reduced at an annual rate of 10 per cent. Certain products were exempted from the execution program of GAFTA, being forbidden for religious, environmental, security, and health reasons. As of 1 January 2005, the agreement reached full trade liberalization of goods, through the full exemption of customs duties and charges having equivalent effect, among all GAFTA member countries.

However, this agreement remained unimplemented to a large extent, mainly because achieving regional economic integration would have had to be preceded by adjustments undergone on a smaller scale in the member States.

Upon realizing that the Arab Economic Unity Agreement did not succeed in building coherent foundations for achieving regional economic integration, Arab countries renewed their efforts at the Eleventh Arab League Summit Conference, held in Jordan. Specifically, in 1980, they signed another economic unity agreement known as the “Unified Agreement for the Investment of Arab Capital in the Arab States”. This agreement, similar in nature to the Arab Economic Unity Agreement that preceded it, asserted the need to reduce the Arab development gap not only with the rest of the world, but also between Arab countries. Its major focus was facilitating labor transition within the Arab world, as well as creating incentives and benefits for highly qualified Arab nationals to stay in their home countries or return to the region. Concerning international relations, the agreement emphasized the importance of having economic investments directed towards serving internal regional issues, such as the Palestinian cause. Uniting the Arab world against foreign greed, achieving greater self-reliance, and eliminating colonialism, poverty and intellectual invasion, were also at the core of its program.

Again, apart from minor efforts undertaken to ease the mobility of capital, services and labor, and to facilitate intra-Arab investments in the region, sadly, many of this agreement’s items remained mere proposals that were never put into effect. Subsequent attempts were made after the 1980 agreement, with the aim of implementing the regional economic integration plan. Thus, in 1981, the League of Arab States signed the “Agreement to Facilitate and Develop Trade among Arab States”. However, past causes of failure were left un-addressed and thus the agreement faced obstacles with regard to trade facilitation that hindered it from achieving any meaningful progress. Despite the establishment of the Arab Investment Court in 1985, which

[3] Chemingui and Bchir, 2012.

[4] The League of Arab States was founded in March 1945 and includes 22 member countries.

was mandated to oversee the items stipulated in the 1980 agreement, the committee formed by the court lacked a well-structured roadmap for action and did not manage to integrate the region successfully.

It is worth noting that evidence from other integrated regions around the world – such as the European Union, ASEAN and NAFTA – suggests that achieving effective economic integration is a gradual process that needs to go through successive stages and is not immediately attainable.[5] Such stages involve internal as well as intra-regional changes and commitments for each of the member States. They also confirm that successful integration does not require public declarations as much as it requires a coherent and organized set of gradual steps towards achieving it. Taking this into consideration, a new perspective for uniting the Arab region was adopted in 1997, mainly focused on establishing the Pan Arab Free Trade Area (PAFTA). Negotiations conducted by the League of Arab States led to the decision that the agreement should be put into force in gradual steps, and that each step should be thoroughly implemented before proceeding to further steps, in the process of achieving economic integration.

The PAFTA agreement, as declared by fourteen Arab countries in 1997, was among the most important agreements proposed for the Arab World, as it constituted the very first step towards integrating the region. By 2006, eighteen out of twenty-two countries in the League of Arab States had signed the PAFTA agreement.[6] The main concern of this agreement was to lift tariff and non-tariff barriers on intra-Arab trade, by means of a yearly reduction of around 10 per cent of tariffs on goods, by 2007. In January 2005, earlier than the scheduled timing, tariff removal was fully put into force, while Non-Tariff Barriers (NTBs) remained unaddressed to a certain extent. In this context, the PAFTA agreement exempted less developed member countries, such as the State of Palestine, the Sudan and Yemen, from bearing the burdens of customs duties. It also extended their gradual tariff reduction on imports until 2012 rather than 2007.

PAFTA members were required to share trade data with each other for transparency purposes; and valid documentation and records on existing transactions were to be clearly provided to the Economic and Social Council. The latter, in turn, insured that the terms of the agreement were being fulfilled, and that member States were honoring their commitments. In addition, the council was responsible for solving trade disputes among Arab countries.

The liberalization of the service sector among member States was also considered, within the context of implementation, in the PAFTA agreement. However, negotiations on trade in services between Arab countries did not achieve any tangible results, not until late 2015. The reasons for this delay are connected to the wide variations in service sector liberalization among PAFTA members.

Despite the fact that the implementation of the PAFTA agreement faced a range of obstacles, it is worth noting that it did succeed in reaching several desirable goals, which will be discussed throughout the paper.

[5] ASEAN refers to the Association of South-East Asian Nations. ASEAN was founded in 1967 and includes 10 South-East Asian member countries. NAFTA refers to the North American Free Trade Agreement signed in 1994 between Canada, Mexico and the United States.

[6] The Comoros, Djibouti, Mauritania and Somalia did not sign the agreement.

II. LESSONS FROM THE *EX-ANTE* ASSESSMENTS OF THE IMPACT OF THE FTAS WITH THE EUROPEAN UNION AND WITH ARAB COUNTRIES ON THE LEBANESE ECONOMY

The study by Dessus and Ghaleb[7] represents the first real attempt to model the Lebanese economy to try to answer some of the key policy questions facing the Lebanese Government, something that had previously been restricted to either partial equilibrium analysis or linear methods. They developed a computable general equilibrium model to assess the full implications of a nexus of recent and upcoming fiscal and trade measures on the domestic economy, the associated adjustment costs, and the welfare of consumers.

The model developed and used in this paper is static with imperfect substitution between domestic and foreign goods. Prices are endogenous in each market (goods; factors), and they equalize supply (factors supply; imports; Lebanese production intended for domestic markets) and demand (factors demand; intermediate demand from producers; final demand from households, investors, Government, and the rest of the world), to obtain the equilibrium. The latter is described as “general equilibrium”, in the sense that it simultaneously concerns all markets. Imperfect competition is modeled by imposing a markup on marginal costs (for domestic products sold on the domestic market) or on the domestic price of imports. Rents stemming from markups accrue to the suppliers of the goods, be they domestic (the Lebanese representative household) or foreign (in the form of capital income transfers). The rent is distributed among foreign and local suppliers, in proportion to their respective market shares on the domestic market.

In calibrating for the imperfect structure of markets, a composite weighted competitiveness index was first calculated, using the database of multiple HHI indicators from a 2003 study by the Lebanese Ministry of Economy and Trade. The markets surveyed were then reclassified from the ISIC nomenclature to meet the European national accounts nomenclature, and the composite index was subsequently calculated. A set of simulations were performed, of which the main results can be summarized as follows.

The first scenario examines the static effects of simple tariff reduction scenarios on the economy, and specifically on the fiscal budget of the Lebanese Government. With tariffs reduced by half, results show that imports become cheaper on the domestic market. They are shown to grow by 3 per cent, as compared with the benchmark scenario. But this is insufficient to maintain tariff receipts, which decrease by 47 per cent. As a result, government revenue decreases by 17 per cent. Growth only modestly picks up: exports grow significantly (+12 per cent), but from a low base. The allocative efficiency of the economy (and the business environment) is improved, but in the absence of productivity growth or additional investment, it is insufficient to foster greater activity (-0.3 per cent real output, +0.1 per cent GDP). Investment drops because government savings drop, thus crowding out private savings. The winner here (at least in the short run) is the household, which sees its purchasing power grow by 2.6 per cent; but the public deficit increases, since the drop in tariff receipts is not compensated by an increase in other fiscal revenues (stemming from the choice of the closure rule). From a sectoral point of view, some sectors suffer directly from lower protection (e.g., furniture, nonmetallic products), others benefit from cheaper imported and domestic inputs (e.g., textiles). Construction services suffer from lower investment, and other sectors (e.g., services and utilities) benefit from greater domestic demand.

The second scenario assumes greater competition through a reduction of the markup on foreign goods, which is the ultimate goal of any trade integration initiative. In fact, the specialized literature concedes that trade agreements which lead only to tariff reduction result in poor static or dynamic gains from trade. The gains would be multiplied if NTBs were removed or reduced. However, most studies, when examining NTBs, consider variables such as red tape, transaction costs, standards and norms, but rarely characterize the lack of competition as a typical NTB that can also act as an obstacle to free trade and economic growth. This is the case in Lebanon, with the continued implementation of the law of exclusive agencies and the existence of imperfect market structures, as highlighted by the authors, both of which lead to rent-seeking behavior (price markup) and thus hinder free trade and reduce efficiency. This reduction of markup could for instance be achieved by eliminating exclusive import agencies. As a direct result, imports become cheaper at the border (like the effect of positive terms of trade). Imports grow by 2 per cent in real terms, which increases tariff receipts by a similar relative

[7] Dessus and Ghaleb, 2006.

amount. Capital income outflows (the rent accruing to foreign suppliers) decrease, relaxing the balance of payment constraints. As a result, exports decrease as well, with producers shifting their production towards the domestic market. Output grows by 0.2 per cent (and real GDP by 0.3 per cent), as a result of a positive terms of trade effect and improved allocative efficiency (less distortion). Unlike in scenario 1, market liberalization is accompanied by an improved fiscal position. From a sectoral vantage point, sectors which were in competition with protected imports suffer from increased competition. This is the case for non metallic products.

In a third scenario, markup on domestic goods is reduced by half, which could be achieved by greater financing access for SMEs, domestic markets de-segmentation, pro-competition policies, or any other measure the Government of Lebanon might be planning to implement. In this case, the domestic demand for Lebanese products increases sharply. Imported products become less competitive (-2 per cent); producers also shift their production towards domestic markets (exports decline by 8 per cent). Real private consumption grows, but as the price of consumption drops, nominal consumption declines slightly, which explains why government revenue (VAT receipts) declines. This effect is compounded by the decline in imports, which are taxed more than domestic goods. One important and interesting effect is the increase in the remuneration of factors of production: with an increased demand for domestic products (and constant productive capacities), wages and return to capital both rise by some 5.8 per cent. In some respects, the hypothesis that rent-seeking behavior depresses productivity, and leads to a production possibility frontier that is below international levels, is shown to be correct. At the sectoral level, outputs in sectors that were previously shielded from competition grow, as the demand for their products grows. Some sectors suffer indirectly from the macro impact of the reform: trade, as import and export volumes drop, and construction, as investment drops (because final consumption becomes cheaper).

The last scenario assumes increased competition domestically and on import activity, which is a combination of the two previous scenarios. The impact of raising domestic competition is significant on economic activity and real per capita income (+1.8 per cent). The combination of the two policies is close to the sum of the two policies taken independently. And, contrary to the tariff reduction scenario, it is not fiscally painful. Nominal wages and return to capital increase by 6.1 per cent and 6.0 per cent respectively.

Contrary to all studies financed by the European Union commission to assess the impact of the Euro-Med Partnership on the Arab economies involved, the findings of this paper make it very clear that no economic improvements can be expected if the association agreement is limited to removing tariffs on imports from the European Union. The existing setup of exclusive agents leaves the consumer, as well as the government, as the main loser. However, while the consumer has no say in the pricing policy or the contract signed between the agent and the exporter, and is therefore just paying a price higher than the marginal cost, the government does have a say, but is nevertheless not benefiting from any of the rent it is indirectly creating by protecting exclusive contracts. If exclusive agents and other manifestations of imperfect market structures cannot be properly addressed by policy-makers, with the aim of promoting increased competition, economic principles and reasoning should drive the government to tax the rent generated by the private Lebanese agents dominating market activity.

There have been some gravity-based studies on the potential impact of PAFTA on the economy in general and on trade in particular in Lebanon. For example, Yigezu and others[8] assess the impact of PAFTA on trade in all its members, from 1995 to 2007. While the aggregate PAFTA intra-regional trade has increased, this study concludes that Lebanon and the Syrian Arab Republic are the only members that have seen positive effects on both imports and exports, with Lebanon in particular tending to import more than it exports. Babili and Baghasa[9] find less evidence for improvements in intraregional trade as a result of PAFTA. Asserting that tariff reduction is not sufficient although it is necessary, these authors recommend the introduction of more profound measures, such as on rules of origin, and reductions in non-tariff barriers. In this section, a detailed and comprehensive *ex-post* assessment of the impact of PAFTA is conducted. It is based on actual outcomes, rather than forecasts or simulated figures. The objective is to verify to what extent PAFTA has delivered on its promises, and what reasons the deviation could be attributed to.

[8] Yigezu and others, 2013.

[9] Babili and Baghasa, 2008.

III. EX-POST ASSESSMENTS OF THE TWO FTAS

A. MACROECONOMIC AND SECTORAL CHANGES

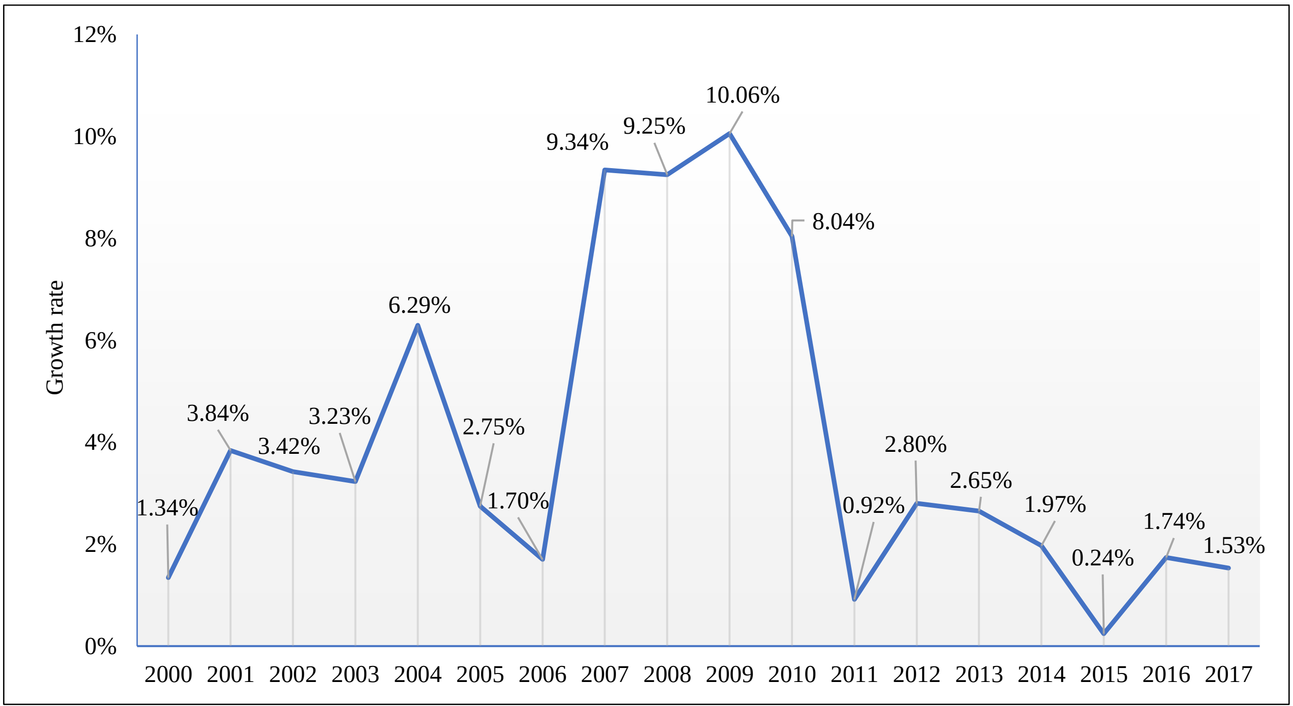
1. *Changes in the structure of the economy*

The Lebanese economy has grown by 4.4 per cent annually on average between 1971 and 2016. In 2016, the country's GDP increased by 2 per cent, showing a significant decrease in growth, compared with as recently as 2009, when GDP grew by 10.1 per cent. Tourism in Lebanon is one of the most important sectors for the country's economy, and due to civil wars and Israeli occupation, the tourism industry has been declining, causing GDP growth to fall. In fact, most of the decline in growth can be attributed to the instability in the region. The Syrian conflict has caused a ripple effect in Lebanon, with more than a million refugees in the country today. Constant warfare has forced the government to allocate most of its resources to reconstruction efforts, leading to higher public debt, with fiscal deficits at around 7 to 10 per cent. Currently, the debt to GDP ratio is 150 per cent. Foreign investments have also decreased due to instability and corruption, further hampering the economy.

The banking sector has taken a large hit as well. Lebanon has historically relied on Lebanese diaspora deposits, at times making up 40 per cent of its GDP. Investments have recently slowed down to a halt, due to investors being concerned about the Syrian conflict surrounding the country.

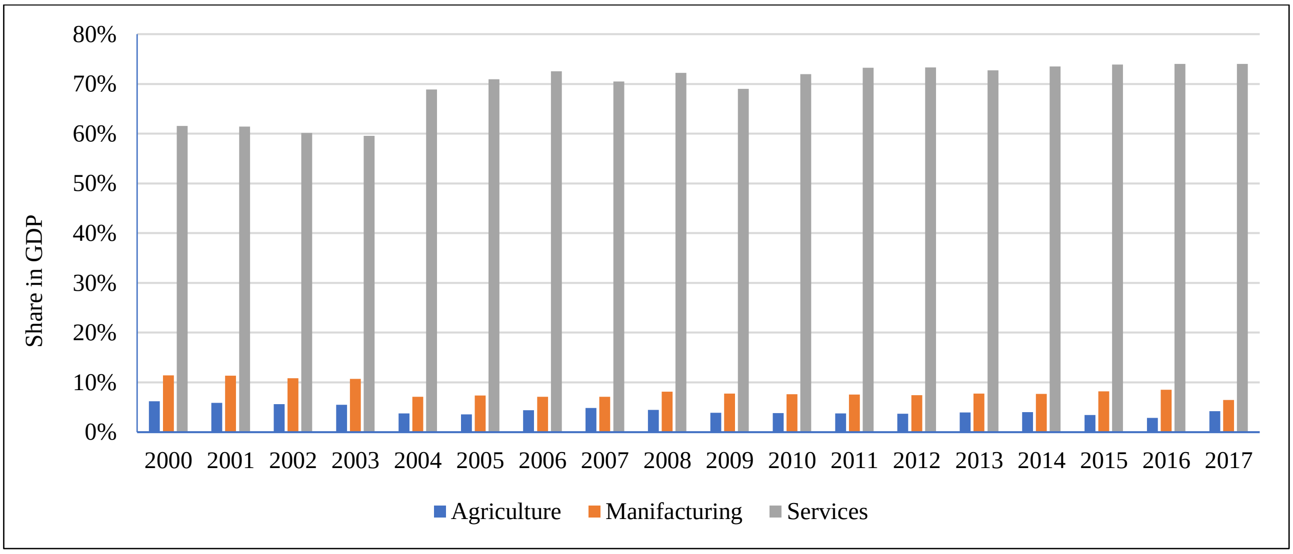
The Lebanese economy primarily relies on banking and tourism, which constitute 80.76 per cent of the GDP. It is also structured around the role played by expatriates from abroad. Remittances account for a significant proportion of bank deposits. The industrial sector only contributes 14 per cent to the GDP, which indicates that the economy relies on external income. The agricultural industry is the country's largest internal sector, exporting 46 per cent of its production, but the country remains at a trade deficit in the sector.

Figure 1. GDP growth in Lebanon



Source: Authors' computations using the World Bank Open Data. Available at https://data.worldbank.org/ (accessed on 15 April 2019).

Figure 2. Share in GDP by economic sector in Lebanon

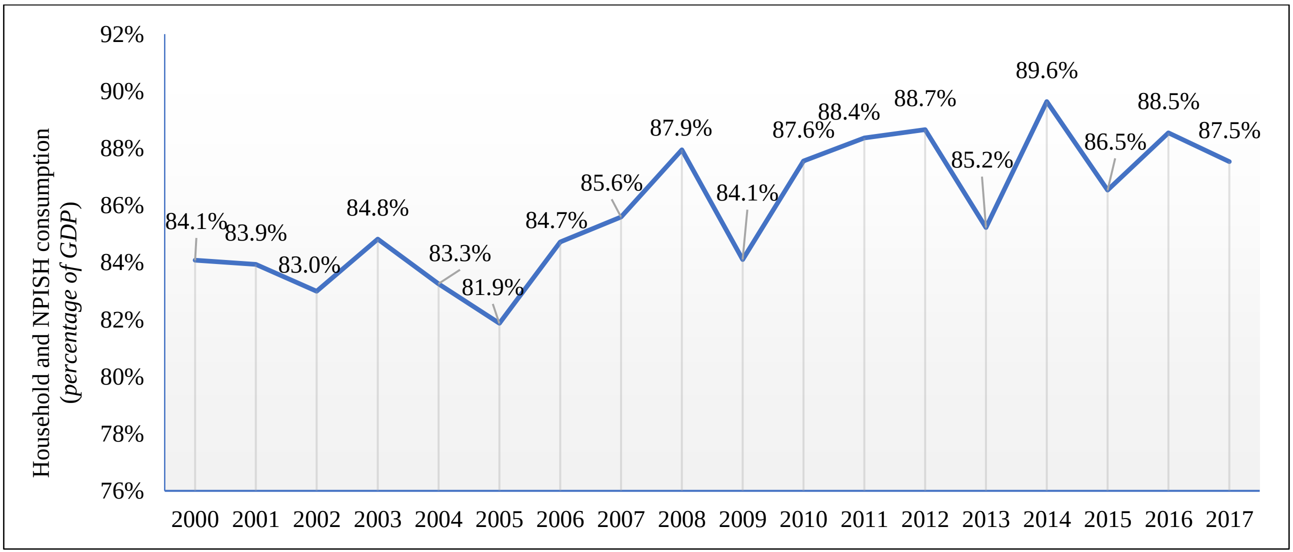


Source: Authors' computations using the World Bank Open Data. Available at https://data.worldbank.org/ (accessed on 15 April 2019).

2. *Shares of private consumption and exports in GDP*

Private consumption in Lebanon represented 87.6 per cent of the country's GDP in 2017. It has stayed consistently at around 80 to 86 per cent of the GDP since 1998. Exports represented 23.6 per cent of the GDP of Lebanon in 2017,[10] down from around 37 per cent during the years 2004-2006, prior to the FTAs. Still, this shows that Lebanon is an open economy, exporting a fourth of the value of the goods produced in the economy. Although it is an open economy, private consumption represents a much larger portion of the GDP, as most goods produced are bought and sold internally. This is also consistent with the country's massive trade deficit, of €6.4 billion with the European Union in 2016, and a total of $15.68 billion.

Figure 3. Household and NPISH consumption for Lebanon



Source: Authors' computations using the World Bank Open Data. Available at https://data.worldbank.org/ (accessed on 15 April 2019).

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[10] World Bank, Open Data.

3. *The trade agreements and public finances*

Tax revenues represented around 14 per cent of GDP in Lebanon in 2016, down from 16.7 per cent in 2004. The dependence of the Lebanese Government on tax revenues is significant, but has fallen over time.

TABLE 1. STRUCTURE OF LEBANESE GOVERNMENT REVENUES

In LL Million								
	2000	2005	2010	2013	2014	2015	2016	2017
Total Domestic Revenue	4 188 000	6 984 000	12 018 000	13 385 000	14 742 000	13 635 721	13 989 252	16 247 075
Tax Revenue *of which:*	2 936 000	4 867 000	9 976 000	10 116 000	10 388 000	10 330 195	10 597 42	12 380 657
Direct Taxes *of which*:	774 000	1 461 000	3 138 000	3 703 000	4 040 000	4 066 540	4 139 590	5 614 400
Taxes on Income	500 000	203 000	400 000	636 000	704 000	734 449	764 376	839 231
Taxes on Profits		841 000	1 417 000	1 865 000	2 091 000	1 897 615	2 249 580	3 361 009
Taxes on Property	274 000	414 000	1 088 000	1 201 000	1 245 000	1 179 240	1 124 490	1 413 100
Indirect Taxes *of which*:	1 970 000	3 164 000	6 385 000	5 940 000	5 853 000	5 780 398	5 889 801	6 242 035
Domestic Indirect Taxes *of which:*	220 000	1 896 000	3 583 000	3 782 000	3 811 000	3 716 577	3 772 856	4 079 027
VAT	-	1 693 000	3 193 000	3 296 000	3 302 000	3 158 782	3 233 902	3 475 606
Excises	-	-	-	-	-	-	-	-
Other	220 000	192 000	382 000	477 000	500 000	548 703	531 401	592 220
Imports Indirect Taxes *of which:*	-	787 000	1 992 000	1 341 000	1 276 000	1 350 476	1 410 617	1 438 783
VAT	-	-	-	-	-	-	-	-
Excises	-	787 000	1 992 000	1 341 000	1 276 000	1 350 476	1 410 617	1 438 783
Other	-	-	-	-	-	-	-	-
Customs or Import Duties	1 750 000	481 000	810 000	817 000	766 000	713 345	706 328	724 225

Source: Authors' calculations using the data from the Ministry of Finance of Lebanon. Available at http://www.finance.gov.lb/en-us (accessed on 15 April 2019).

4. *Weak job creation*

Job creation in Lebanon continues to be weak and a persistent problem. The labor market is characterized by low employment rates and activity. Youth employment is key to resolving this problem moving forward, as it concerns the next generation of skilled workers. Today, with the Syrian crisis, the outlook in the labor market has further worsened, as refugees are predicted to add 30 to 50 per cent to the labor force.

The country's poor job creation is partly due to the lack of an economic development plan. If a plan were put in place, it would foster economic activity, creating high-skill and high-wage jobs. In 2013, 5,000 new jobs were created, but there were 32,000 new entrants to the job market. Most of the economy in Lebanon consists of the private sector. 90 per cent of Lebanese businesses are small to medium sized enterprises (SMEs). The preferred form of employment in Lebanon is self-employment, with 36 per cent of the labor force being self-employed (and 88 per cent of them preferring to remain self-employed). Additionally, 20 per cent of workers are informal wage employees. Such employees have low productivity and lack access to insurance programs and social security, creating a problem of regulations and economic structure.

Another characteristic of the Lebanese job market is its emigration rate of high-skilled laborers. Although the number of university graduates in the country is increasing, the skills acquired by such graduates do not match the needs of local corporations. Due to the high cost of higher education, graduates' wage demands are much higher than what is being offered in the domestic job market. As a result, a majority of them emigrate to countries that offer competitive wages and benefits for their skill level. Meanwhile, a majority of immigrants are Syrian and Palestinian refugees, and most of them are low-skilled workers with low productivity. Around 40 per cent of the labor pool consists of workers who have no education to only primary education. This creates a skill mismatch,with employers looking for high-skilled workers, and most of the latter emigrating to other countries for better wages. Local youth also lack access to an adequate education system, leading to a high number of high school dropouts. This creates a large pool of low-skilled individuals looking for jobs, with the number of jobs created in this sector being far smaller than the pool. Although a majority of job creation is low-skilled, the emigration of high-skilled citizens and the high rate of high school dropouts have created a shortage of high-skilled applicants and an overabundance of low-skilled labor. This mismatch in skills has caused 41 per cent of employees to engage in tasks above their education level. It has also placed constraints on the growth of businesses, as 55 per cent of corporations state that the education level of available labor is inadequate for their needs.

An increase in the productivity of firms is required to increase the job creation rate. Start-ups represent the largest source of job creation, with 177 per cent of aggregate net job creation accounted for by start-up firms. 66,000 jobs were created by such companies in the period 2005-2010. When such firms prosper, the job market becomes more productive. With just a 1 per cent increase in firm productivity, there is a 3.9 per cent increase in job creation. However, the lack of proper infrastructure limits the ability of start-ups for growth. To obtain electricity, firms have to wait an average of 56 days and experience over 50 power outages per month. The lack of consistent policy development and implementation causes firm managers to spend 12 per cent of their working time with government entities discussing policy creation, thus decreasing the overall productivity level of firms.

B. Trade impacts

The only available studies on how the FTA with the European Union affects jobs, trade, and growth in Lebanon were carried out either before the implementation of the agreement or at the beginning of the implementation period. As a result, all of them are forward-looking. This contrasts with the backward-looking approach of this paper. The techniques used to determine the future impact of the FTA fall into two broad categories. The only available *ex-ante* study, carried out by the World Bank, clearly shows that Lebanon should not expect any major gains if the trade agreement with the European Union is limited to tariffs.

Unlike the Dessus and Ghaleb study,[11] which sought to predict how reducing or removing tariffs on imports would affect the economy of Lebanon, this paper's intent is to determine how the FTA has already affected it. To assess the effects of the FTA, changes in major economic variables are empirically estimated with pre- and post- FTA data. The analysis is based on estimating the changes that have occurred in the economy of Lebanon since the implementation of the FTA began. However, this type of analysis has two shortcomings. First, the analysis would attribute all changes to the implementation of the FTA with the European Union, when Lebanon implemented many other economic reforms and trade agreements with other partners during the same period. Second, most of the changes in Lebanese trade policy occurred during the final years of the agreement's implementation phase. Against these shortcomings, the present analysis has at least two advantages. First, the analysis can estimate trade flows and changes in other major economic variables, utilizing data gathered since the implementation of major trade commitments with the European Union. Second, it can also capture most of the potentially important aspects of the FTA, including tariff and non-tariff reductions, as well as changes in administrative rules, regulations, and expectations about the

[11] Dessus and Ghaleb, 2006.

sustainability of free trade that cannot easily be quantified. Gould[12] argues that changing expectations for the sustainability of free trade are potentially among the most important aspects of an FTA. If the FTA does not create a credible commitment to free trade, new investment will not flow into export industries to take advantage of reduced trade barriers. Without a credible FTA, the benefits would be much lower. Expectations, for a more stable and open trading environment, affect trade by providing the incentive for firms to make long-term capital commitments. Those expectations cannot easily be accounted for using the methodology cited previously, because it is difficult to translate them into price changes.

Using trade data at the six digit level of the harmonized system of product calassiciation (HS6) level, an *ex-post* assessment was made over three different periods of time: prior to the implementation of the FTA with the European Union, during the implementation period, and after its full implementation.

Prior to the implementation of the FTA with the European Union, total exports from Lebanon in 2005 amounted to $11.3 billion. Exports to European Union countries totaled $3.6 billion, representing 31 per cent of all exports. Total imports from the European Union amounted to $3.8 billion, with Lebanon running a deficit of $200 million. The largest European Union export partner was Italy, at $54.5 million. Lebanon imported the most from France, with a valuation of $971.2 million, representing a quarter of imports from the European Union. Precious stones and natural pearls were the primary exports, at $223.4 million in value, and the top import was mineral fuels at $1.98 billion. The True Strength Indicator (TSI) measures trade momentum and valuation trends. The TSI in 2005 was -0.122, which indicates that trade was trending down, and that the value of goods was decreasing. The export diversification index quantifies the diversification of commodities exported by the country. In 2005, the index stood at 0.738. The index being close to 1 indicates that Lebanese exports are highly concentrated in a few sectors or commodities. The lack of diversification of exports is due to the country relying heavily on automobiles, electrical machinery, technological equipment and precious metals for its primary exports. The trade intensity index, which indicates whether the country exports more to a given destination than the world does on average, was 0.337 in 2005 between Lebanon and the European Union. This relatively low index means that exports to the European Union from Lebanon were not significant, relative to exports to the European Union from the rest of the world, prior to the FTA.

During the implementation period, while exports from Lebanon increased by a billion dollars between 2005 and 2010, imports from the European Union increased by $1.19 billion over same period, to reach $4.99 billion in 2010, causing Lebanon to run a trade deficit of $390 million, from a surplus of $590 million in 2005, prior to the implementation of the FTA. The export diversification index remained consistently the same as before the implementation, which indicates that the country's export portfolio did not improve. Unlike the diversification index, the trade intensity index increased to 0.595. The increase in trade intensity from Lebanon to the European Union is a positive indication that the FTA increased the ratio of Lebanese exports relative to total world exports to the European Union. France was the largest European Union export partner at $349 million. Lebanon imported the most from Italy at $1.39 billion. The top export and import sectors did not change during this period. Although the FTA was not yet fully implemented in 2010, the increase in trade value between Lebanon and the European Union was trending positively towards policy goals. From the perspective of the Lebanese economy, the FTA decreased the trade surplus and turned it into a trade deficit.

Finally, after the full implementation of the FTA in 2014, Lebanon's total exports in 2016 were at $15.3 billion. The 28 European Union countries accounted for $4.8 billion, or 30 per cent, of Lebanon's exports. Imports from the European Union were valued at $4.93 billion. Lebanon ran a trade deficit of $130 million with the European Union. Compared with the period of implementation, the country's European Union partner exports increased by $300 million, and imports from the European Union stayed relatively constant, as they only decreased by $30 million. When compared with the period prior to the FTA, on the other hand, exports increased by $1.2 billion and imports increased by $1.13 billion. The trade balance decreased from prior to the FTA, with the deficit increasing by $330 million, but decreasing from the implementation period by $260

[12] Gould, 1998.

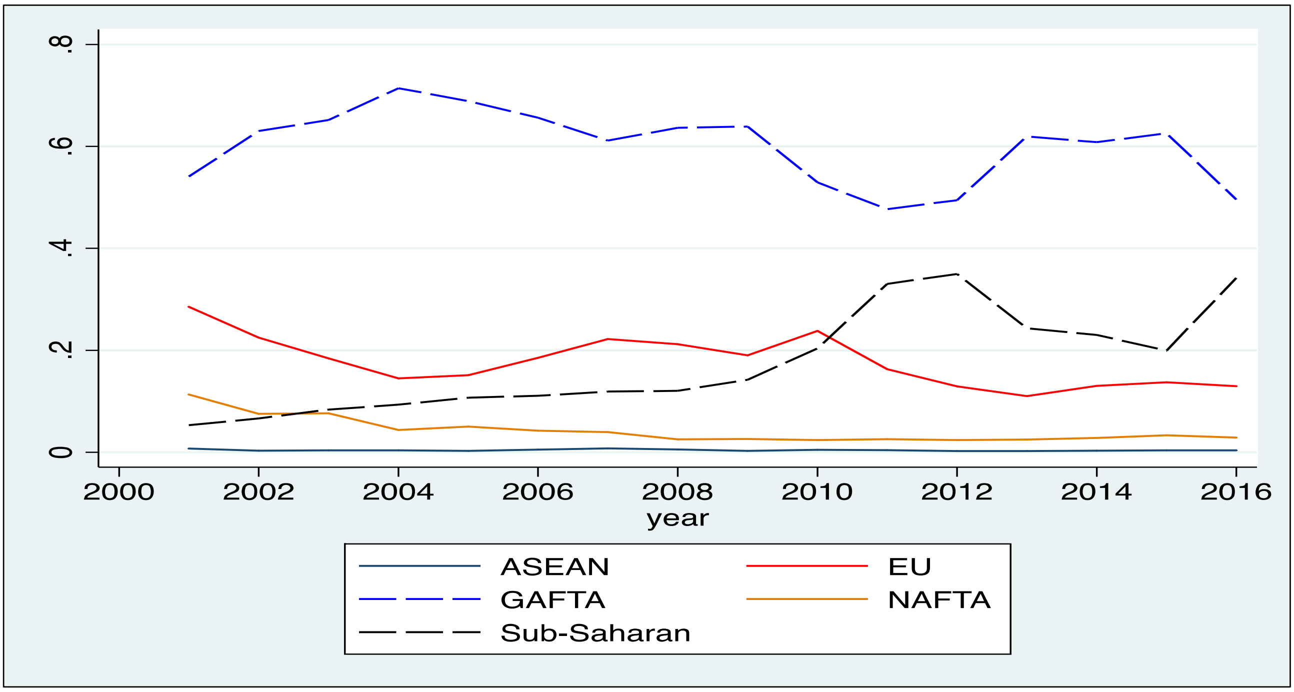
million. Turkey was the top European Union export partner at $71 million, and Lebanon imported the most from Italy at $1.4 billion.

The FTA did not improve export diversification in Lebanon. Greater investments and the internal development of new industries are necessary to improve diversification. The trade intensity index stood at 0.346, which is consistent with its value prior to the FTA, but represents a decrease of almost 40 per cent from the implementation period. The large increase in trade intensity in 2010 could be an anomaly. If the FTA is causing an increase in trade, the index should increase, as the greater the index, the greater the valuation of exports from Lebanon to European Union countries. Judging from the True Strength Index, the momentum of trade has been positive, as compared with the period prior to implementation, but has declined significantly from the implementation period. The TSI partner index in 2016 was 0.149, compared with 0.407 during implementation and -0.122 prior to the FTA. An increase of the index by 130 per cent from prior to the FTA tells us that trade between the European Union and Lebanon is gaining momentum and the valuation of goods is increasing. The implementation of the FTA increased trade between Lebanon and the European Union. Although the policy has been positive up to this point, effectively accomplishing the policy goal, it has not improved Lebanon's economic trade performance. Exports did increase by 33 per cent relative to prior to implementation, but the increase in imports outpaced the increase in exports. As a result, the trade surplus Lebanon ran in 2005 was eliminated and became a deficit. The free trade agreement improved total trade balance but did not benefit the Lebanese economy as much as expected.

Regarding the FTA with Arab countries, the situation is quite different. During the implementation period of the agreement (1998-2004), the value of average exports from Lebanon to Arab countries was $17.492 billion. Exports contributed 8.4 per cent of yearly GDP. The three categories of exports were commercial service, service and goods exports. Commercial service and service exports both represented 45 per cent of total exports, valued at $7.88 million each. Goods exports represented the remaining 10 per cent of exports, at $1.707 million. Average total imports was at $19.311 billion, which represents 36 per cent of GDP. Commercial service and service imports accounted for 31 per cent of imports at $6 billion, respectively. Goods imports were valued at $7.28 billion. During the implementation period, Lebanon ran a trade deficit of $1.8 billion with Arab countries. Looking at trade on a yearly basis, exports increased by 2.1 times in value from 2002 to 2004, from $10.19 billion up to $21.55 billion. Imports increased at a similar rate, by 1.97 times from $12.82 billion to $25.5 billion. The trade deficit increased by $1.8 billion from 2002 to 2004. Although trade increased due to the implementation of PAFTA, it did not help improve the trade performance of Lebanon with Arab countries. However, after the full implementation of PAFTA, average yearly exports reached $34.05 billion and imports reached $39.95 billion. This represents a significant increase, of $16.5 billion and $20.64 billion, respectively. Exports increased from $24.07 billion in 2005 to $33.78 billion in 2016, peaking at $41.86 billion in 2011. Exports averaged 11 per cent of GDP, an increase of 3 per cent, but trends have been negative since 2008, dropping from 15 per cent to 7.4 per cent in 2016. Imports also increased from $24.72 billion to $44.14 billion. Imports averaged 43 per cent of GDP, an increase of 7 per cent, but have also been decreasing since 2008, falling to 20 per cent in 2016. The decrease in the contribution of exports and imports to GDP is due to the GDP itself having steadily increased. The average trade deficit was $5.9 billion. The free trade agreement has created a base which has stimulated trade between Lebanon and Arab countries. The increase in average trade deficit by $4.1 billionraises some concerns, as the post-PAFTA situation has harmed the Lebanese economy, increasing government debt. The deficit peaked in 2016 at $10.36 billion. The trade deficit has only increased every year since the elimination of tariffs on intra-Arab trade. The continued increase in trade value after PAFTA indicates that the trade agreement has successfully stimulated trade. The increase in deficit shows that reformsinLebanese economic policy are necessary.

Figure 4 below shows that, after reaching a maximum share in total exports of goods in 2004, exports to Arab countries dropped significantly, to less than 50 per cent in 2016. However, during the period 2000-2016, Arab countries still represented the major export destination for the country.

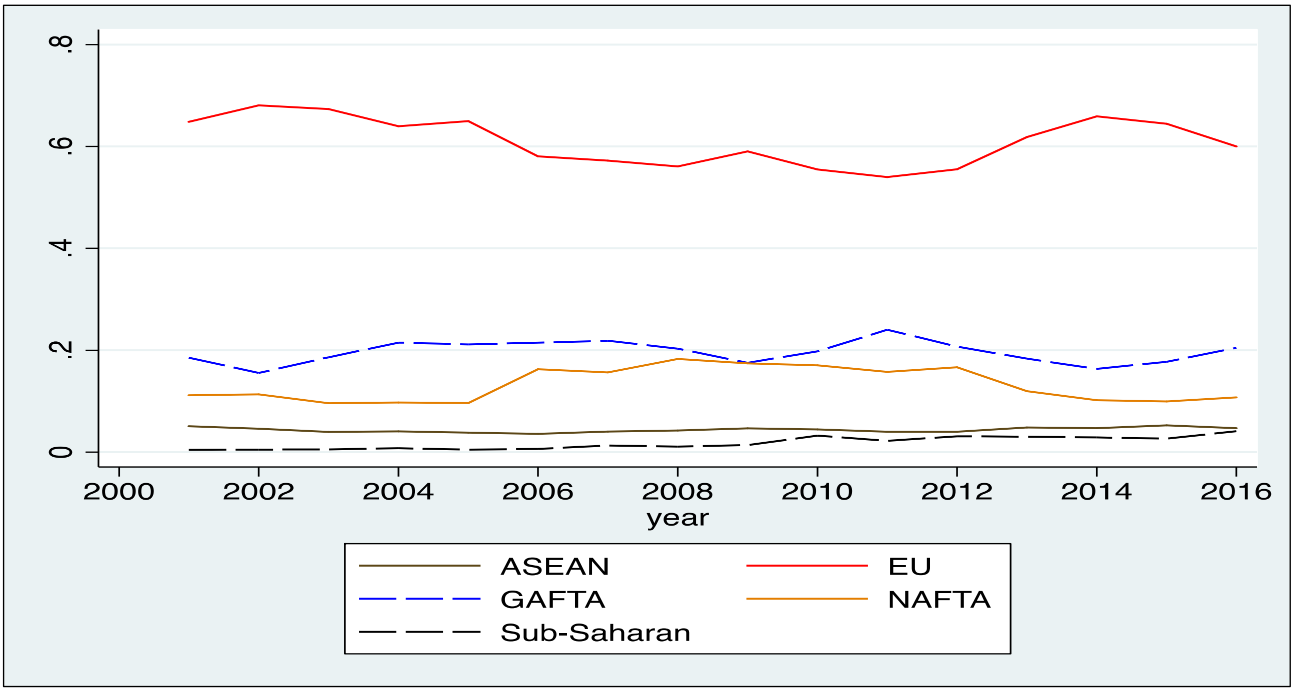
Figure 4. Lebanon export shares



Source: Author's estimates at HS6 digit level using Trade Map database (2017).

In terms of imports, the European Union still represents the major supplier for Lebanon, with its share in total imports ranging from 55 per cent to around 65 per cent. Imports from PAFTA member countries did not experience a significant increase since its implementation, with a share ranging between 23 per cent and 17 per cent during the period 2000-2016. This shows that the implementation of PAFTA since 2005 has not affected the provenance and destination of Lebanon's foreign trade (figure 5).

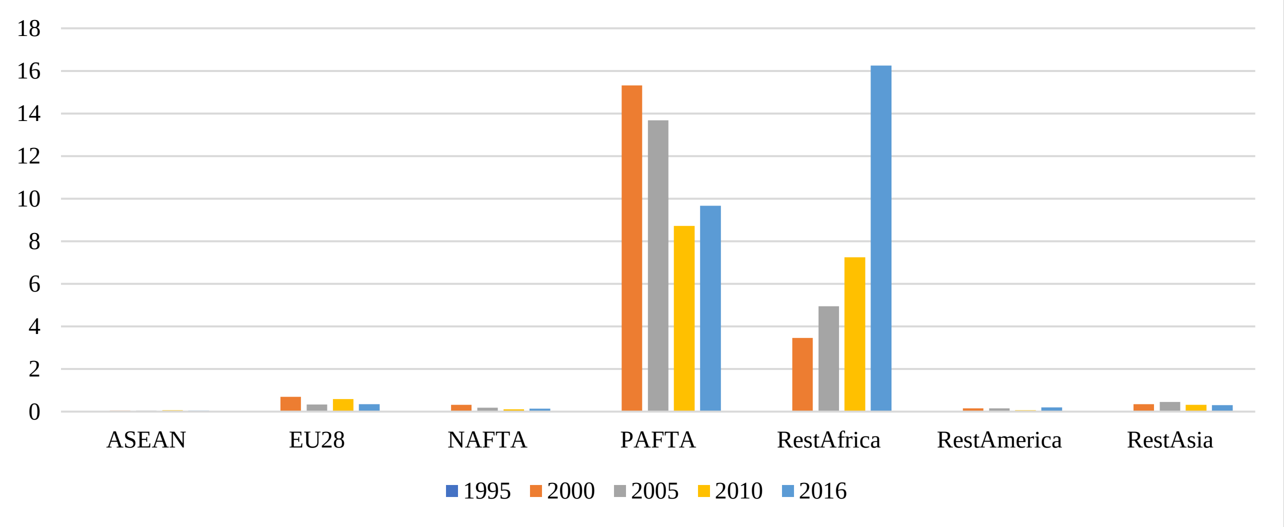
Figure 5. Lebanon import shares



Source: Author's estimates at HS6 digit level using Trade Map database (2017).

The trade intensity index captures whether the value of trade between a country and its partners is greater or smaller than would be expected on the basis of their importance in world trade. Lebanon has traditionally traded more intensively with PAFTA countries than the world trade share of PAFTA as a bloc. More recently, African countries have gained considerable ground, and today they are more important trade partners for Lebanon than their world trade share might suggest (figure 6). The trade intensity index was at 15.284 in 2005, which indicates a very strong trade relationship between Lebanon and Arab countries. A high index means that Lebanon exports a greater amount to Arab countries than the rest of the world does on average. The abnormally large values reflect geographic proximity, as all PAFTA countries are geographically close to Lebanon, and relatively isolated from other markets.

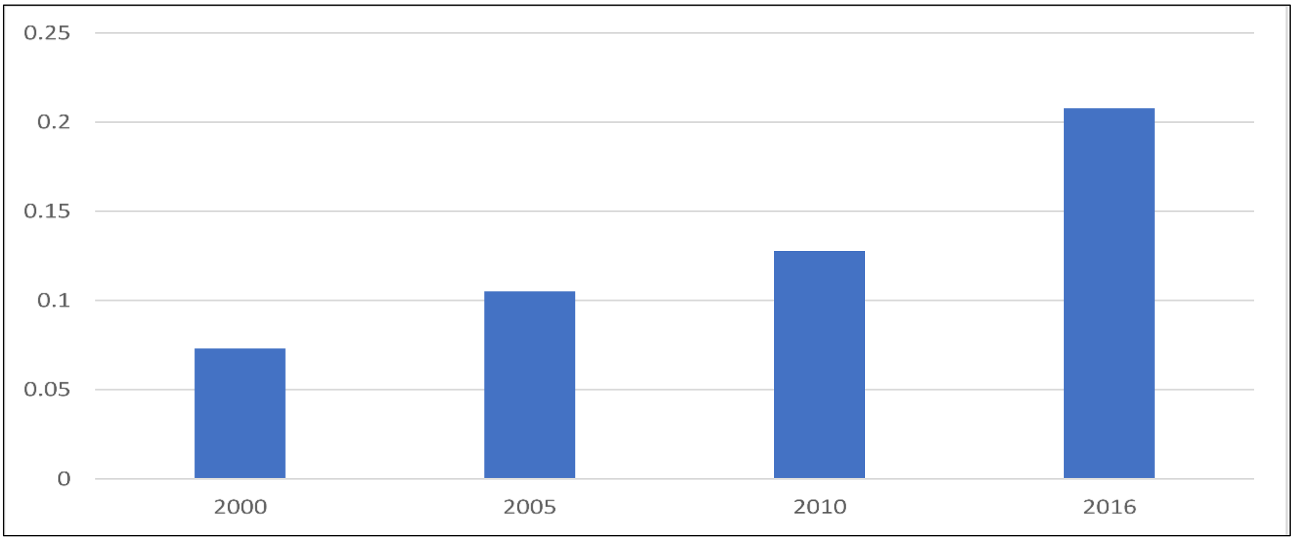
Figure 6. Trade intensity index



Source: Author's estimates at HS6 digit level using the UN Comtrade database.

The trade complementarity index captures how well the structures of a country's exports and its partner's imports match, showing the extent of prospects for further exchange. The index takes a value of 0 when no goods are exported by one country or imported by the other, and a value of 1 when export and import shares match exactly. Increasingly, the index has been reaching relatively higher values with PAFTA (figure 7).

Figure 7. Trade complementarity between Lebanon and PAFTA member countries



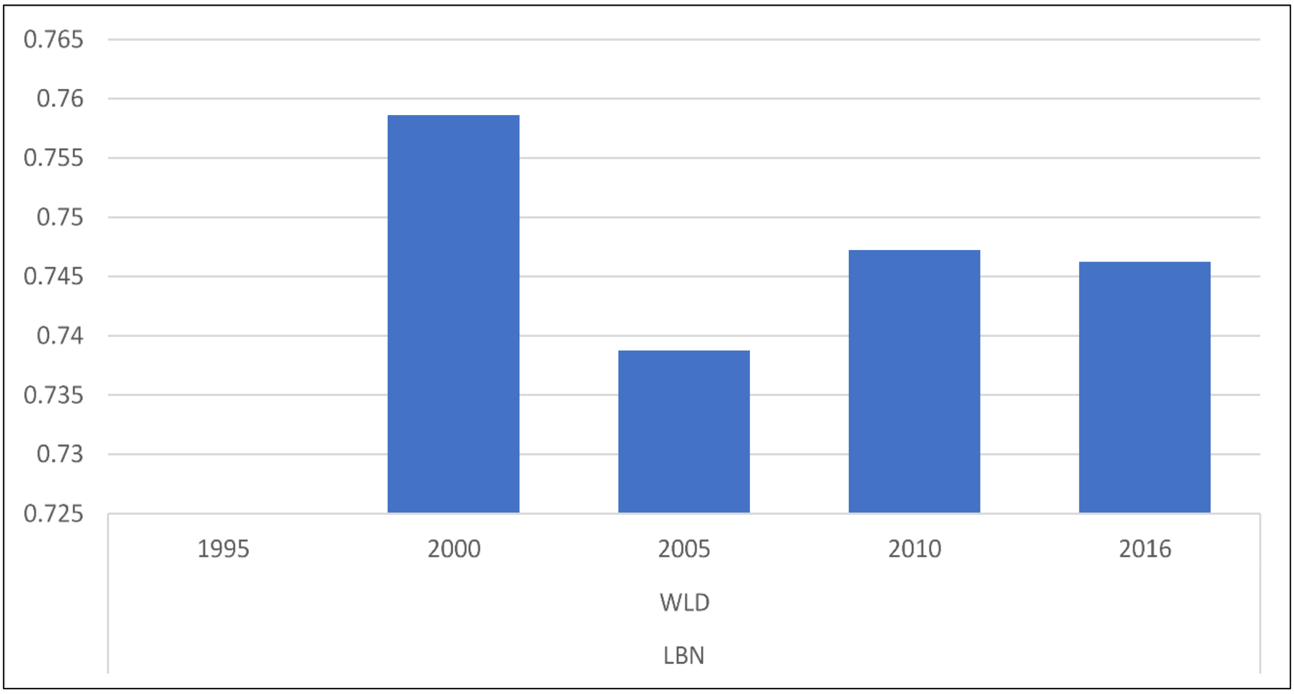
Source: Author's estimates at HS6 digit level using the UN Comtrade database.

The True Strength Indicator in 2016 was at 0.86352, and it decreased after the full implementation of the agreement. Although trade value increased, the decrease in the TSI indicates that the increase in trade value is partially due to the inflation of the dollars and the lower value of the Lebanese pound relative to the latter. The trade intensity index averaged 11.78 during this period. The decrease after implementation shows that the free trade agreement played an important part in intensifying the value of exports to Arab countries.

The true strength indicator in 2002 was at 0.94, which backs our trade values. The value being closer to 1 means that trade is growing, and represents a positive trend in the long term. During the period of implementation of PAFTA, intraregional trade intensity between Lebanon and PAFTA member countries averaged 286.7. The intensity index trended upwards from 241.1 in 2001 to 328.7 in 2004. The increase in the index, as the free trade agreement was being phased in, indicates that trade between Lebanon and PAFTA members was increasing, and that their trade relationship was improving. The average intraregional trade share for Lebanon stood at 0.17 during this period. There was once again a positive trend in the index, which increased from 0.16 to 0.20. This matches the increase in intraregional trade intensity, as an uptick in imports and exports within the region from Lebanon would increase the ratio of intraregional trade valuation to overall world trade.

The export diversification index measures whether a country is highly dependent on relatively few export products, or its export portfolio is diversified. The lower the index, the less concentrated a country's exports are. As measured by this index, Lebanon managed to diversify its export portfolio between 2000 and 2005, but its export diversification appears to have stalled since then (figure 8).

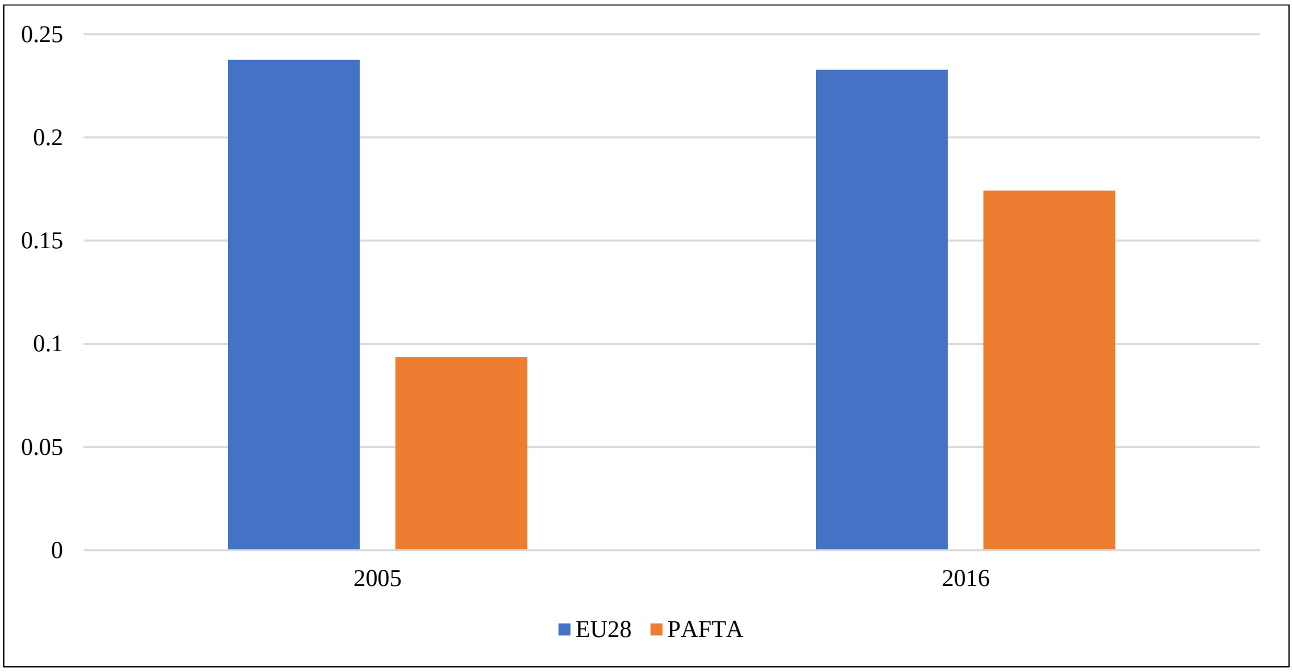
Figure 8. Export diversification index



Source: Author's estimates at HS6 digit level using the UN Comtrade database.

The export similarity index captures the extent to which two entities are competitors in a common market. A value of 0 would suggest that there is no competition between the two countries, and a value of 1 that they are perfect competitors. Based on the export similarity index, other Arab countries are increasingly competing with Lebanon in terms of exports to Arab countries. Compared with the FTA with the European Union, the situation does not appear to have changed between 2005 and 2016, which confirms the continued existence of a large export potential. Regarding the Arab market, results show that the implementation of PAFTA negatively affected the export potential of Lebanon in this specific market (figure 9).

Figure 9. Export similarity index

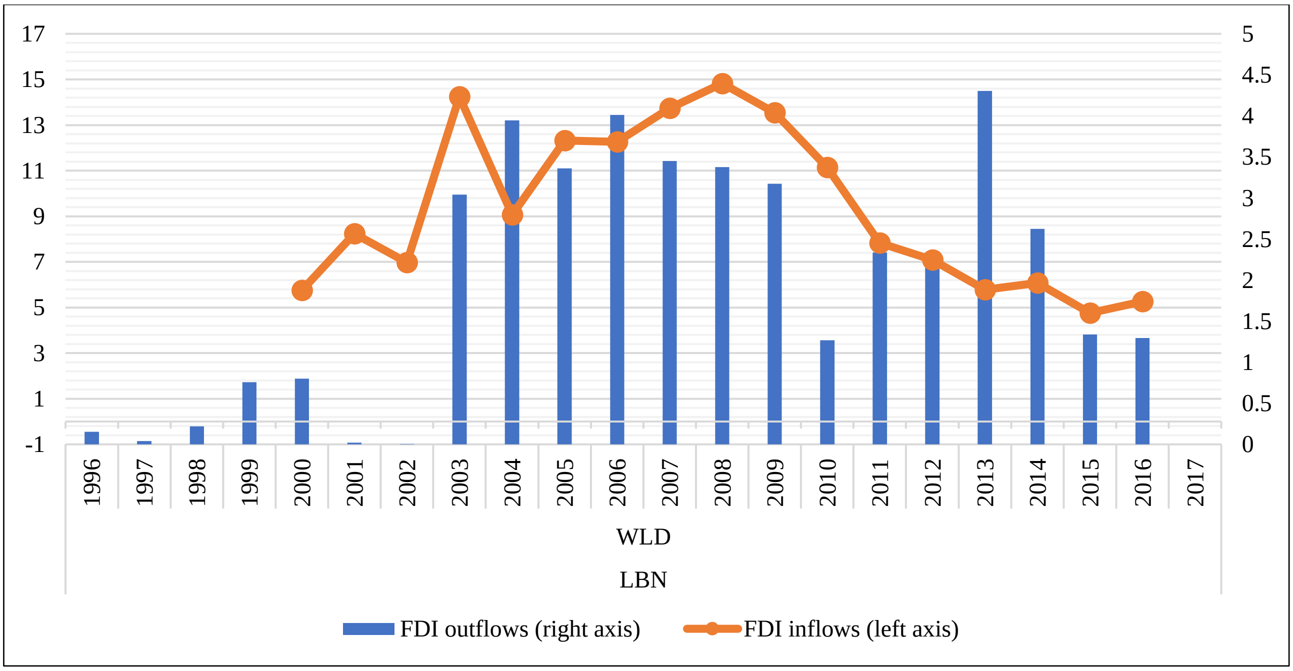


Source: Author's estimates at HS6 digit level using the Comtrade database.

C. Foreign Direct Investments (FDIs)

Since 2008, Lebanon has witnessed a rather significant decrease in FDI inflows, which reached their lowest level in 2015. However, FDI inflows have been gathering pace, although slowly, since 2016. FDI outflows, on the other hand, are much more muted in general, but showed a considerable increase in 2013. It is only starting in 2015 that the tendency began to change (figure 10).

Figure 10. FDI flows, 1996-2017



Source: Author's estimates using the UNCTAD 2018 World Investment Report.

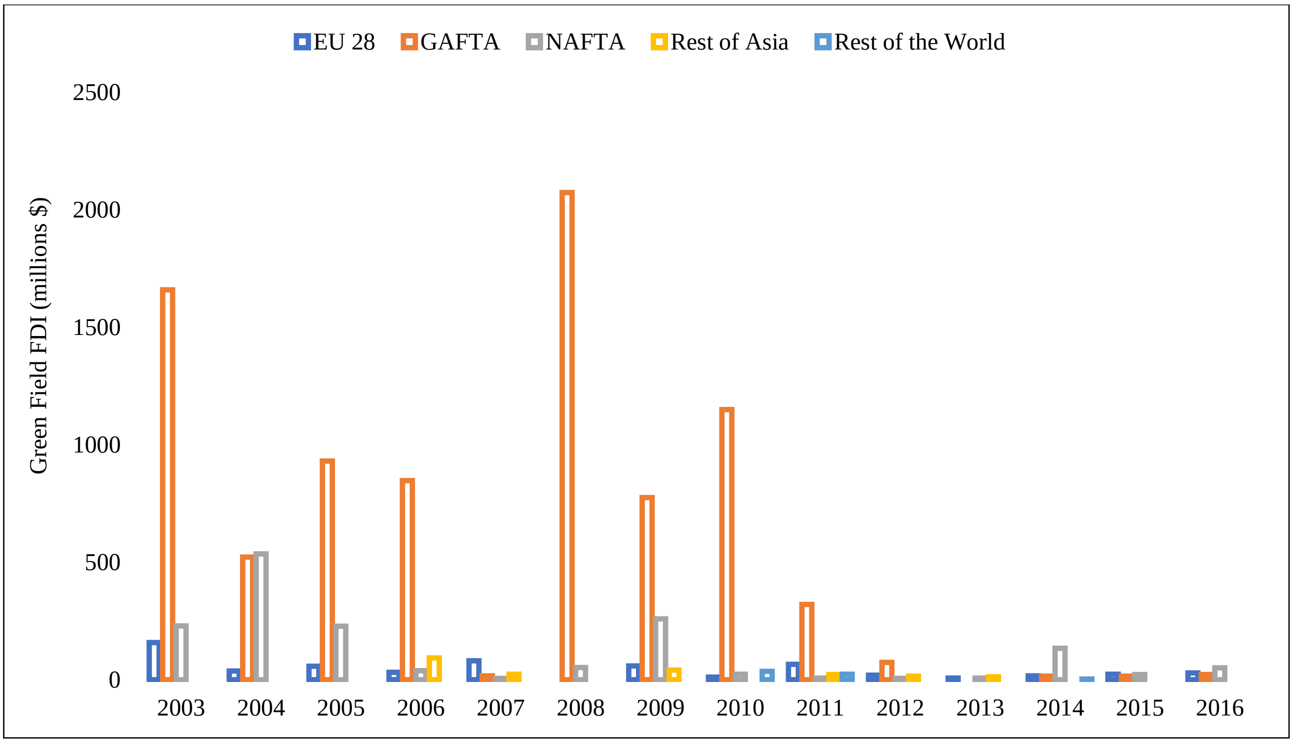
Figure 10 clearly shows that no direct links could be observed between the implementation of PAFTA and the flows of FDIs. Thus, a closer look at the inflows of FDIs from the Arab region is investigated using the latest available figures.

During the implementation phase of the agreement (1998-2004), yearly foreign direct investment averaged $1.7 billion from PAFTA member States. Capital inflows were trending positively, increasing from $993.5 million in 2000 to $1.9 billion in 2004. As a proportion of GDP, FDIs fluctuated heavily, peaking at 14.25 per cent in 2003, and hitting their lowest point at 5.75 per cent in 2000. Out of 17 projects over a two-year period, 4,165 jobs were created. Half of total investments came from the United Arab Emirates, with a capital expenditure of $1.1 billion for 9 projects. The United Arab Emirates invested heavily in the real estate and hotels and tourism sectors, with $546.3 million and $455.8 million in investments, respectively. Saudi Arabia and Kuwait invested $557.6 million and $503.7 million, respectively. There was a large investment in the real estate sector from Saudi Arabia, worth $546.3 million. The two largest capital expenditures were in the real estate sector, totaling $1.093 billion. Kuwait invested $477.9 million in the hotels and tourism sector. The latter was the second highest capital expenditure sector, totaling $933.3 million. Iran was the other country to invest in Lebanon, with a capital expenditure of $96.1 million. However, after the full implementation of the agreement (2005-2016), the average capital inflow was $3.2 billion a year, with an average of 1,629 jobs created. Inflows continued to increase until 2009, when they peaked at $4.8 billion, or 13.54 per cent of the country's GDP. Since reaching this peak, foreign investments have fallen to $2.6 billion in 2016, representing only 5.25 per cent of GDP. During this period, the United Arab Emirates invested the greatest amount of capital, at $6.138 billion, or 93.3 per cent of foreign direct investments. Some of the decrease in investments is due to the Syrian conflict, which began in March 2011. The instability in the region has shaken the confidence of foreign investors in the viability of growth in Lebanon. This will harm the economy, as a decrease in capital inflow will lead to lower job creation and an overall decrease in GDP. The top sectors of investment did not change from the prior period, with the real estate and hotels and tourism sectors receiving $3.966 billion and $1.503 billion in capital, respectively.

The decline in investments can be seen as the result of unstable conditions in the region around Lebanon. A weak economy and multiple conflicts, including the Syrian conflict, have scared off investors, as uncontrollable outside factors have caused warfare within Lebanon as well as in surrounding areas. The risk of investment loss outweighs the benefits which the FTA could provide, and this continues to hamper economic growth in the country, as foreign investments are crucial for expedited economic development.

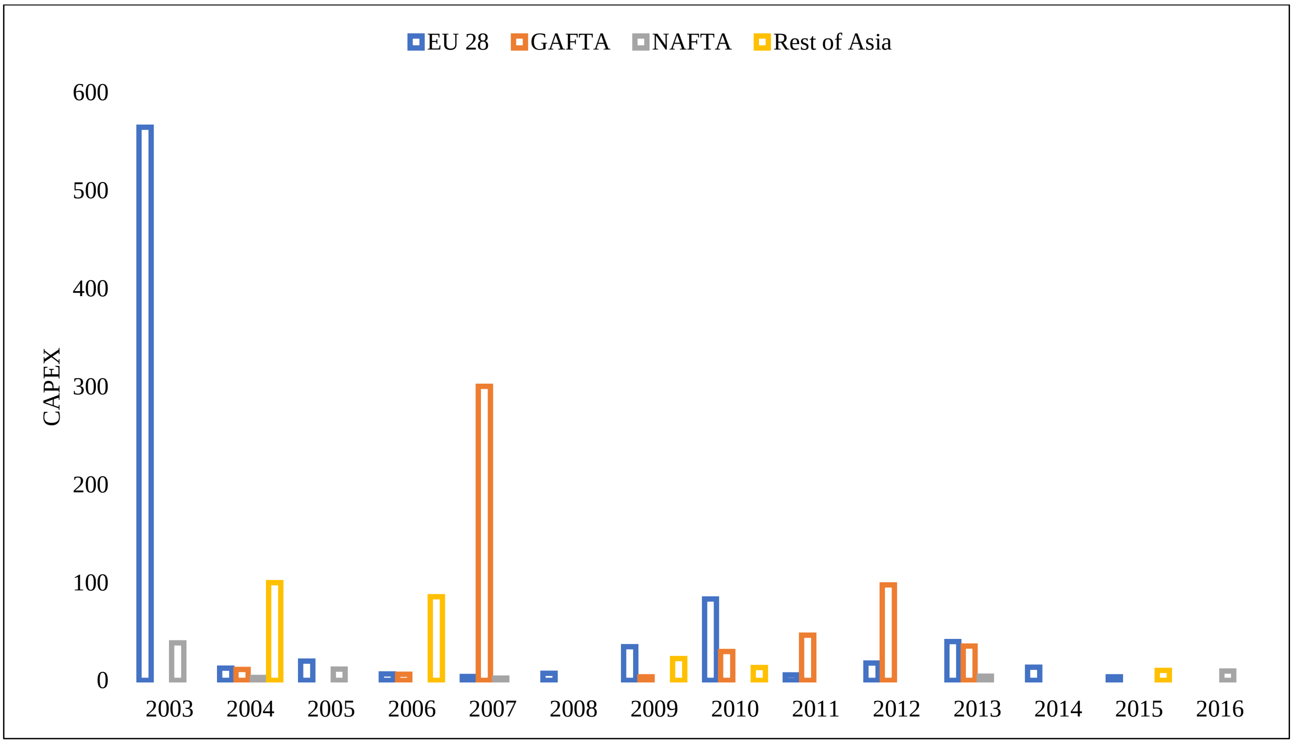
The two largest investment sectors by capital expenditure are the real estate and hotels and tourism sectors. Total capital investments in 2003 in the Lebanese real estate market were of $5.6712 billion. Unlike the Lebanese economy as a whole, the housing market has been surprisingly stable since 2008, and housing prices doubled from 2008 to 2012. But the market has been stagnating over the past few years, with only $56.6 million invested in the sector between 2012 and 2016. In the hotels and tourism sector, capital expenditure from foreign investors totaled $3.4922 billion during the period 2003-2016. As the Lebanese economy and GDP heavily rely on tourism, investments in the hotels and tourism sector are critical for the country's economic growth. But internal and Syrian conflicts have taken a heavy toll on total FDI in the sector. Since 2011, when the Syrian civil war began, only $254.7 million have been invested in the sector. One investment in 2011 from Kuwait made up 89.5 per cent of total capital expenditure. Since 2012, foreign investment projects have only created 26 jobs in the hotels and tourism sector. The dramatic decrease in foreign investments in two primary economic sectors will hamper economic growth, decreasing the country's GDP and increasing unemployment rates, as fewer jobs will be created due to a decrease in investment projects.

Figure 11. Trends in Green Field FDI by major geographical origin: the case of the service sector, 2003-2016



Source: Authors' calculations using the FDImarkets databse (financial times, 2018).

Figure 12. Trends in Green Field FDI by major geographical origin: the case of the manufacturing and agricultural sectors, 2003-2016



Source: Author's estimates using the FDIMarkets databse (financial times, 2018).

(a) *Prior to the FTA with the European Union (industrial, agricultural and processed agricultural goods)*

Total foreign direct investments from European Union countries prior to the FTA with the European Union, during the period 2003-2007, was of $837 million, with 1,609 jobs created. During this period, foreign direct investments from the European Union were the largest in the communications and textile industries. $59.4 million was invested in communications projects, with 116 jobs created. $18 million was invested in the textile industry, and 430 jobs were created. There was an abnormally large investment in the chemicals sector which accounted for two-thirds of total FDI during this period: an investment from Spain totaling $557 million and creating 116 jobs.

(b) *During the implementation period (2008-2013)*

During the implementation period, from 2008 to 2013, total FDI from European Union countries was of $206 million, with 2,982 jobs created. This represents a significant decline in foreign investment, of 75 per cent, from the previous period. Investments in the textile sector reached $72 million, with 1,720 jobs created, marking a significant uptick in investments due to the FTA being implemented. Communication projects declined greatly, as only 2 projects were funded for a total cost of $15 million. Investment in consumer goods increased by over 300 per cent, to $14.5 million. This may be due to the FTA mostly covering industrial and consumer goods.

(c) *After implementation (2014-2016)*

Due to the small sample of available data since the full implementation of the FTA, the effects of the FTA on foreign direct investments are still open to interpretation. During the period 2014-2015, for which we have data, foreign direct investments totaled $51.1 million, with 524 jobs created. When compared with average investments over the course of 2 years during and prior to implementation, capital expenditures are down 25 per cent and 85 per cent, respectively. In the textile industry, there was a total investment of $7.2 million, and 172 jobs were created. Compared to a two-year average during the period of implementation, investments are down 75 per cent. Capital expenditures in textiles have stayed the same as prior to the FTA. There was only one project funded in the consumer products industry, valued at $7.1 million, with 228 jobs created. In the communications sector, total investment was of $15.9 million, which is down 33 per cent from the period prior to the FTA, but up 218 per cent from the implementation period.

IV. STATUS OF IMPLEMENTATION OF THE TWO AGREEMENTS

A. Implementation of the FTA with the European Union

All the commitments set forth in the agreement on trade in industrial products have been implemented by Lebanon. By 2018, all customs duties and charges having equivalent effect on European Union industrial products entering Lebanon had been abolished.[13]

Provisions for trade in agricultural and processed agricultural products stipulate that Lebanon should eliminate customs duties and charges on some products, while reducing charges on others.

Table 2 and table 3 below list the product groups that benefit from customs duties elimination, and those that benefit from a reduction in the range of 20 to 50 per cent.

Table 2. Product groups that have benefited from customs duty elimination

Customs duties completely removed
Products of animal origin, not elsewhere specified
Coffee; tea; maté and spices
Cereals
Products of the milling industry; malt; starches
Lac; gums, resins and other vegetable saps and extracts
Vegetable plaiting materials; vegetable products
Residues and waste from the food industries
Organic chemicals
Albuminoidal substances; modified starches; glues
Miscellaneous chemical products
Oil seeds and oleaginous fruits

Source: Lebanon, Customs Administration. Available at http://www.customs.gov.lb/home.aspx (accessed on 16 April 2019).

Table 3. Product groups that have benefited from customs duty reductions

Customs duties reduced
Live poultry: fowls of the species *Gallus domesticus*
Meat and edible offal, of the poultry of heading No. 01.05 (*Gallus domesticus*)
Live trees and other plants; bulbs and roots
Edible vegetables and certain roots and tubers
Edible fruit and nuts; peel of citrus fruit or melons
Fresh mint
Preparations of vegetables; fruit; nuts or other edible parts of plants
Sauces; soups and preparations thereof
Ice cream and other edible ice
Beverages; spirits and vinegar
Tobacco and manufactured tobacco substitutes
Animal or vegetable fats and oils
Preparations of meat
Sugars and sugar confectionery
Cocoa and cocoa preparations
Preparations of cereals, flour, starch or milk
Distilled rose water; distilled orange blossom water

Source: Lebanon, Customs Administration.

[13] Lebanon, Customs Administration.

All provisions in the Euro-Mediterranean agreement regarding trade in agricultural and processed agricultural products have been implemented in Lebanon, except for three product groups. The agreement states that there should be no new customs duties or restrictions on trade between the two parties. However, a trade barrier is active according to the European Commission website. In fact, additional duties on alcoholic beverages were introduced in 2017, and European Union exporters have communicated to the Directorate-General for Trade that this additional tax is being imposed.[14] These additional duties were imposed on: HS 2203 (beer made from malt), HS 2204 (wine of fresh grapes, including fortified wines; grape must other than that of heading 2009), HS 2208 (undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent; spirits, liquors and other spirituous beverages).

On the other hand, further duty reductions were made on two product types: products under HS 0603 and HS 0604 (cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, foliage, branches and other parts of plants). According to Protocol 2, which sets out the arrangements for customs duty reductions on European Union agricultural products entering Lebanon, the reduction of customs duty on these products should be of 25 per cent. However, according to Lebanese Customs, customs duty on these products was reduced by 67.86 per cent.[15]

B. Implementation of GAFTA

As of 1 January 2005, the agreement reached full trade liberalization of goods, through full exemption from customs duties and charges having equivalent effect between all GAFTA member countries.

All the commitments set forth in the agreement have been implemented by Lebanon. Imports into Lebanon from GAFTA members are free of any customs duties or charges having equivalent effect.[16]

[14] European Commission. Available at https://ec.europa.eu/info/index_en (accessed on 2019).

[15] Lebanon, Customs Administration.

[16] Ibid.

V. THE ECONOMY'S VULNERABILITY TO EXTERNAL SHOCKS AND POOR IMPROVEMENT IN GOVERNANCE

The Lebanese economy is extremely vulnerable to external shocks. As the country is located in an unstable region, it can be heavily impacted by conflicts in neighboring countries, such as the Israeli-Palestinian conflict. Such conflicts affect how the government utilizes its revenue, and at the present time, its focus on reconstruction efforts is slowing the growth of the economy.

As the economy is reliant on tourism and banking, these sectors make it vulnerable to swings resulting from uncontrollable external factors. Tourism has been in decline since the Lebanese civil war and the conflict with Israel, reducing government revenue and economic gains. Additionally, the country's banking industry has been slowing down, as interest rates in the rest of the world increase to restore normality. The Lebanese banking industry has been intriguing to many, as its interest rates have remained comparatively high. But as the global economy shifts towards higher growth rates, the interest rates of banks have been slowly climbing. This could constrain Lebanese banks if no action is taken. Combined with the instability of the country, this is leading investors to seek better opportunities elsewhere.

The country's trade deficit makes Lebanon reliant on imports for goods and for the well-being of its citizens. The deficit is of $13 billion today, and any conflict with trading partners could increase it, especially if exports decrease. If critical imports of goods are cut, the economy could collapse, as the country is overly reliant on imports for survival.

The Lebanese economy is extremely vulnerable to macroeconomic problems. The amount of public debt is a particularly concerning vulnerability. The debt increased by 6.19 per cent, to $80 billion, in 2017. The rate of debt to GDP currently stands at over 150 per cent. This makes the economy unstable, as further costs due to regional conflicts could cause the countryto further increase borrowing. If Lebanon fails to restructure its finances and bring its accounting deficit below10 per cent, the debt could reach up to 180 per cent of the country's GDP by 2023.

The inflation rate of the country in 2017 was 3.1 per cent, an increase of 3.9 per cent from 2016, in which inflation sat at -0.8 per cent. Inflation can be good or bad, depending on the industrial sector. With the high amount of public debt Lebanon currently bears, an increase in the inflation rate could increase economic instability and macroeconomic vulnerability. Controlling inflation is critical for Lebanon to find economic stability and begin to decrease its public debt, as a decreased valuation of currency would increase its debtinstead.

Economic imbalances persist, primarily in the form of trade deficits. The country had a $13 billion deficit in 2016, which represented an increase of 29 per cent from 2015. Imports increased by 23.7 per cent and exports decreased by 4.5 per cent. As the Syrian Arab Republic is one of the main export partners of Lebanon, the war in the Syrian Arab Republic continues to impact the Lebanese economy negatively. The war in the Syrian Arab Republic has increased the number of refugees in the country, and the head count currently stands at 1.5 million refugees. This puts an increasing amount of pressure on the country's infrastructure, further hampering the growth of various sectors. The cumulative loss due to the Syrian conflict for Lebanon has been estimated at $18.2 billion by the World Bank. Combined with a decrease in public revenues of $4.2 billion, it has increased the public debt and undermined the well-being of Lebanese citizens. 200,000 people have fallen below the poverty line, and an estimated 300,000 people have become unemployed, with the unemployment rate reaching 20 per cent during this period. The conflict could also increase the amount spent on reconstruction efforts, contributing to the increase in public debt.

Another imbalance is the amount of private sector consumption, which represented 70 per cent of the GDP in 2017. Private investments represent 42 per cent of the GDP. The economy therefore depends on the private sector and on consumption spending. A diversification of the structure of the economy in the future is necessary for better growth rates and Government investments.

Outdated infrastructure, due to low investment rates, has created vulnerability and imbalance. Electricity, roads, and telecommunications are some of the sectors that need to be upgraded with a significant amount of investments to enhance their economic contributions. Economic contributions by the Government have increased the public debt without increasing the productivity of the country's economic sectors. Private investments and improvements are necessary to allow for unencumbered overall economic growth.

Lebanese citizens have been demanding more effective governance and a decrease in corruption through protests. This year's election marked a significant advance in governance, as it came nine years after the last Lebanese parliamentary election. During those nine years, a lot of turmoil occurred, peaking with the Syrian conflict, and winding down since 2016. As a result of protests and the dissatisfaction of Lebanese citizens, a new electoral law was written to enshrine the parties in power and impedere form in governance. The demands for effective governance and the rise of civil society led to a record number of independent candidates for Parliament. Over 70 independents ran but only one managed to win a parliamentary seat, showing that governance and the electoral process have not improved and remain problematic.

VI. SHORTCOMINGS OF THE TWO AGREEMENTS

COMPARISON OF EURO-MEDITERRANEAN AGREEMENTS: EGYPT, JORDAN, LEBANON, MOROCCO, TUNISIA

Between 1995 and 2002, Association Agreements were signed between the European Union and Egypt, Jordan, Lebanon, Morocco and Tunisia. The agreements have shaped bilateral relations between the European Union and each of these Mediterranean countries. However, the depth of such bilateral relations varies among the latter. To a large extent, all of the agreements follow a similar outline. The partnership provides a basis for liberalizing trade in goods, while leaving the task of broadening the scope of the agreement to bilateral talks. Indeed, Association Agreements provided a scheme for promoting and deepening trade relations, but were unable to go much beyond the mere removal of tariffs on industrial goods, leaving aside sensitive issues like agricultural products and the liberalization of trade in services.

1. *Trade in industrial products*

The Euro-Mediterranean Association Agreements stipulated that European Union imports of industrial products from all of its Arab Partner Countries should be free of any customs duties, quantitative restrictions or any other charge having equivalent effect, immediately upon the entry into force of the agreements. On the other hand, for European Union industrial exports to partner countries, schedules were set in order to progressively abolish customs duties over a certain period of time. In the case of Egypt and Lebanon, schedules were set to eliminate customs duties on all European Union industrial products. However, for Jordan, Morocco and Tunisia, some customs duties on industrial products were not to be eliminated (table 4).

TABLE 4. EURO-MEDITERRANEAN AGREEMENT PROVISIONS ON EUROPEAN UNION INDUSTRIAL EXPORTS TO ARAB PARTNER COUNTRIES

Lebanon	Liberalization of all industrial products starts in 2011 and extends until 2018. **By 2018, all customs duties on European Union industrial products entering Lebanon are eliminated.**
Egypt	There are four lists based on which liberalization is implemented in the agreement: (a) Preliminary resources/raw materials: Liberalization starts in 2004 and extends until 2008; (b) Intermediate resources: Liberalization starts in 2007 and extends until 2013; (c) Final products: Liberalization starts in 2009 and extends until 2016; (d) Motor cars and motor vehicles: Liberalization starts in the sixth year and extends until 2019. **By 2019, all customs duties on European Union industrial products entering Egypt are eliminated.**
Morocco	Liberalization of a list of industrial products starts in 2000 and extends until 2003. Liberalization of a list of industrial products starts in 2003 and extends until 2015. All other industrial products are liberalized in 2000. **By 2015, all customs duties on European Union industrial products entering Morocco are eliminated, except for 48 products.** The exceptions are: used pneumatic tires, worn articles, road tractors, all motor vehicles, cookers and gas appliances, used motors for irrigation, used refrigerators and freezers, used washing machines, used electric and dual fuel cookers, used mopeds and used bicycles.

TABLE 4 (*continued*)

Jordan	Liberalization of a list of industrial products (list A) starts in 2004 and extends until 2006. Liberalization of a list of industrial products (list B) starts in 2006 and extends until 2014. **By 2014, all customs duties on European Union industrial products entering Jordan are eliminated, except for 172 products.** The exceptions include: some carpets and other textile floor coverings, some articles of apparel and clothing accessories, some footwear, vehicles other than railway and tramway, and furniture.
Tunisia	Liberalization of a list of industrial products starts in 1998 and extends until 2003. Liberalization of a list of industrial products starts in 1998 and extends until 2010. Liberalization of a list of industrial products starts in 2002 and extends until 2014. **By 2014, all customs duties on European Union industrial products entering Tunisia are eliminated, except for 45 products.** The exceptions are: bread and baker's wares, yeasts and other single-cell micro-organisms, mineral water, carpets and floor coverings, hand-woven tapestries, floor and dish cloths, worn clothing and worn articles.

Source: European Commission. Available at https://ec.europa.eu/info/index_en (accessed on 2019).

2. *Trade in agricultural products*

The Association Agreements stipulate that the European Community and its partner countries shall gradually implement greater liberalization of their reciprocal trade in agricultural, processed agricultural and fishery products. An asymmetrical relationship was set up through various lists of products and schedules. In fact, on the European Union side, exonerations of duties for agricultural imports were granted, with quota limitations on some imports (table 5). In return, Arab partner countries granted customs duty reductions and elimination for a limited amount of products from the European Union, and only with restrictive quotas (table 6).

The lack of free trade in agriculture significantly reduces the benefits of these agreements for Arab partner countries, as agriculture is an important sector for most of these economies, accounting for most of their GDP.

TABLE 5. EURO-MEDITERRANEAN AGREEMENT PROVISIONS ON EUROPEAN UNION AGRICULTURAL IMPORTS FROM ARAB PARTNER COUNTRIES

Lebanon	**All customs and quotas on Lebanese agricultural products entering the European Union would be eliminated, with the exception of 31 products.** The exceptions include mostly vegetables, fruits, nuts and wine of fresh grapes.
Egypt	Customs and quotas on some Egyptian agricultural products entering the European Union would be eliminated completely, reduced, or eliminated within the limits of specific tariff quotas. **Customs and quotas would be eliminated for almost 22 products:** Some vegetables and fruits, ginger, saffron, turmeric, seeds of anise, badian, fennel, coriander, cumin, juniper berries, pepper of the genus *Piper*, ground nuts, plants of the kind used for perfumery, locust beans and seaweeds, fruit and spores of the kind used for sowing. **Customs would be eliminated within the limits of specific tariff quotas for almost 29 products:** Some vegetables and fruits, live trees and other plants, some preparations of vegetables and fruits, sesame oil for industrial use, molasses, flax. **Customs would be reduced for 2 products:** Rice and bran.

TABLE 5 (*continued*)

Morocco	Customs duties on more than 200 Moroccan agricultural products entering the European Union would be reduced, eliminated completely, or eliminated within the limits of specific tariff quotas. The products subject to such arrangements are mostly vegetable and fruit products, preparations of vegetables and fruits, oleaginous fruits, juices and vegetable fats. Customs duties would be eliminated on some edible vegetables and fruits of a specific season only.
Jordan	**Customs duties on almost 60 Jordanian agricultural products entering the European Union would be reduced, eliminated completely, or eliminated within the limits of specific tariff quotas.** The products subject to such arrangements are mostly vegetable and fruit products, and preparations of vegetables and fruits. Customs duties would be eliminated on some edible vegetables and fruits of a specific season only.
Tunisia	**Customs duties on Tunisian almost 120 agricultural products entering the European Union would be reduced, eliminated completely, or eliminated within the limits of specific tariff quotas.** The products subject to such arrangements are mostly vegetable and fruit products, preparations of vegetables and fruits, oleaginous fruits, and juices. Customs duties would be eliminated on some edible vegetables and fruits of a specific season only.

Source: European Commission.

TABLE 6. EURO-MEDITERRANEAN AGREEMENT PROVISIONS ON EUROPEAN UNION AGRICULTURAL EXPORTS TO ARAB PARTNER COUNTRIES

Lebanon	**Customs on almost 430 European Union agricultural products entering Lebanon would either be eliminated or reduced.** Customs would be removed on products of animal origin, coffee, tea, maté, spices, cereals, some products of the milling industry, residue and waste from the food industry. Customs would be reduced for fowls of the species *Gallus domesticus*, meat and edible offal of the poultry *Gallus domesticus*, live trees and other plants, edible vegetables, edible fruits, fresh mint, preparations of vegetables and fruits, preparations of meat, sugar.
Egypt	**Customs and tariffs on almost 42 European Union agricultural products entering Egypt would either be eliminated completely, or eliminated within the limits of specific tariff quotas.** Customs duties would be eliminated with no tariff quotas on pure-bred breeding animals, milk, sweet potatoes, bulbs, tubers, tuberous roots, corms, crowns and rhizomes, dormant live plants, mushroom spawn, soybeans, linseed, sunflower seeds, palm nuts and kernels, sesame seeds and seeds of the kind used for sowing. Customs duties would be eliminated within the limits of specific tariff quotas for meat and bovine animals, cream, cheese, butter, dried leguminous vegetables, some fruits, some seeds, soybeans, tomato preparations, mushroom preparations, preparations of the kind used for animal feed.
Morocco	**Customs duties on almost 48 European Union agricultural products entering Morocco would not be higher than a specified maximum duty percentage within the limits of specific tariff quotas.** Maximum duty percentages range from 2.5 per cent to 250 per cent. Customs duties would not be eliminated on any products.
Jordan	**Customs duties on almost 25 European Union agricultural products entering Jordan would not be higher than a specified maximum duty percentage.** Maximum duty percentages range from 5 per cent to 40 per cent. Customs duties are reduced to 0 per cent for durum wheat and other wheat products.
Tunisia	**Custom duties on almost 40 European Union agricultural products entering Tunisia would not be higher than a specified maximum duty percentage within the limits of specific tariff quotas.** Maximum duty percentages range from 17 per cent to 43 per cent. Customs duties would not be eliminated on any products.

Source: European Commission.

3. *Trade in processed agricultural products*

The Euro-Mediterranean agreements with Lebanon and Egypt stipulate that the European Union should eliminate customs duties on 354 Lebanese processed agricultural products and 117 Egyptian processed agricultural products (table 7). However, customs duties on Jordanian, Moroccan and Tunisian processed agricultural products entering the European Union do not benefit from any customs duties reductions or elimination (table 7).

A clearly asymmetrical relationship was found in the provisions of the Euro-Mediterranean agreements with Lebanon and Egypt. Customs duties on many Lebanese and Egyptian processed agricultural products entering the European Union were eliminated. However, customs duties on European Union agricultural products entering Lebanon or Egypt were either eliminated for a very limited number of products or reduced (table 8).

For Mediterranean Arab countries to achieve significant net gains from these agreements, the European Union should reduce barriers to its agricultural markets, especially for processed agricultural foods.

TABLE 7. EURO-MEDITERRANEAN AGREEMENT PROVISIONS ON EUROPEAN UNION PROCESSED AGRICULTURAL EXPORTS TO ARAB PARTNER COUNTRIES

Lebanon	**Customs duties on almost 235 European processed agricultural products entering Lebanon would either be eliminated or reduced.** Customs duties would be eliminated for gums, resins and other vegetable saps and extracts, vegetable plaiting materials, organic chemicals, albuminoidal substances, modified starches, glues, miscellaneous chemical products. Customs duties would be reduced for sauces and soup preparations, animal or vegetable fats and oils, cocoa and cocoa preparations, and preparations of cereal, flour or milk.
Egypt	**Egypt would eliminate customs duties on some processed agricultural products originating from the European Union over a progressive period of 4 years.** There are three lists based on which liberalization would be implemented in the agreement: (a) Customs duties on 51 processed agricultural products originating from the European Union would be eliminated in 2006; (b) Customs duties on 41 processed agricultural products originating from the European Union would be reduced by 15 per cent in 2008; (c) Customs duties on 28 processed agricultural products originating from the European Union would be reduced by 25 per cent in 2008.
Morocco, Tunisia	**Processed agricultural products not included in the agreement.**
Jordan	**Customs duties on almost 45 European processed agricultural products entering Jordan would be reduced by 50 per cent of their basic customs duty.**

Source: European Commission.

TABLE 8. EURO-MEDITERRANEAN AGREEMENT PROVISIONS ON EUROPEAN UNION PROCESSED AGRICULTURAL IMPORTS FROM ARAB PARTNER COUNTRIES

Lebanon	**Custom duties on almost 354 Lebanese processed agricultural products entering the European Union would be eliminated.** An agricultural component would remain under protection for 42 of these processed agricultural products.
Egypt	**Customs duties on 117 Egyptian processed agricultural products entering the European Union would be eliminated.** An agricultural component would remain under protection for 43 of these processed agricultural products.
Jordan, Morocco, Tunisia	**Processed agricultural products not included in the agreement.**

Source: European Commission.

4. *Trade in fishery products*

The Euro-Mediterranean agreements with Egypt, Lebanon, Morocco and Tunisia do not include any customs duties reductions or elimination on European Union fishery products. However, customs duties on Moroccan and Tunisian fishery products entering the European Union would be eliminated (table 9).

European Union fishery products would not benefit from customs duties elimination or reductions when imported into Arab partner countries.

TABLE 9. EURO-MEDITERRANEAN AGREEMENT PROVISIONS ON FISHERY PRODUCTS FROM ARAB PARTNER COUNTRIES

Egypt, Jordan, Lebanon	**Fishery products not included in the agreement.**
Morocco, Tunisia	**Customs duties on all Moroccan/Jordanian fishery products entering the European Union would be eliminated.**

Source: European Commission.

5. *Trade in services*

The Euro-Mediterranean agreements essentially reaffirm both parties' very general obligations under the WTO General Agreement on Trade in Services, neither making specific commitments nor supporting a serious liberalization process in the service sector. However, the agreement with Jordan includes commitments on the treatment of companies established in the territory of the other party (table 10).

The lack of specific commitments for trade in services significantly reduces the benefits of these agreements, since the service sector accounts for most of these countries' GDP.

In 2017, the service sector accounted for almost 70 per cent of Lebanese GDP, 53 per cent of Egyptian GDP, 50 per cent of Moroccan GDP and 59 per cent of Tunisian GDP.[17]

[17] World Bank, Open Data.

TABLE 10. EURO-MEDITERRANEAN AGREEMENT PROVISIONS FOR TRADE IN SERVICES

Lebanon	Lebanon undertakes to provide a schedule of specific commitments on services, prepared in accordance with Article XX of the GATS, to the European Community and its Member States as soon as it is finalized.
Egypt, Morocco, Tunisia	The Parties reaffirm their respective commitments under the terms of the General Agreement on Trade in Services (GATS) annexed to the Agreement establishing the WTO, and in particular the commitment to accord each other most-favored-nation treatment in the trade in service sectors covered by those commitments. The Parties will consider extending the scope of the Agreement to include the right of establishment of companies of one Party in the territory of another Party and the liberalization of the supply of services by companies of one Party to service consumers in another Party.
Jordan	The Community shall grant the establishment of Jordanian companies in a member State treatment no less favorable than that accorded to similar companies in any third country. The Community shall grant to subsidiaries of Jordanian companies in a member state treatment no less favorable than that accorded to similar companies in the Community, in terms of operations. The Community shall grant to branches of Jordanian companies established in a member state treatment no less favorable than that accorded to similar companies in the Community. Jordan shall grant the same treatment (as stated above) to companies of the Community. A Community company or Jordanian company established in the territory of Jordan or the Community respectively shall be entitled to employ, or have employed by one of its subsidiaries or branches, in accordance with the legislation in force in the host country of establishment, in the territory of Jordan and the Community respectively, employees who are nationals of Community Member States and Jordan respectively, provided that such employees are key personnel and that they are employed exclusively by such companies, subsidiaries or branches. The residence and work permits of such employees shall only cover the period of such employment. The Parties shall use their best endeavors to progressively allow for the supply of services by Community or Jordanian companies which are established in the territory of a Party other than that of the person for whom the services are intended, taking into account the development of the service sectors in the Parties. With regard to maritime transport, the Parties undertake to apply effectively the principle of unrestricted access to the international market and traffic on a commercial basis.

Source: European Commission.

6. *External payments and movement of capital*

The Euro-Mediterranean agreements for Lebanon and Jordan stipulate that there should be no restrictions on the movement of capital and on payments connected to the movement of goods, services, or capital.

TABLE 11. EURO-MEDITERRANEAN AGREEMENT PROVISION ON PAYMENTS AND MOVEMENT OF CAPITAL

Jordan, Lebanon	There shall be no restrictions on the movement of capital and no discrimination based on the nationality or on the place of residence of their nationals or on the place where such capital is invested. Current payments connected with the movement of goods, persons, services or capital within the framework of this Agreement shall be free of all restrictions.
Egypt, Morocco, Tunisia	The Parties undertake to authorize, in fully convertible currency, any payments to the current account. The parties will ensure, from the entry into force of the Agreement, the free circulation of capital for direct investments made in companies formed in accordance with the laws of the host country, and the liquidation or repatriation of these investments and of any profit stemming therefrom.

Source: European Commission.

7. *Cooperation in social and cultural matters*

The Euro-Mediterranean agreements with Egypt,Jordan and Lebanon do not include specific provisions on the free movement of persons and workers. However, the agreements with Morocco and Tunisia include commitments on non-discrimination with respect to working conditions and social security for their nationals legally working in the European Union (table 12).

TABLE 12. EURO-MEDITERRANEAN AGREEMENT PROVISIONS ON COOPERATION IN SOCIAL AND CULTURAL MATTERS

Egypt, Jordan, Lebanon	The Parties shall engage in dialogue to find ways to achieve progress in the field of movement of workers, and equal treatment and social integration of Lebanese and Community nationals legally residing in the territories of their host countries.
Morocco, Tunisia	The treatment accorded by each member State to workers of Moroccan/Jordanian nationality employed in its territory shall be free from any discrimination based on nationality, as regards to working conditions, remuneration and dismissal, relative to its own nationals. The workers in question shall receive family allowances for members of their families who are resident in the Community. Morocco/Jordan shall accord the same treatment to workers who are nationals of a member State and employed in its territory.

Source: European Commission.

VII. SHORTCOMINGS OF THE TRADE INTEGRATION SCHEME OR LACK OF DOMESTIC REFORMS?

A. ABSENCE OF FINANCIAL INTEGRATION AND LACK OF INTRA-ARAB INVESTMENTS

Financial integration in the Arab world has been largely limited to integration in financial markets and monetary exchange between Arab countries. The reasons for this are ultimately connected to the fact that Arab States have hardly taken any tangible and concrete steps towards unifying fiscal and monetary policies in the region. Essentially, despite the clear political benefits of adopting a single currency, which was agreed upon in the Arab Economic Unity Agreement in 1957, no further steps were taken towards the fulfillment of such a commitment.

It is important to foster financial integration among Arab countries, because enormous benefits could be reaped in the long run. More specifically, the total or partial liberalization of Arab financial markets would impose fewer restrictions on the terms and conditions of investment, and therefore encourage Arab investors to invest in the region. Thus, the growth of intra-Arab monetary exchange, in line with remittances, donations and aid, would create a suitable atmosphere for strengthening regional Arab cooperation.

Perhaps the most notable barriers that hinder the facilitation of Arab and non-Arab investments relate to the presence of incomplete information regarding investment opportunities, as well as the complexity of administrative procedures connected to remittance exchange. Along the same lines, the lack of a well-structured Arab investment map represents one of those barriers, as many Arab countries are in dire need of a coherent framework to work and coordinate with one another. All of these factors contribute to discouraging investments in the region, and consequently delaying the economic regional integration process. Note that, despite the fact that some Arab countries have succeeded in improving their business environment, these improvements remain, to a certain extent, relatively small, and continue to suffer from shortfalls.

B. DECLINING MOBILITY OF THE INTRA-ARAB WORKFORCE

The Arab world is uniquely characterized by the migration of its labor force. In fact, this characteristic distinguishes the Arab region from all other regions in the world. While countries such as Lebanon are seen as providers of the labor force, Gulf Cooperation Council (GCC) countries and Libya are viewed as being mostly recipients of the workforce. Other Arab countries, however, particularly those that suffer from high rates of unemployment and poverty, pump skilled and semi-skilled labor into other economies, while they themselves receive unskilled labor.

In brief, when considering intra-Arab labor force immigration as a general aspect of regional integration, it can easily be asserted that the Arab world did achieve labor integration. However, having pointed out this aspect, it is worth mentioning that regulations facilitating Arab labor mobility are unfortunately still considered far out of reach, and would require major reforms. Mainly, the elimination of obstacles to the transfer of the Arab workforce, as well as laws enabling Arabs to own property across the Arab world, would help achieve the desired Arab regional economic integration.

C. WEAK AGRICULTURAL AND FOOD SECURITY INTEGRATION

In spite of the enormous natural wealth available in the Arab region, agricultural integration remains extremely weak. In fact, the major weaknesses found in the region's agricultural sector drove the Council of the Arab League to found the Arab Organization for Agricultural Development (AOAD) in 1970, which mainly focused on developing Arab agricultural production capacities. The organization was also concerned with projects aimed at supporting and strengthening food security and agricultural integration. However, despite its agenda, the AOAD failed to impose any direct provisions or laws on agricultural trade agreements among Arab States. The reasons for this perhaps relate to the fact that improvements in the agricultural sector are strongly connected to the willingness of governments to provide support for improving factors of production, imposing protection tools on trade in agricultural commodities, and adopting tariff and non-tariff quotas. In any event, the agricultural sector remains far from achieving any sort of tangible integration in the Arab region, so much so that it has often been excluded from regional trade negotiations.

Furthermore, it is worth pointing out that the GAFTA agreement, despite its complete elimination of tariffs in 2005, has had no impact worth mentioning on the improvement of agricultural trade among Arab countries. Consequently, in light of political and economic changes in the region, the tendency towards a wider gap between the consumption and production of major agricultural commodities has become even more likely to increase. Therefore, achieving food security stands as a major challenge for Arab countries, requiring them to develop plans to improve their agricultural sector, especially in regard to the production of the three main agricultural commodities (wheat, raw sugar and oil seeds). For instance, a useful step towards achieving agricultural integration would be to make use of the considerable financial savings available to GCC countries, as well as Libya and Algeria, to fund relevant projects in countries with a climate suitable for agriculture, such as the Sudan, Morocco and Tunisia. This would represent a significant step towards increasing agricultural production and growing the agricultural sector.

D. Highly restricted trade in services

Lebanon has the third highest Services Trade Restrictiveness Index (STRI) in the region; only Egypt has higher STRIs on both Mode 3 and Mode 4 services, while Tunisia also has a higher overall STRI than Lebanon, as shown in table 13. In Mode 3, Iran is also more restrictive than Lebanon. In Mode 4, Tunisia and Yemen also have higher STRIs than Lebanon. Therefore, while Lebanon has immense scope for reducing its restrictiveness in services trade, its GAFTA partners also have high STRIs. This suggests that services trade barriers should have been included in GAFTA, in view of such high restrictiveness persisting even today.

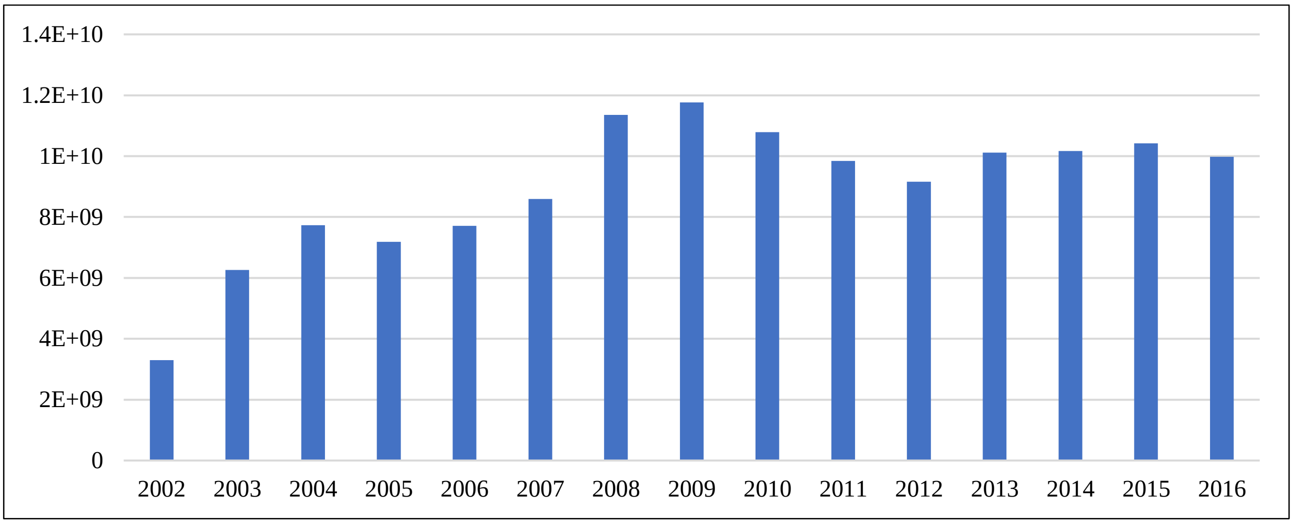
Table 13. STRI sin some sectors in Lebanon, and the overall measure compared to those of other countries in the region

Service Sector	Overall	Mode 3	Mode 4
Accounting	60	50	75
Auditing	65	50	75
Legal Advice Foreign Law	60	100	50
Legal Advice Domestic Law	100	100	100
Legal Representation in Court	100	100	100
Overall STRI (Lebanon)	***42.3***	***45.74***	***80***
Overall STRI (Algeria)	38.3	33.03	65
Overall STRI (Egypt)	52.1	54.85	95
Overall STRI (Iran)	63.3	65.49	80
Overall STRI (Jordan)	42.3	47.89	60
Overall STRI (Morocco)	21	16.67	60
Overall STRI (Tunisia)	44.5	45.4	85
Overall STRI (Yemen)	31.9	29.52	100

Source: World Bank TCdata360.

Looking at the data on service imports by Lebanon over the years, we can observe steady growth from 2002 to 2004, and again from 2005 to 2009, despite a dip from 2004 to 2005, which coincides with complete tariff elimination under GAFTA. Another period of decline started in 2009, and lasted until 2012. After a slight recovery in 2013, things have remained quite stagnant. In short, there has been no sustained growth in service imports by Lebanon.

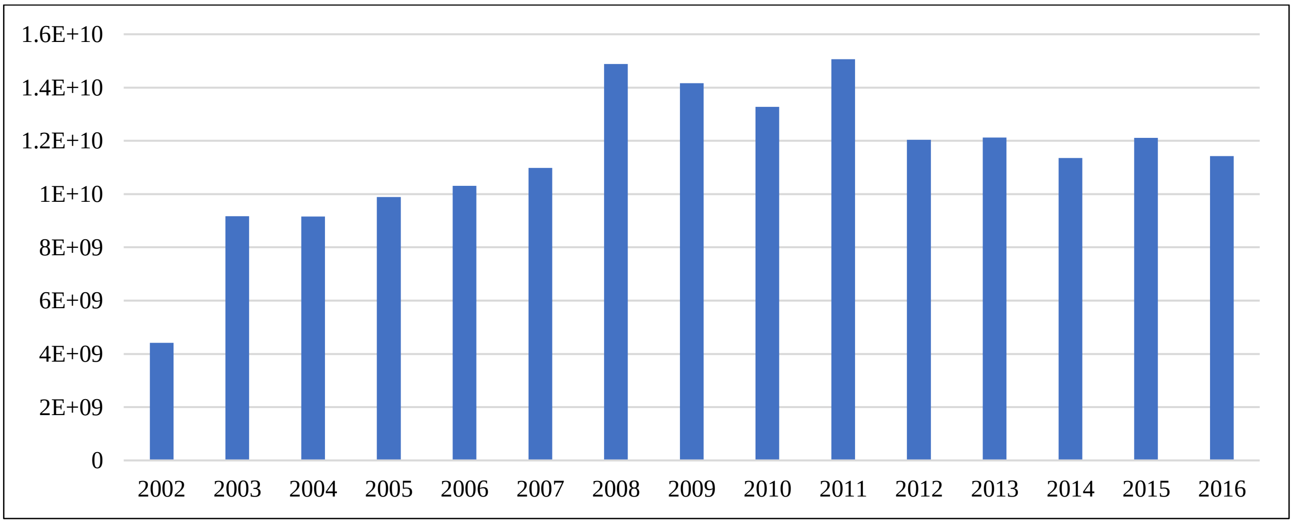
Figure 13. Service imports by Lebanon in constant dollars



Source: Author's estimates using the World Bank Open Data dataset.

The situation regarding service exports is slightly different. They increased in a sustained way from 2002 to 2008, declined until 2010, then recovered in 2011, only to fall again in 2012, after which they have remained stagnant, with some slight fluctuation. Furthermore, while the services trade surplus increased slightly from 2002 to 2016, it continued to fluctuate (both increase and decrease) during this period.

Figure 14. Service exports by Lebanon in constant dollars



Source: Author's estimates using the World Bank Open Data dataset.

Based on our analysis, it can be concluded that services trade has been quite restricted in Lebanon, as well as in some of the other GAFTA countries. Reduced restrictiveness in services trade may have resulted in greater growth in Lebanese exports and imports of services, which have fluctuated over time – from 2002 to 2016. The global financial crisis may well have had an impact on Lebanese services trade around 2009-2011, but this does not explain the further decrease and stagnation after that. This is why the non-inclusion of services in GAFTA can be identified as a shortcoming of this agreement, from a Lebanese perspective.

E. Poor trade facilitation performance

An important measure of trade facilitation is the Logistics Performance Index (LPI) created by the World Bank. It is based on a number of factors related to logistics, namely:

(a) Customs (efficiency of customs clearance processes);

(b) Infrastructure (quality of trade and transport-related infrastructure, e.g. ports, railroads, roads, information and communication technologies);

(c) International Shipments (ease of arranging competitively priced shipments);

(d) Logistics Quality and Competence (strong logistics services actors, such as transport operators and customs brokers);

(e) Tracking and Tracing (ability to track/trace consignments);

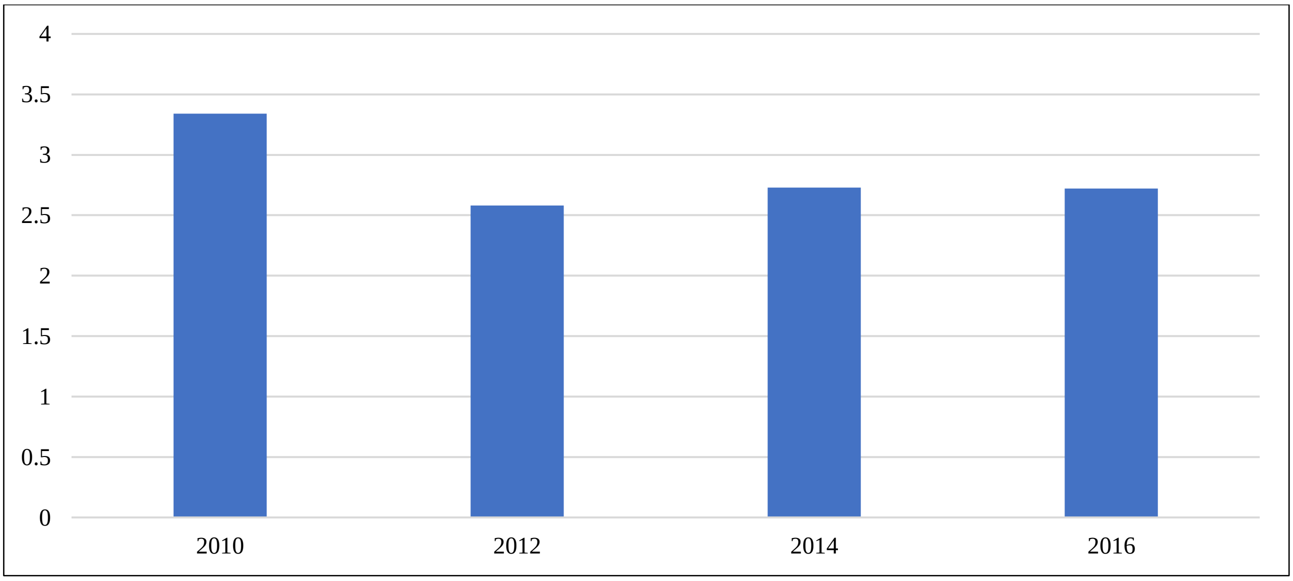
(f) Timeliness (of shipments, ability to reach destinations within the scheduled/expected delivery time);

(g) Liner Shipping Connectivity (how well Lebanon is connected to global shipping networks, based on the number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in the country's ports).

We evaluate the performance of Lebanon from 2010 to 2016, the years for which such data is available, to understand some of the trends emerging in the post-PAFTA period. However, since this period begins five years after complete tariff elimination, which occurred in 2005, it may be argued that these trends cannot be attributed to PAFTA alone. Nevertheless, tariff elimination may take a few years to affect non-tariff aspects of trade facilitation, and hence, we may consider some of these trends to be a consequence of PAFTA.

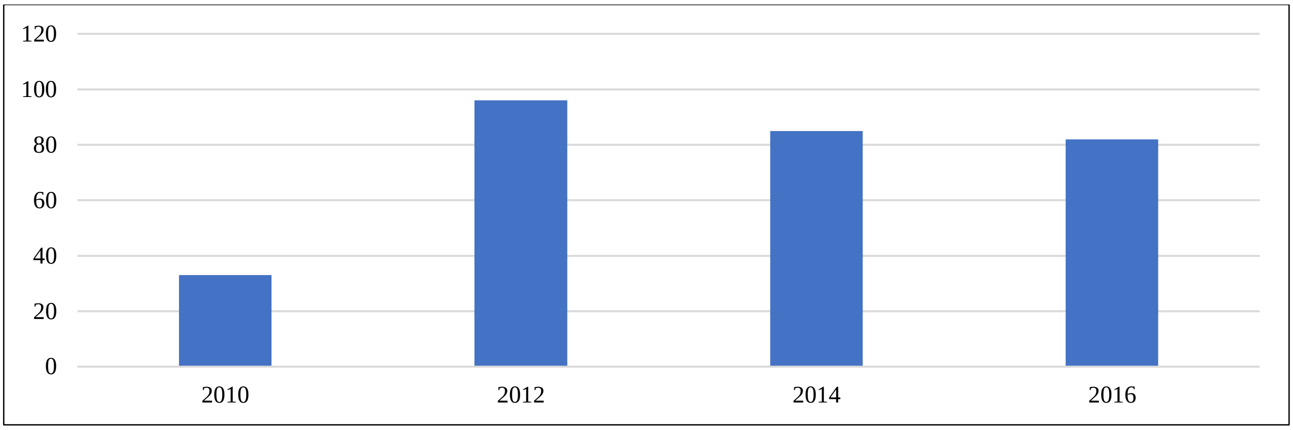
Figure 15 shows that the overall LPI score for Lebanon fell sharply from 2010 to 2012, and rose only slightly in 2014, before falling slightly again in 2016. Therefore, we may consider the overall effects to have been negative, which is also reflected in the LPI ranking for Lebanon in the world, as shown in figure 16.

Figure 15. Trends in overall LPI score for Lebanon, 2010-2016



Source: World Bank LPI dataset.

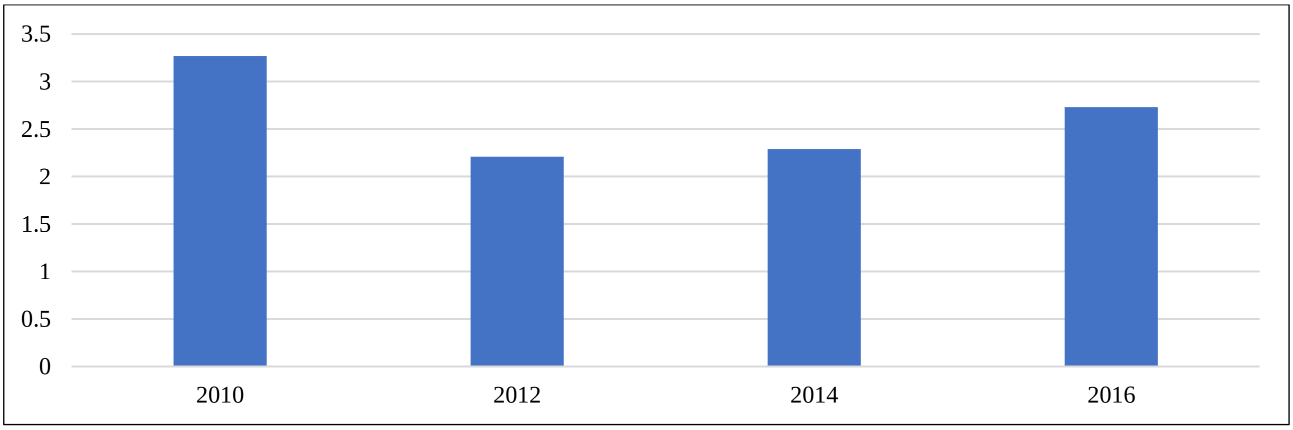
Figure 16. Trends in overall LPI rank for Lebanon in the world, 2010-2016



Source: World Bank LPI dataset.

Customs clearance procedures worsened from 2010 to 2014, but slightly improved in 2016. Nevertheless, overall movement from 2010 to 2016 was negative, as shown in figure 17.

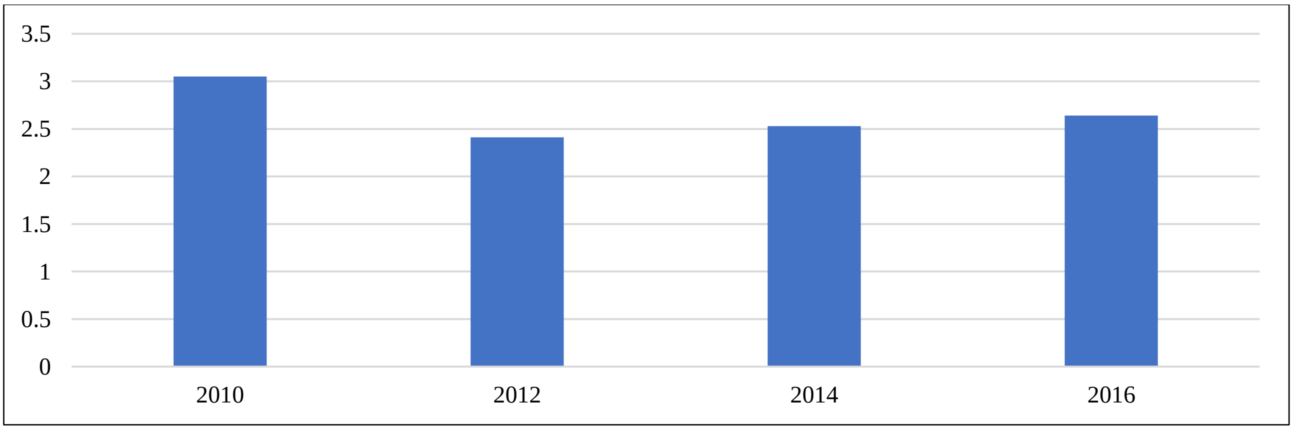
Figure 17. Trends in customs performance for Lebanon, 2010-2016



Source: World Bank LPI dataset.

Similarly, as figure 18 shows, infrastructure performance worsened sharply from 2010 to 2012, but moderately recovered in 2014 and in 2016, although the overall trend from 2010 to 2016 remained negative.

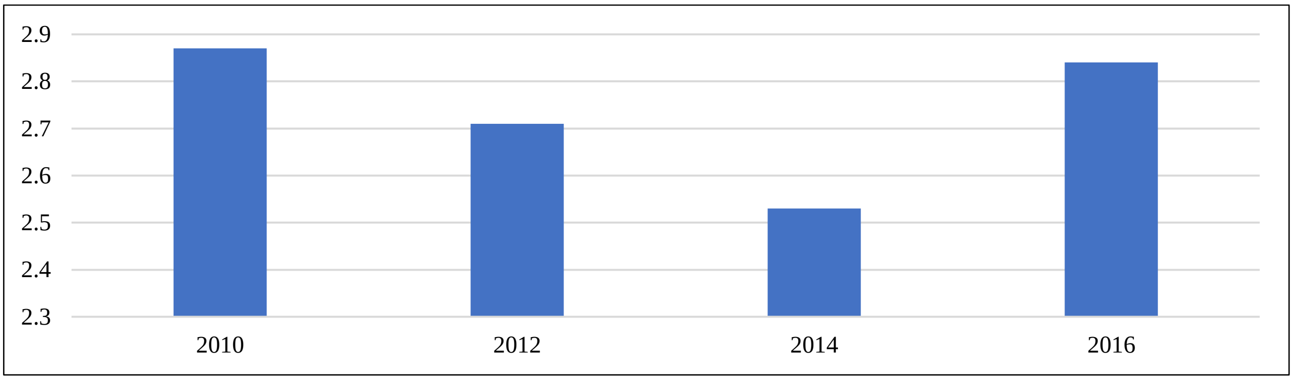
Figure 18. Trends in infrastructure performance for Lebanon, 2010-2016



Source: World Bank LPI dataset.

Figure 19 tells a similar story for the country's international shipment score, namely that the possibilities of arranging competitively priced shipments deteriorated with time, until 2014, although there was a sharp recovery, almost to the initial 2010 level, from 2014 to 2016.

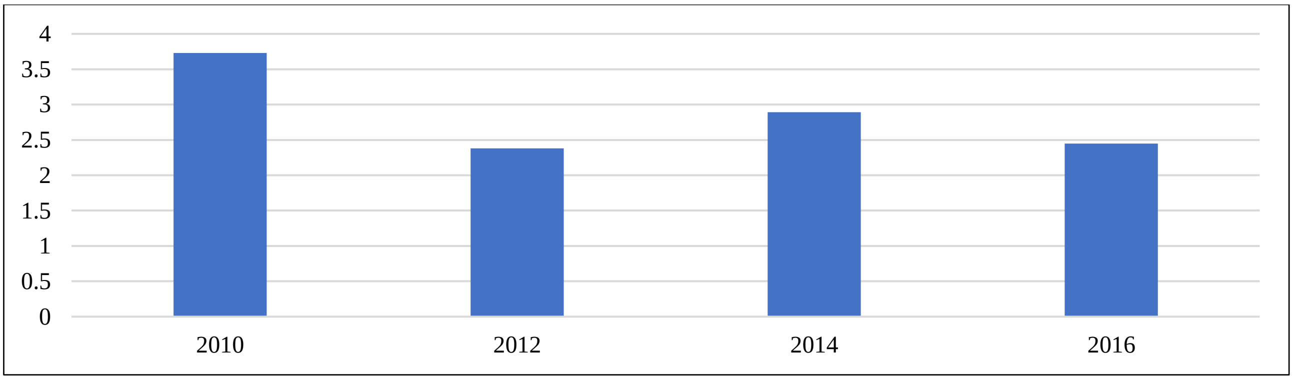
Figure 19. Trends in international shipment performance for Lebanon, 2010-2016



Source: World Bank LPI dataset.

The quality and competence of logistics services also followed the overall trend of sharp decline until 2012, and moderate recovery in 2014. However, there was a moderate decline again from 2014 to 2016, as shown in figure 20.

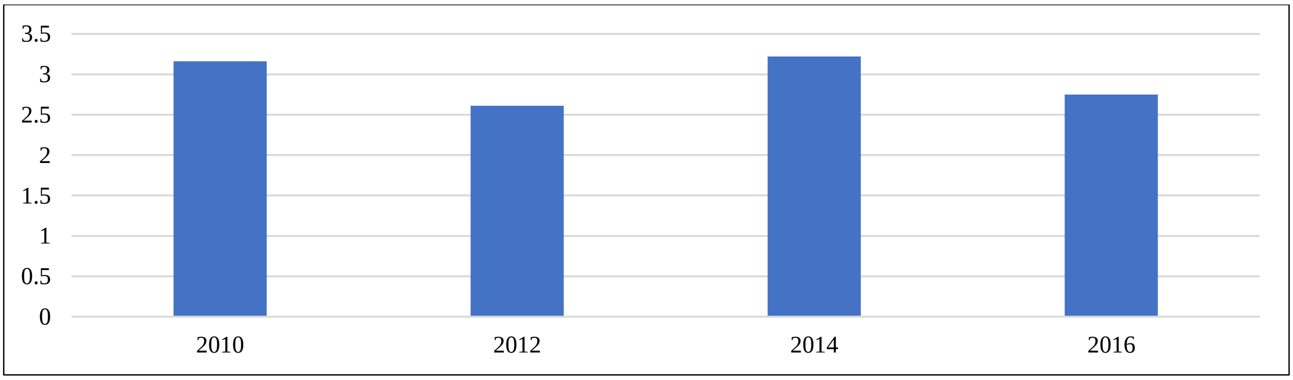
Figure 20. Trends in logistics quality and competence for Lebanon, 2010-2016



Source: World Bank LPI dataset.

The country's tracking and tracing score fell from 2010 to 2012, then rose from 2012 to 2014, and fell again from 2014 to 2016, effectively declining slightly from 2010 to 2016, as shown in figure 21.

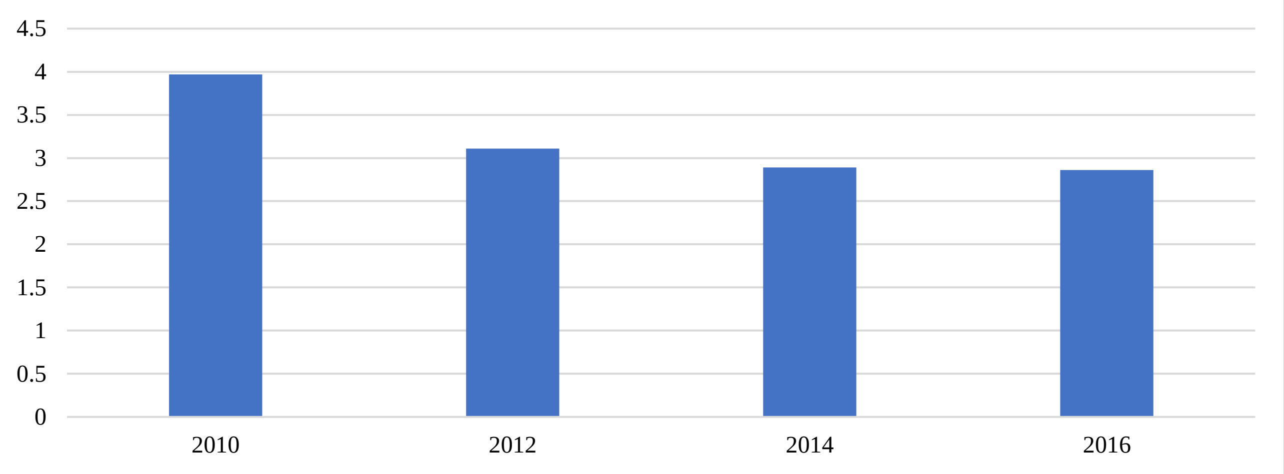
Figure 21. Trends in tracking and tracing score for Lebanon, 2010-2016



Source: World Bank LPI dataset.

After a sharp decline in 2012, as compared with 2010, the timelines score fell again slightly from 2012 to 2016, as seen in figure 22.

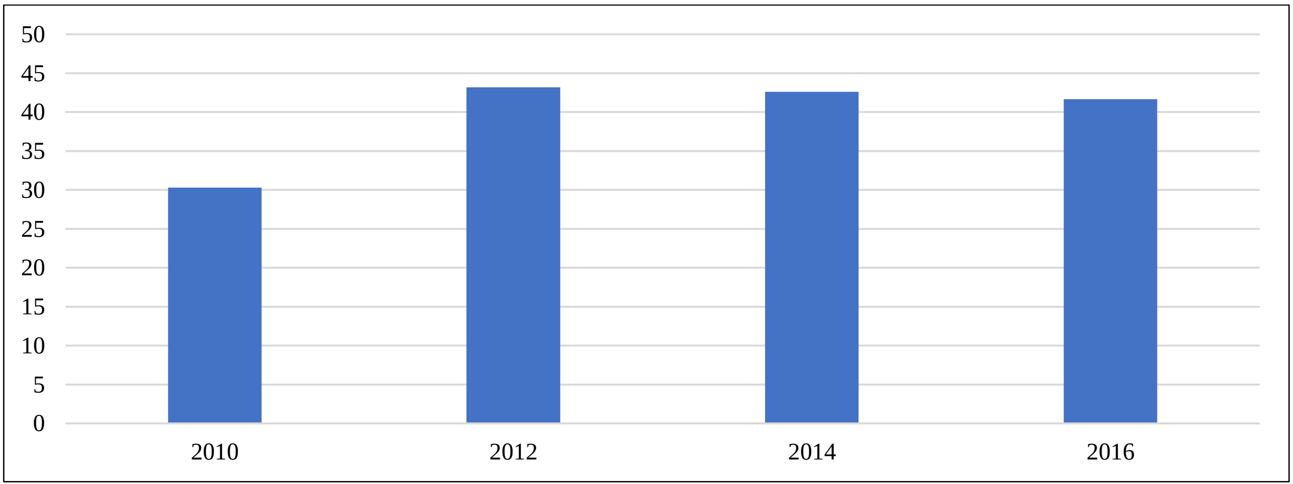
Figure 22. Trends in timelines score for Lebanon, 2010-2016



Source: World Bank LPI dataset.

The liner shipping connectivity index, which measures the extent to which Lebanon is connected to global shipping networks, has been an exception. There was a significant positive jump from 2010 to 2012, and just a very slight decline from 2012 to 2016, as shown in figure 23.

Figure 23. Liner shipping connectivity index for Lebanon, 2010-2016



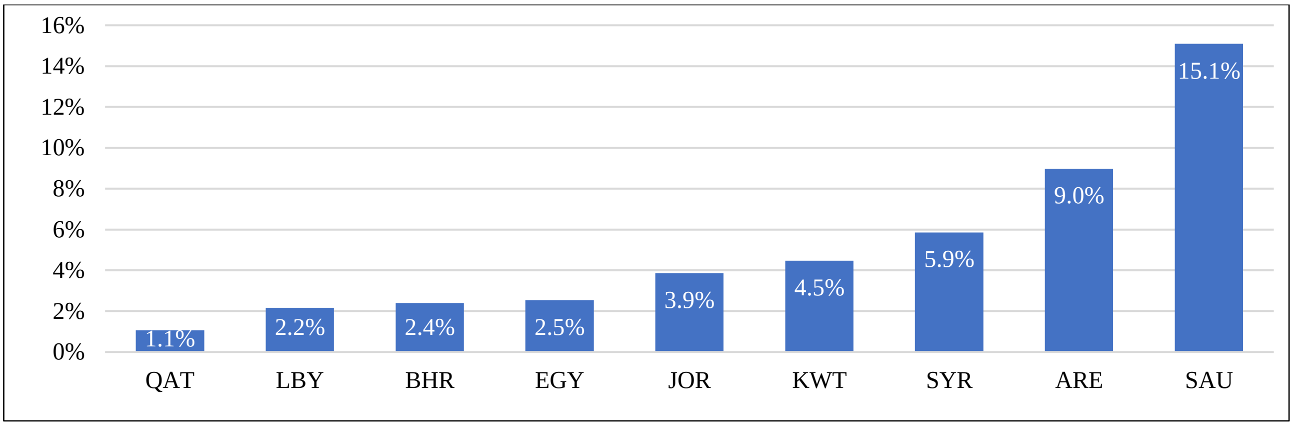
Source: UNCTAD stat.

Overall, it can be concluded that all aspects of trade facilitation have declined in Lebanon in recent years, with the exception of improvements in connectivity to global shipping networks.

F. Poor economic diversification

Looking at the data on the share of PAFTA partners in total exports from Lebanon before the implementation of the agreement, in 1997, and a few years after its implementation, in 2016, it is evident that Lebanon did not start exporting to any new countries after it began to benefit from free market access in Arab League countries, with the exception of Iraq. The agreement did not diversify the country's exports. Lebanese exports to most Arab League countries dropped slightly from 1997 to 2016.

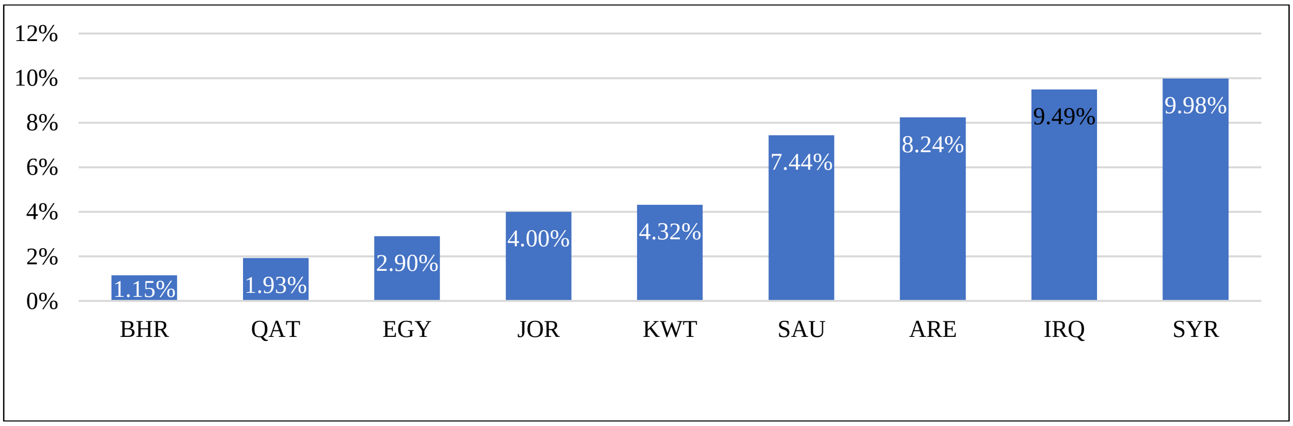
Figure 24. PAFTA partners share in total exports from Lebanon in 1997
(*Total: 48.89 per cent*)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total exports from Lebanon are not included in the graph.

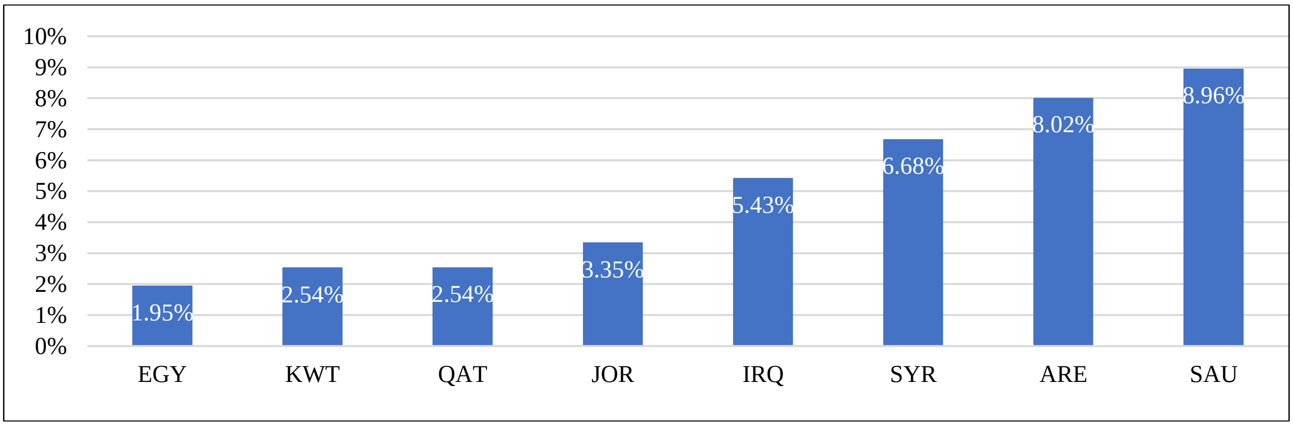
Figure 25. PAFTA partners share in total exports from Lebanon in 2005
(*Total: 53.44 per cent*)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total exports from Lebanon are not included in the graph.

Figure 26. PAFTA shares in total imports to Lebanon, 1997-2005-2016

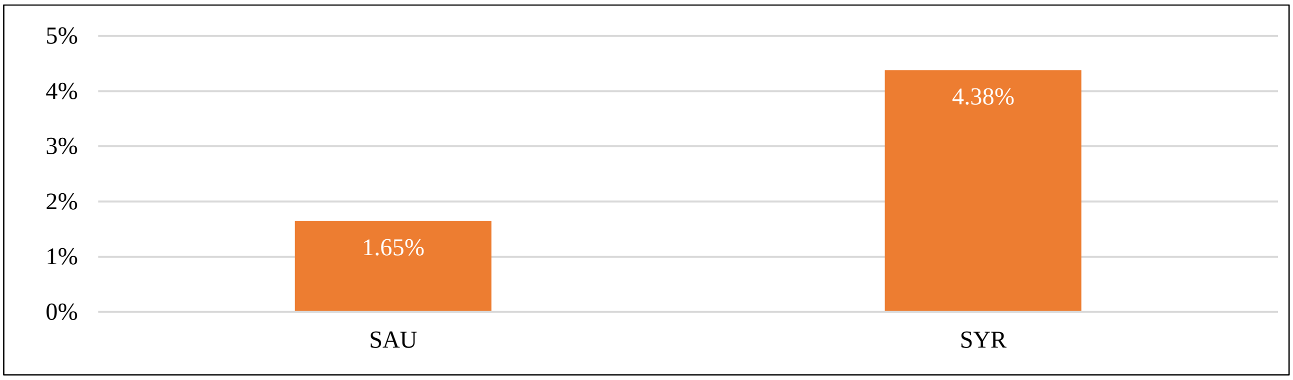


Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total imports to Lebanon are not included in the graph.

After the implementation of the agreement, the data shows that Lebanon started importing from a few more countries that it did before the agreement, namely Egypt, Jordan, Kuwait and the United Arab Emirates. The share of PAFTA partners in total imports to Lebanon increased from 9.05 per cent in 1997 to almost 20 per cent in 2016.

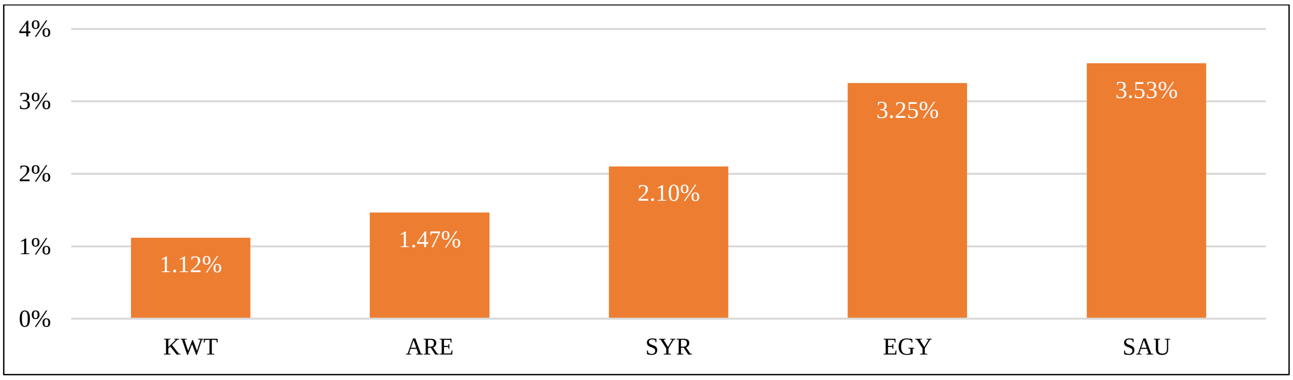
Figure 27. PAFTA partners share in total imports to Lebanon in 1997
(Total: 9.05 per cent)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total imports to Lebanon are not included in the graph.

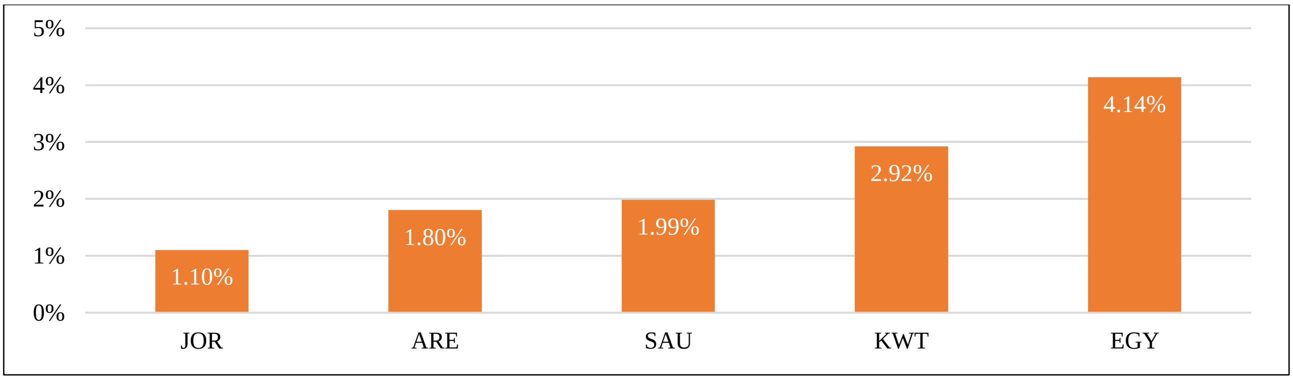
Figure 28. PAFTA partners share in total imports to Lebanon in 2005
(Total: 14.14 per cent)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total imports to Lebanon are not included in the graph.

Figure 29. PAFTA partners share in total imports to Lebanon in 2016
(Total: 19.93 per cent)



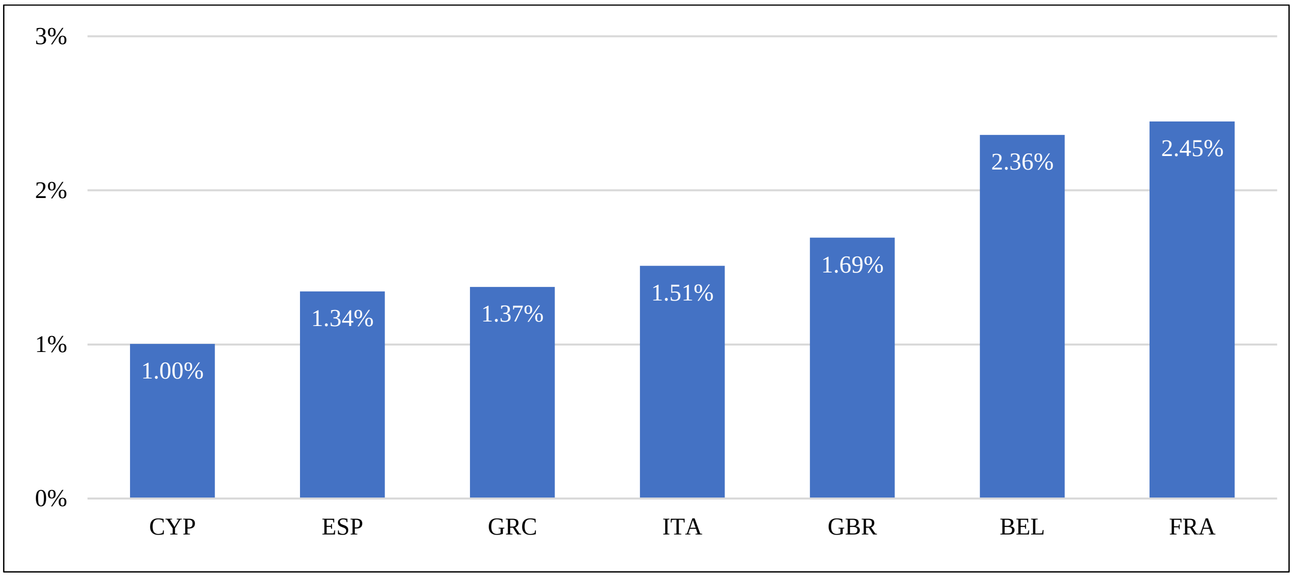
Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total imports to Lebanon are not included in the graph.

European destinations to which Lebanon exports most of its goods decreased after the implementation of the agreement. In fact, in 2008, seven European Union partners had more than a 1 per cent share in exports from Lebanon, as compared with 2016, when only four European Union partners had more than a 1 per cent share in exports. Countries to which Lebanon no longer exports are Belgium, Cyprus, Greece and Spain.

The share of European Union partners in total exports from Lebanon has dropped slightly, from 15 per cent in 2008 to 11.17 per cent in 2016.

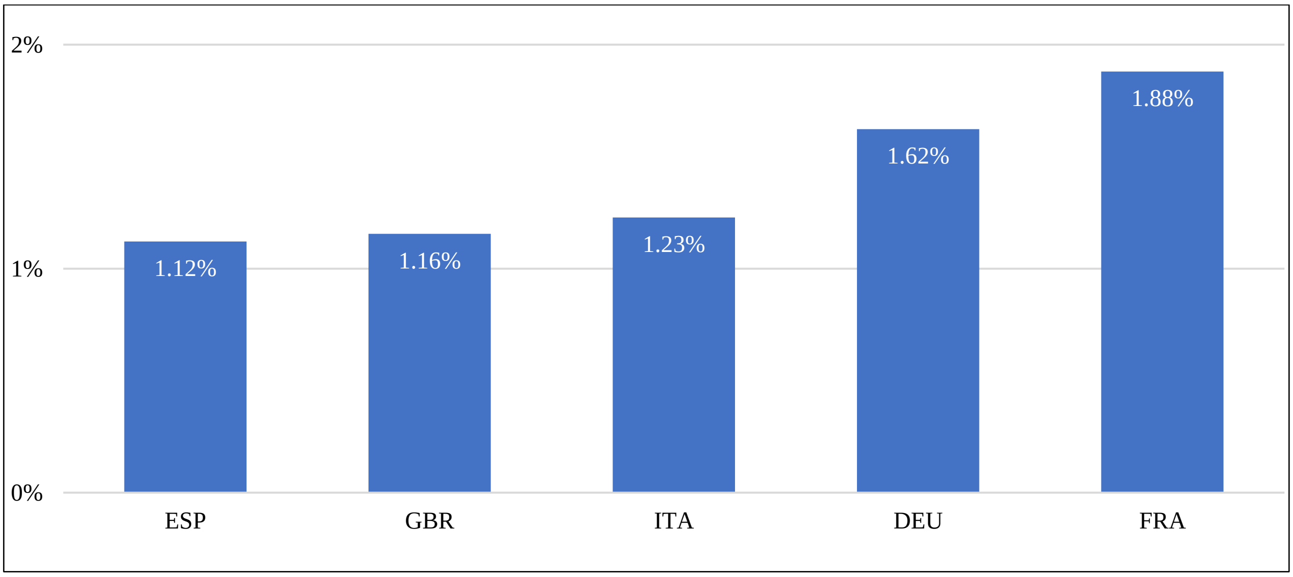
Figure 30. European Union partners share in total exports from Lebanon in 2008
(*Total: 15 per cent*)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total exports from Lebanon are not included in the graph.

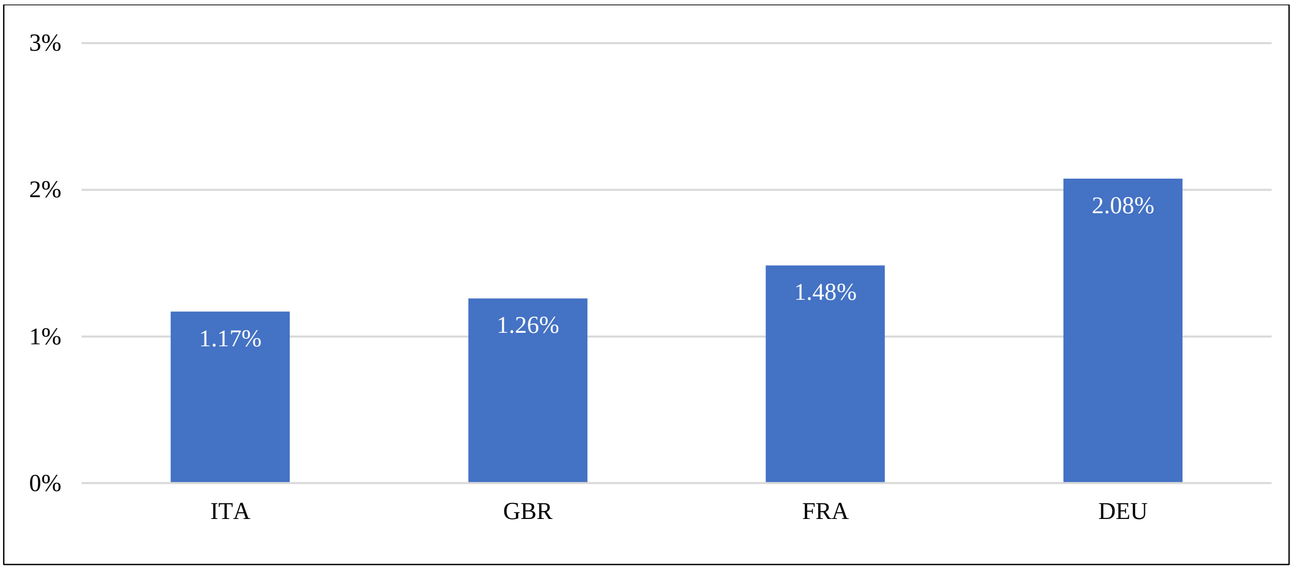
Figure 31. European Union partners share in total exports from Lebanon in 2014
(*Total: 11.03 per cent*)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total exports from Lebanon are not included in the graph.

Figure 32. European Union partners share in total exports from Lebanon in 2016
(Total: 11.13 per cent)



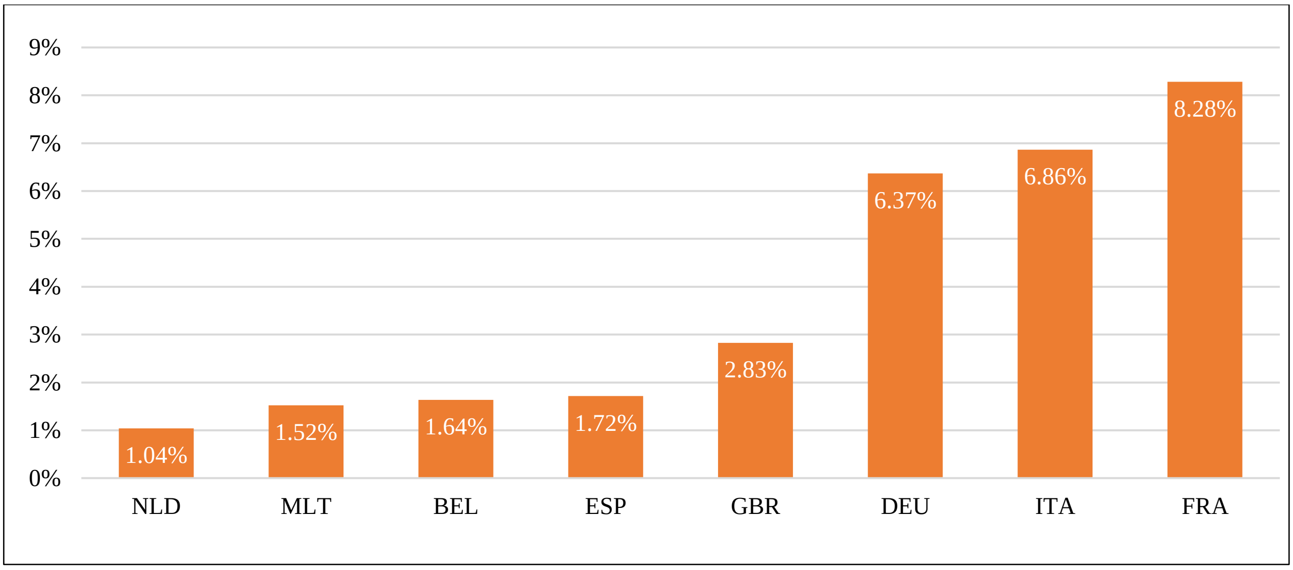
Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total exports from Lebanon are not included in the graph.

European Union countries from which Lebanon imports goods did not change after the implementation of the agreement. The only new entry to the Lebanese market was Greece. Lebanon did not import from Greece before the implementation of the agreement (almost 0 per cent of total Lebanese imports in 2008). However, in 2016, Greece accounted for the second highest share of total imports to Lebanon from the European Union (5.74 per cent).

The share of European Union partners in total imports to Lebanon increased slightly, from 34.8 per cent in 2008 to 39.34 per cent in 2016.

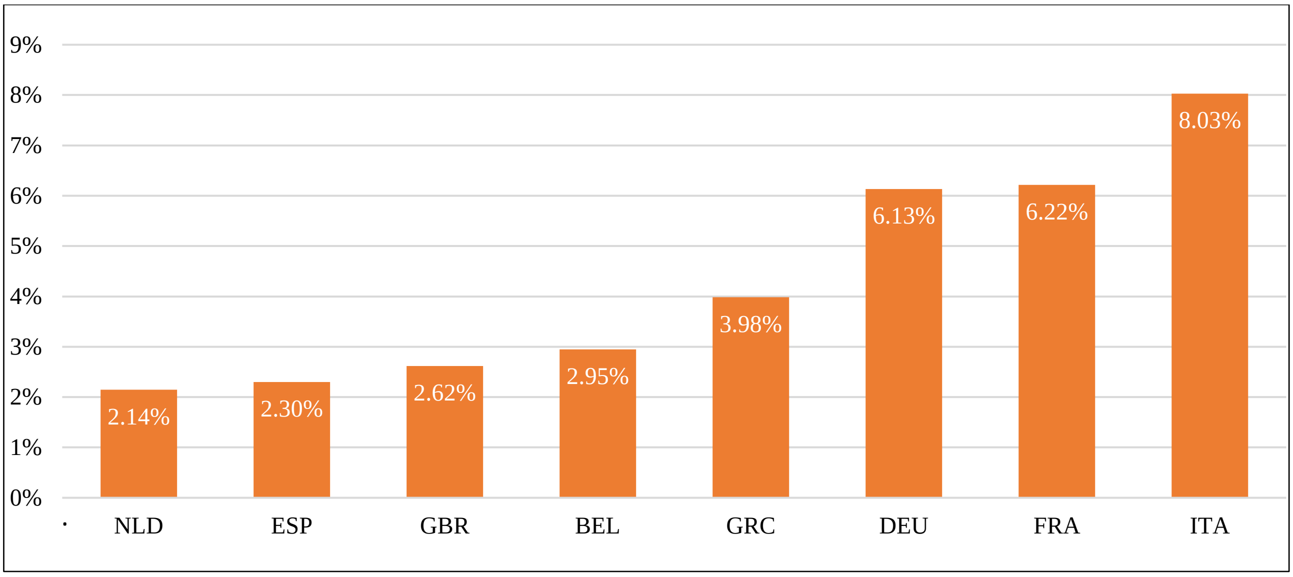
Figure 33. European Union partners share in total imports to Lebanon in 2008
(Total: 34.8 per cent)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total imports to Lebanon are not included in the graph.

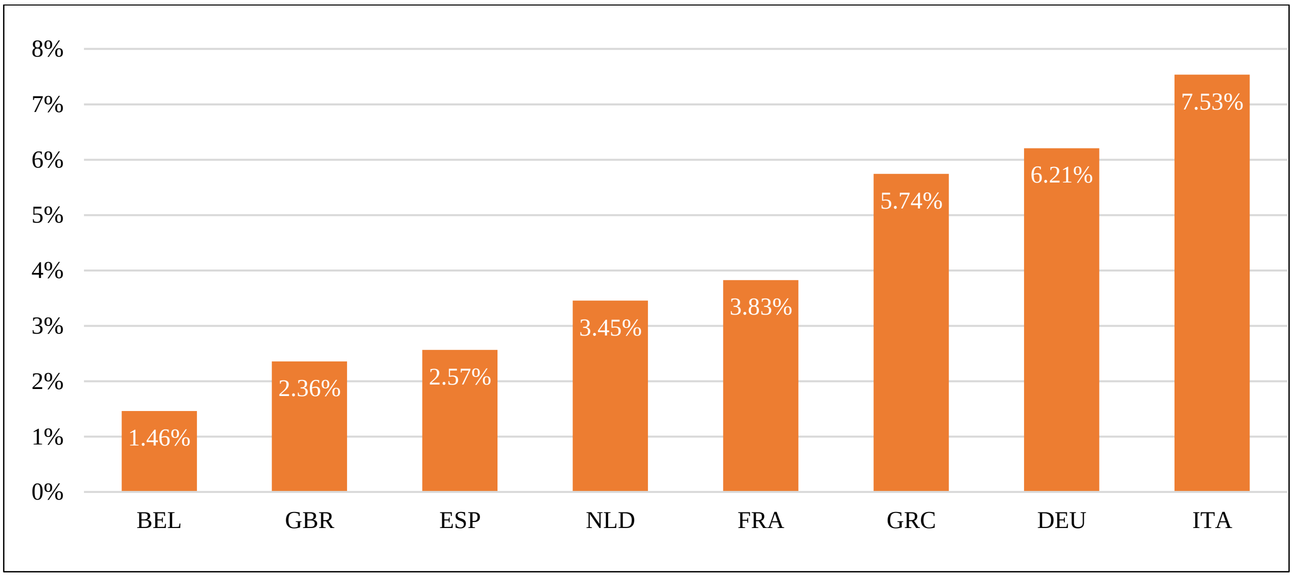
Figure 34. European Union partners share in total imports to Lebanon in 2014
(*Total: 40.49 per cent*)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total imports to Lebanon are not included in the graph.

Figure 35. European Union partners share in total imports to Lebanon in 2016
(*Total: 39.34 per cent*)



Source: Author's estimates using the UN Comtrade Database.

Note: Countries that have less than a 1 per cent share in total imports to Lebanon are not included in the graph.

G. Absence of a development strategy

While United Nations Sustainable Development Goals (SDGs) strategies and other global development strategies have been discussed for Arab countries, localized strategies for development have yet to assume a major role in these countries. For example, Lebanon has signed the 2030 SDG agenda. Such developments constitute a great first step, but further extension and calibration to the local national context are required.

H. Poor competition policy

Arab countries also generally suffer from a lack of institutional and policy settings that promote competition and counter antitrust and anti-competition practices. Such an institutional framework is crucial for development, to create a level playing field for all enterprises, and to eliminate distortions in the allocation of resources in the economy.

I. Exchange rate policy

Lebanon and Jordan have their currencies pegged to the dollars, with a fixed exchange rate regime. Egypt, Jordan and Morocco, on the other hand, have a managed floating exchange rate, with significant fluctuations over the years. In general, adopting a floating exchange rate is considered a better approach to gaining from trade in a predictable way, based on the ups and downs of trade and the balance of payments.

Table 14. Official exchange rate (LCU per dollar)

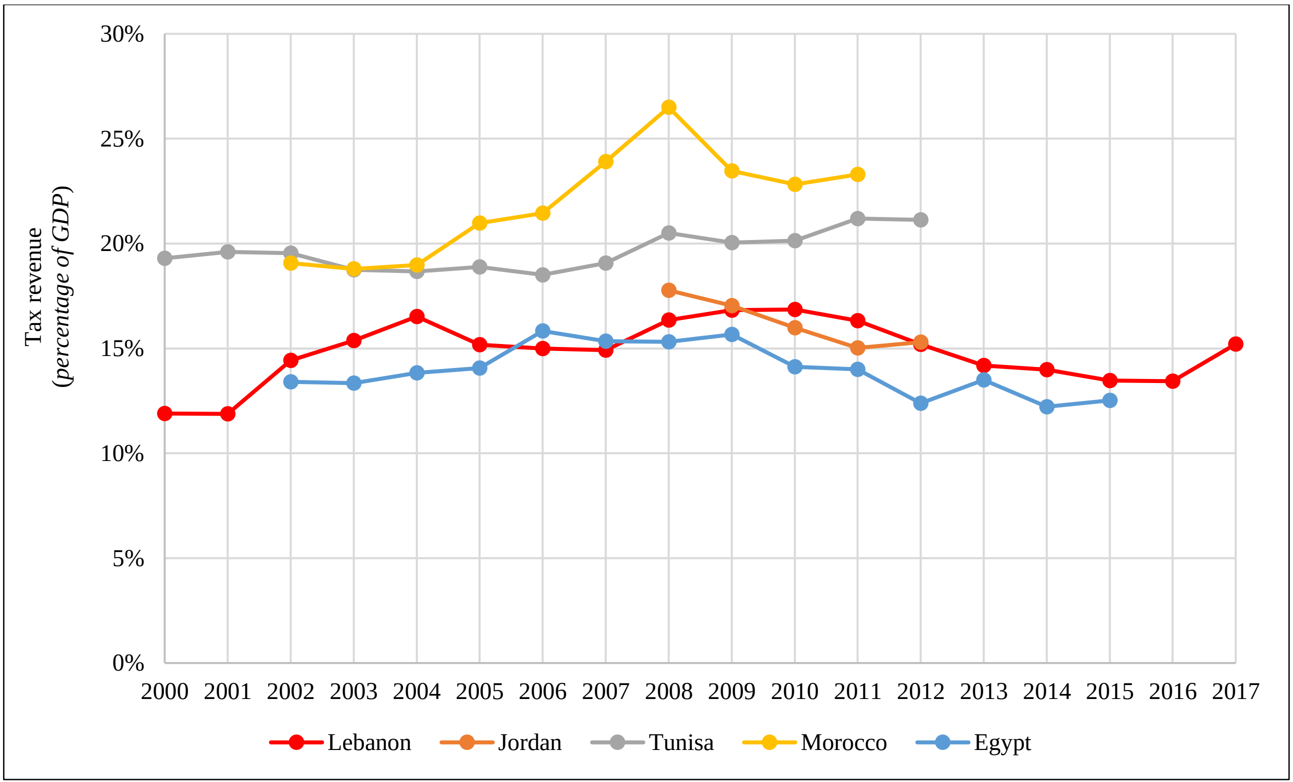
Years	Lebanon	Morocco	Jordan	Tunisia	Egypt
2000	1507.5	10.622	0.709	1.371	3.472
2001	1507.5	11.303	0.709	1.439	3.973
2002	1507.5	11.021	0.709	1.422	4.5
2003	1507.5	9.574	0.709	1.288	5.851
2004	1507.5	8.868	0.709	1.245	6.169
2005	1507.5	8.865	0.709	1.297	5.779
2006	1507.5	8.796	0.709	1.331	5.733
2007	1507.5	8.192	0.709	1.281	5.635
2008	1507.5	7.75	0.71	1.232	5.433
2009	1507.5	8.057	0.71	1.35	5.545
2010	1507.5	8.417	0.71	1.431	5.622
2011	1507.5	8.09	0.71	1.408	5.933
2012	1507.5	8.268	0.71	1.562	6.056
2013	1507.5	8.406	0.71	1.625	6.87
2014	1507.5	8.406	0.71	1.698	7.078
2015	1507.5	9.764	0.71	1.962	7.691
2016	1507.5	9.807	0.71	2.148	10.025
2017	1507.5	9.692	0.71	2.419	17.783

Source: World Bank, Open Data (accessed on 30 April 2019).

J. FISCAL PRESSURE

Tax revenue as a proportion of GDP slightly increased in these countries from the early to the mid 2000s, but declined after 2008 in many of them. This indicates the presence of fiscal pressure in the region in recent years. Tariff reductions may have resulted in this decrease. Policymakers are often concerned about this dilemma, where in tariff cuts lead to tax revenue reduction relative to GDP. In other words, while tariff cuts can boost the economy, the consequently reduced tax revenue may be a cause for concern from a fiscal perspective. Lost tax revenue may partly be compensated by other policy measures, which could foster Sustainable Development Goals (SDGs), for example, such as carbon taxes or income redistribution taxes, aimed at taxing the richest taxpayers more.

Figure 36. Fiscal pressure in Egypt, Jordan, Lebanon, Morocco and Tunisia



Source: World Bank Open Data (accessed on 30 April 2019).

VIII. CONCLUSIONS AND POLICY IMPLICATIONS

Broadly, our analysis indicates that the trade balance experienced a marked deterioration during the implementation phases of the two FTAs, but that it recovered over time after their implementation. Export shares in GDP decreased after the implementation of the two FTAs, while the private consumption share of GDP remained high and stable. The diversification of the economy did not materialize as initially envisioned in many *ex-ante* assessments of the two agreements. Furthermore, economic growth has continually decelerated since 2006. A simple comparison of macroeconomic and sectoral achievements before and after the full implementation of the two FTAs may therefore lead us to conclude that their impact on the Lebanese economy has been negative, or at best negligible. Nevertheless, the evidence provided in this study is based on a first-cut assessment, and a more detailed and rigorous analysis is needed to reach a definitive conclusion on the true extent of the impact of the two agreements. This notably entails a careful construction of the counter factual path of the Lebanese economy in the absence of the two agreements.

This paper examines the tangible impact of the integration agreements with Arab countries and the European Union on the Lebanese economy, as well as the reasons behind their relatively poor outcomes. It presents and discusses the scope and limitations of the two agreements, and explores their likely impact in depth. This paper goes beyond economic assessments and sheds light on the reasons behind the country's weak export promotion and economic development.

The study comes to the conclusion that the efforts undertaken to achieve deeper integration with Arab countries and the European Union continue to suffer gravely from the lack of proper and serious commitment to full implementation. In essence, despite aiming to achieve a high level of export promotion and FDI inflows, the two agreements seem to have fallen short of initial expectations. Exports to and FDI flows from both the Arab region and the European Union have actually shown a tendency to decline. Lebanese exports to the Arab region and the European Union have been characterized by high trade concentration and low complementarity. Furthermore, services trade restrictiveness in Lebanon, as well as in a few other GAFTA partner countries, has been quite high, restricting the growth of the country's services trade. Trade facilitation has also deteriorated in Lebanon over time, in every aspect except its improved connectivity to global shipping networks.

Results also show that the subpar performance of Lebanon under the two FTAs can be broadly attributed to two major categories of barriers. The first is related to the agreements themselves, in which commitments are small in terms of market access (mainly within the PAFTA), non-tariff measures are complex and prevalent, and perspectives for the development of regional value chains are largely absent. The second category relates to the domestic policies that are in place, which are often characterized by the absence of any diversification and growth promotion strategy. In fact, the costs of production are among the highest in the region, which undermines the possibility of further developing productive capacities and promoting exports. Among those barriers, the utilities markets, such as electricity and water distribution, are the most inefficient. Moreover, telecommunications and financial services are very costly, which make the creation of new activities a real challenge.

Finally, the accession to any trade agreement requires the identification and implementation of a package of accompanying policies that can facilitate the process of increasing or creating benefits, and mitigating negative effects. It is highly recommended that a development strategy be devised for the country, with the role of trade policies clearly identified. To achieve this, it is also recommended for negotiations of any new trade agreement to be postponed until such a strategy is developed. The strategy could then serve as a set of guidelines for policymakers in their trade negotiations with both major partners, as well as with other countries and regions across the world.

Annex I

Provisions of the Euro-Mediterranean Agreement with Lebanon

Table annex I.1 Euro-Mediterranean Agreement Provisions on Political Dialogue

Title I. Political dialogue
Article 3 1. A regular political dialogue shall be established between the Parties. It shall help build lasting links of solidarity between the partners which will contribute to the prosperity, stability and security of the Mediterranean region and bring about a climate of understanding and tolerance between cultures.
2. Political dialogue and cooperation are intended in particular to: (a) Facilitate rapprochement between the Parties through the development of better mutual understanding and regular coordination on international issues of common interest; (b) Enable each Party to consider the position and interests of the other; (c) Contribute to consolidating security and stability in the Mediterranean region and in the Middle East in particular; (d) Promote common initiatives.
Article 4 Political dialogue shall cover all issues of common interest to the Parties, examining in particular the conditions required to ensure peace and security through support for cooperation. The dialogue shall also seek to create new forms of cooperation directed towards common objectives.
Article 5 1. Political dialogue shall take place at regular intervals and whenever necessary, notably: (a) At ministerial level, mainly in the framework of the Association Council; (b) At senior official level of Lebanon, on the one hand, and of the Presidency of the Council and of the Commission on the other; (c) By taking full advantage of all diplomatic channels including regular briefings by officials, consultations on the occasion of international meetings and contacts between diplomatic representatives in third countries; (d) Where appropriate, by any other means which would make a useful contribution to consolidating dialogue and increasing its effectiveness.
2. A political dialogue shall be established between the European Parliament and the Lebanese Parliament.

Table annex I.2 Euro-Mediterranean Agreement Provisions on Industrial Products

Title II. Chapter 1 – Industrial products
Article 6 The Community and Lebanon shall gradually establish a free trade area over a transitional period not exceeding 12 years from the entry into force of this Agreement according to the modalities set out in this Title and in conformity with the provisions of the General Agreement on Tariffs and Trade of 1994 and of the other multilateral agreements on trade in goods annexed to the Agreement establishing the World Trade **Organisation** (WTO), hereinafter referred to as the GATT.

Title II. Chapter 1 – Industrial products

Article 7

The provisions of this Chapter shall apply to products originating in the Community and Lebanon falling within Chapters 25 to 97 of the Combined Nomenclature and of the Lebanese Customs tariff with the exception of the products listed in Annex 1.

Article 8

Imports into the Community of products originating in Lebanon shall be allowed free of customs duties and of any other charge having equivalent effect.

Article 9

1. Customs duties and charges having equivalent effect applicable on import into Lebanon of products originating in the Community shall be progressively abolished in accordance with the following schedule:

- Five years after the date of entry into force of this Agreement each duty and charge shall be reduced to 88 per cent of the basic rate;
- Six years after the date of entry into force of this Agreement each duty and charge shall be reduced to 76 per cent of the basic rate;
- Seven years after the date of entry into force of this Agreement each duty and charge shall be reduced to 64 per cent of the basic rate;
- Eight years after the date of entry into force of this Agreement each duty and charge shall be reduced to 52 per cent of the basic rate;
- Nine years after the date of entry into force of this Agreement each duty and charge shall be reduced to 40 per cent of the basic rate;
- 10 years after the date of entry into force of this Agreement each duty and charge shall be reduced to 28 per cent of the basic rate;
- 11 years after the date of entry into force of this Agreement each duty and charge shall be reduced to 16 per cent of the basic rate;
- 12 years after the date of entry into force of this Agreement the remaining duties and charges shall be abolished.

2. In the event of serious difficulties for a given product, the schedule applicable under paragraph 1 above may be reviewed by the Association Committee by common accord on the understanding that the schedule for which the review has been requested may not be extended in respect of the product concerned beyond the maximum transitional period of 12 years. If the Association Committee has not taken a decision within 30 days of an application by Lebanon to review the schedule, Lebanon may suspend the schedule provisionally for a period which may not exceed one year.

3. For each product concerned, the basic duty to be gradually reduced as provided in paragraph 1 shall be the rates referred to in Article 19.

Article 10

The provisions concerning the abolition of customs duties on imports shall also apply to customs duties of a fiscal nature.

Article 11

1. Exceptional measures of limited duration which derogate from the provisions of Article 9 may be taken by Lebanon in the form of an increase or reintroduction of customs duties.

Title II. Chapter 1 – Industrial products
2. These measures may only concern new and infant industries, or sectors undergoing restructuring or facing serious difficulties, particularly where these difficulties entail major social problems.
3. Customs duties on imports into Lebanon of products originating in the Community that are introduced by such exceptional measures may not exceed 25 per cent *ad valorem* and shall maintain an element of preference for products originating in the Community. The total value of imports of the products which are subject to these measures may not exceed 20 per cent of the yearly average of total imports of industrial products from the Community during the last three years for which statistics are available.
4. These measures shall be applied for a period not exceeding five years unless a longer duration is **authorised** by the Association Committee. They shall cease to apply at the latest on the expiry of the maximum transitional period of 12 years.
5. No such measures can be introduced in respect of a product if more than three years have elapsed since the elimination of all duties and quantitative restrictions or charges or measures having equivalent effect concerning that product.
6. Lebanon shall inform the Association Committee of any exceptional measures it intends to adopt and, at the request of the Community, consultations shall be held on the measures and sectors concerned before they are implemented. When adopting such measures Lebanon shall provide the Committee with a schedule for the elimination of the customs duties introduced under this Article. This schedule shall provide for a phasing-out of these duties in equal annual **instalments** starting no later than the end of the second year following their introduction. The Association Committee may decide on a different schedule.
7. By way of derogation from provisions of paragraph 4, the Association Committee may exceptionally, to take account of the difficulties involved in setting up new industries, endorse the measures already taken by Lebanon pursuant to paragraph 1 for a maximum period of three years beyond the 12-year transitional period.

Table annex I.3 Euro-Mediterranean Agreement Provisions on Agricultural, Fisheries and Processed Agricultural Products

Title II. Chapter 2 – Agricultural, fisheries, and processed agricultural products
Article 12 The provisions of this Chapter shall apply to products originating in the Community and Lebanon falling within Chapters 1 to 24 of the Combined Nomenclature and of the Lebanese Customs tariff and to the products listed in Annex 1.
Article 13 The Community and Lebanon shall progressively establish a greater **liberalisation** of their trade in agricultural, fisheries and processed agricultural products, of interest to both parties.
Article 14 1. Agricultural products originating in Lebanon listed in Protocol 1 on importation into the Community shall be subject to the arrangement set out in that Protocol.
2. Agricultural products originating in the Community listed in Protocol 2 on importation into Lebanon shall be subject to the arrangement set out in that Protocol.
3. Trade in processed agricultural products falling under this chapter shall be subject to the arrangements set out in Protocol 3.

Title II. Chapter 2 – Agricultural, fisheries, and processed agricultural products
Article 15 1. Five years after the entry into force of this Agreement, the Community and Lebanon shall assess the situation in order to determine measures to be applied by the Community and Lebanon one year following the revision of this Agreement, in accordance with the objective set out in Article 13.
2. Without prejudice to the provisions of paragraph 1 and taking account of the volume of trade in agricultural, fisheries and processed agricultural products between the two Parties and the particular sensitivity of such products, the Community and Lebanon shall examine on a regular basis in the Association Council, product by product and on an orderly and reciprocal basis, the possibility of granting each other further concessions.
Article 16 1. In the event of specific rules being introduced as a result of the implementation of its agricultural policy or of any alteration of the current rules or in the event of any alteration or extension of the provisions relating to the implementation of its agricultural policy, the Party concerned may amend the arrangements resulting from this Agreement in respect of the products concerned.
2. The Party carrying out such modification shall inform the Association Committee thereof. At the request of the other Party, the Association Committee shall meet to take due account of the interest of the other Party.
3. If the Community or Lebanon, in applying paragraph 1, modifies the arrangements made by this Agreement for agricultural products, they shall accord imports originating in the other Party an advantage comparable to that provided for in this Agreement.
4. Any modification of the arrangements made by this Agreement shall be the subject, at the request of the other Party, of consultations within the Association Council.
Article 17 1. Both Parties agree to cooperate to reduce the potential for fraud in the application of the trade provisions of this Agreement.
2. Notwithstanding other provisions of this Agreement, where one Party finds that there is sufficient evidence of fraud such as a significant increase in trade products by one party to the other party, beyond the level reflecting economic conditions such as normal production and export capacities, or failure to provide administrative cooperation as required for the verification of evidence of origin by the other Party, both Parties shall enter into consultations immediately to find an appropriate solution. Pending such a solution, the Party concerned may take the appropriate measures it deems necessary. In the selection of the measure priority must be given to those which least disturb the functioning of the arrangements established in this Agreement.

Table annex I.4 Euro-Mediterranean Agreement Common Provisions

Title II. Chapter 3 – Common provisions
Article 18 1. No new customs duties on imports or exports or charges having equivalent effect shall be introduced in trade between the Community and Lebanon, nor shall those already applied upon entry into force of this Agreement be increased unless this Agreement provides otherwise.
2. No new quantitative restriction on imports or measure having equivalent effect shall be introduced in trade between the Community and Lebanon.

3. Quantitative restrictions on imports and measures having equivalent effect in trade between Lebanon and the Community shall be abolished upon the entry into force of this Agreement.

4. Neither the Community nor Lebanon shall apply to exports between themselves either customs duties or charges having equivalent effect, or quantitative restrictions or measures of equivalent effect.

Article 19

1. For each product the basic rate to which the successive reductions laid down in Article 9(1) are to be applied shall be that actually applied vis-à-vis the Community on the day of conclusion of the negotiations.

2. In the event of the accession of Lebanon to the WTO, the applicable rates for imports between the Parties shall be the WTO bound rate or lower effectively applied rate enforced as of the date of the accession. If, after the accession to the WTO, a tariff reduction is applied on an *ergaomnes* basis, the reduced rate shall apply.

3. The provision laid down in paragraph 2 is of application for any tariff reduction applied after the day of conclusion of the negotiations on an *ergaomnes* basis.

4. The Parties shall communicate to each other their respective applied rates on the day of conclusion of the negotiations.

Article 20

Products originating in Lebanon shall not enjoy more favorable treatment when imported into the Community than that applied by Member States among themselves.

Article 21

1. The Parties shall refrain from any measure or practice of an internal fiscal nature establishing, whether directly or indirectly, discrimination between the products of one Party and like products originating in the territory of the other Party.

2. Products exported to the territory of one of the Parties may not benefit from repayment of indirect internal taxation in excess of the amount of indirect taxation imposed on them either directly or indirectly.

Article 22

1. This Agreement shall not preclude the maintenance or establishment of customs unions, free trade areas or arrangements for frontier trade except in so far as they alter the trade arrangements provided for in this Agreement.

2. Consultations between the Parties shall take place within the Association Committee concerning agreements establishing such customs unions or free trade areas and, where requested, on other major issues related to their respective trade policies with third countries. In particular, in the event of a third country acceding to the Community, such consultations shall take place so as to ensure that account can be taken of the mutual interests of the Community and Lebanon.

Article 23

If one of the Parties finds that dumping is taking place in trade with the other Party in line with prevailing international rules as defined in Article VI of the General Agreement on Tariffs and Trade (GATT) 1994 and related internal legislation, it may take appropriate measures against this practice in accordance with the WTO Agreement on the implementation of Article VI of the GATT 1994 and related internal legislation.

Article 24

1. Without prejudice to Article 35, the WTO Agreement on Subsidies and Countervailing Measures shall apply between the Parties.

2. Until the necessary rules referred to in Article 35(2) are adopted, if either Party finds that subsidy is taking place in trade with the other Party in line with prevailing international rules as defined in Articles VI and XVI of the General Agreement on Tariffs and Trade (GATT) 1994 and related internal legislation, it may invoke appropriate measures against this practice in accordance with those rules as defined by the WTO Agreement on Subsidies and Countervailing Measures and related internal legislation.

Article 25

1. The provisions of Article XIX of the GATT 1994 and the WTO Agreement on Safeguards and related internal legislation are applicable between the Parties.

2. Before applying safeguard measures as defined by international rules, the Party intending to apply such measures shall supply the Association Committee with all relevant information required for a thorough examination of the situation with a view to seeking a solution acceptable to the Parties.

In order to find such a solution the Parties shall immediately hold consultations within the Association Committee. If, as a result of the consultations, the Parties do not reach an agreement within thirty days of the initiation of the consultations on a solution to avoid the application of the safeguard measures, the Party intending to apply safeguard measures may apply the provisions of Article XIX of the GATT 1994 and the WTO Agreement on Safeguards.

3. In the selection of safeguard measures pursuant to this Article, the Parties shall give priority to those, which cause least disturbance to the achievement of the objectives of this Agreement.

4. Safeguard measures shall be notified immediately to the Association Committee and shall be the subject of periodic consultations within the Committee, particularly with a view to their abolition as soon as circumstances permit.

Article 26

1. Where compliance with the provisions of Article 18(4) leads to:

   (a) Re-export to a third country against which the exporting Party maintains, for the product concerned, quantitative export restrictions, export duties or measures or charges having equivalent effect;

Or

   (b) A serious shortage, or threat thereof, of a product essential to the exporting Party;

and where the situations referred to above give rise, or are likely to give rise, to major difficulties for the exporting Party, that Party may take appropriate measures under the conditions and in accordance with the procedures laid down in paragraph 2.

2. The difficulties arising from the situations referred to in paragraph 1 shall be submitted for examination to the Association Committee. The Association Committee may take any decision needed to put an end to the difficulties. If it has not taken such a decision within thirty days of the matter being referred to it, the exporting Party may apply appropriate measures on the exportation of the product concerned. The measures shall be non-discriminatory and shall be eliminated when conditions no longer justify their maintenance.

Article 27

Nothing in this Agreement shall preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; of the protection of health and life of humans, animals or plants; of the protection of national treasures of artistic, historic or archaeological value; of the protection of intellectual industrial and commercial property; of rules relating to gold and silver and conservation of exhaustible natural resources. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Parties.

Title II. Chapter 3 – Common provisions
Article 28 The concept of ‘originating products’ for the application of the provisions of the present Title and the methods of administrative cooperation relating thereto are laid down in Protocol 4.
Article 29 The Combined Nomenclature of goods shall be applied to the classification of goods for imports into the Community. The Lebanese customs tariff shall be applied to the classification of goods for imports into Lebanon.

Table annex I.5 Euro-Mediterranean Agreement Provisions on the Right of Establishment and the Supply of Services

Title III. Right of establishment and supply of services
Article 30 1. Treatment granted by either Party to the other with respect to the right of establishment and the supply of services shall be based on each Party’s commitments and other obligations under the General Agreement on Trade in Services (GATS). This provision shall take effect from the date of the final accession of Lebanon to the WTO.
2. Lebanon undertakes to provide a schedule of specific commitments on services, prepared in accordance with Article XX of the GATS, to the European Community and their Member States as soon as it is **finalised**.
3. The Parties undertake to consider development of the above provisions with a view to the establishment of an ‘economic integration agreement’ as defined in Article V of the GATS.
4. The objective provided for in paragraph 3 shall be subject to a first examination by the Association Council one year after the entry into force of this Agreement.
5. The Parties shall not, between the date of entry into force of this Agreement and Lebanon’s accession to the WTO, take any measures or actions which render the conditions for the supply of services by Community or Lebanese service suppliers more discriminatory than those existing on the date of entry into force of this Agreement.
6. For the purposes of this Title: (a) ‘Service suppliers’ of a Party means any juridical or natural person that seeks to provide or provides a service; (b) A ‘juridical person’ means a company or a subsidiary, set up in accordance with the laws either of a Member State of the Community or of Lebanon and having its registered office, central administration or principal place of business in the territory either of the Community or of Lebanon. Should the juridical person have only its registered office or central administration in the territory either of the Community or of Lebanon, it shall not be considered as either a Community or a Lebanese juridical person, unless its operations possess a real and continuous link with the economy either of the Community or Lebanon; (c) ‘Subsidiary’ means a juridical person which is effectively controlled by another juridical person; (d) ‘Natural person’ means a person who is a national either of a Member State of the Community or of Lebanon according to their respective national legislations.

Table annex I.6 Euro-Mediterranean Agreement Provisions on Current Payments and Movement of Capital

Title IV. Chapter 1 – Current payements and movement of capital
Article 31 Within the framework of the provisions of this Agreement, and subject to the provisions of Articles 33 and 34, there shall be no restrictions between the Community of the one part, and Lebanon of the other part, on the movement of capital and no discrimination based on the nationality or on the place of residence of their nationals or on the place where such capital is invested.
Article 32 Current payments connected with the movement of goods, persons, services or capital within the framework of this Agreement shall be free of all restrictions.
Article 33 1. Subject to other provisions in this Agreement and other international obligations of the Community and Lebanon, the provisions of Articles 31 and 32 shall be without prejudice to the application of any restriction which exists between them on the date of entry into force of this Agreement, in respect of the movement of capital between them involving direct investment, including in real estate, establishment, the provision of financial services or the admission of securities to capital markets.
2. However, the transfer abroad of investments made in Lebanon by Community residents or in the Community by Lebanese residents and of any profit stemming therefrom shall not be affected.
Article 34 Where one or several Member States of the Community or Lebanon face or risk facing serious difficulties concerning balance of payments, the Community or Lebanon respectively may, in conformity with the conditions laid down within the framework of the GATT and Articles VIII and XIV of the Statutes of the International Monetary Fund, take restrictive measures with regard to current payments if such measures are strictly necessary. The Community or Lebanon, as appropriate, shall inform the other Party immediately thereof and shall provide as soon as possible a timetable for the removal of such measures.

Table annex I.7 Euro-Mediterranean Agreement Provisions on Competition and Other Economic Matters

Title IV. Chapter 2 – Competition and other economic matters
Article 35 1. The following are incompatible with the proper functioning of this Agreement, insofar as they may affect trade between the Community and Lebanon: (a) All agreements between undertakings, decisions by associations of undertakings and concerted practices between undertakings which have as their object or effect the prevention, restriction or distortion of competition, as defined by their respective legislation; (b) Abuse by one or more undertakings of a dominant position in the territories of the Community or Lebanon as a whole or in a substantial part thereof, as defined by their respective legislation.
2. The Parties will enforce their respective competition legislation and shall exchange information taking into account the limitations imposed by the requirements of confidentiality. The necessary rules for cooperation in order to implement paragraph 1 shall be adopted by the Association Committee within five years of entry into force of this Agreement.

Title IV. Chapter 2 – Competition and other economic matters
3. If the Community or Lebanon considers that a particular practice is incompatible with the terms of paragraph 1 of this Article, and if such practice causes or threatens to cause serious prejudice to the other Party, it may take appropriate measures after consultation within the Association Committee or after thirty working days following referral for such consultation.
Article 36 The Member States and Lebanon shall progressively adjust, without prejudice to their commitments respectively taken or to be taken under the GATT, any State monopolies of a commercial character, so as to ensure that, by the end of the fifth year following the entry into force of this Agreement, no discrimination regarding the conditions under which goods are procured and marketed exists between nationals of the Member States and of Lebanon. The Association Committee will be informed about the measures adopted to implement this objective.
Article 37 With regard to public enterprises and enterprises to which special or exclusive rights have been granted, the Association Council shall ensure that as from the fifth year following the date of entry into force of this Agreement there is neither enacted nor maintained any measure distorting trade between the Community and Lebanon to an extent contrary to the Parties' interests. This provision should not obstruct the performance in law or in fact of the particular tasks assigned to these enterprises.
Article 38 1. Pursuant to the provisions of this Article and of Annex 2, the Parties shall ensure adequate and effective protection of intellectual, industrial and commercial property rights in conformity with the highest international standards, including effective means of enforcing such rights.
2. The implementation of this Article and of Annex 2 shall be regularly reviewed by the Parties. If problems in the area of intellectual property protection affecting trading conditions occur, urgent consultations shall be undertaken, at the request of either Party, with a view to reaching mutually satisfactory solutions.
Article 39 1. The Parties shall take as their aim a reciprocal and gradual **liberalisation** of public procurement contracts.
2. The Association Council shall take the steps necessary to implement paragraph 1.

Table annex I.8 Euro-Mediterranean Agreement Provisions on Economic and Sector Cooperation

Title V. Economic and sector cooperation	
Article 40 **Objectives**	1. The two Parties shall together establish the strategies and procedures needed to achieve cooperation in the fields covered by this Title.
	2. The Parties undertake to intensify economic cooperation in their mutual interest and in the spirit of partnership which is at the root of this Agreement.
	3. The aim of economic cooperation shall be to support Lebanon's own efforts to achieve sustainable economic and social development.

Title V. Economic and sector cooperation	
Article 41 **Scope**	1. Cooperation shall be targeted first and foremost at areas of activity suffering the effects of internal constraints and difficulties or affected by the process of liberalising Lebanon's economy as a whole, and more particularly by the liberalisation of trade between Lebanon and the Community.
	2. Similarly, cooperation shall focus on areas likely to bring the economies of the Community and Lebanon closer together, particularly those which will generate growth and employment.
	3. Preservation of the environment and ecological balances shall constitute a central component of the various fields of economic cooperation.
	4. The Parties may agree to extend the economic cooperation to other sectors not covered by the provisions of this Title.
Article 42 **Methods and Modalities**	Economic cooperation shall be implemented in particular by: (a) A regular economic dialogue between the Parties, which covers all areas of macroeconomic policy; (b) Regular exchange of information and ideas in every sector of cooperation including meetings of officials and experts; (c) Transfer of advice, expertise and training; (d) Implementation of joint actions such as seminars and workshops; (e) Technical, administrative and regulatory assistance; (f) The dissemination of information on cooperation.
Article 43 **Education and Training**	Cooperation aims at: (a) Defining the means to appreciably improve the situation in the field of education and training, particularly in vocational training; (b) Encouraging the setting up of strong links between agencies specialised in joint actions, and the exchange of experiences and know-how, essentially, the exchange of youth, exchanges between universities and other educational institutions, so as to bring cultures closer together; (c) Particularly encouraging access of the female population to education, including Technical and higher education, and vocational training.
Article 44 **Scientific, technical and technological cooperation**	The aim of cooperation shall be to: (a) Encourage the establishment of permanent links between the Parties' scientific communities, notably by means of: • Providing Lebanon with access to Community research and technological development programmes in accordance with Community rules governing non-Community countries' involvement in such programmes; • Lebanese participation in networks of decentralised cooperation; • Promoting synergy between training and research; (b) Improve Lebanon's research capabilities; and its technological development; (c) Stimulate technological innovation and the transfer of new technology and dissemination of know-how; (d) Study the ways Lebanon can participate in European framework programmes for research.

<table>
<tr><th colspan="2">Title V. Economic and sector cooperation</th></tr>
<tr><td rowspan="2">Article 45

Environment</td><td>1. The Parties shall encourage cooperation in preventing deterioration of the environment, controlling pollution and ensuring the rational use of natural resources, with a view to ensuring sustainable development.</td></tr>
<tr><td>2. Cooperation shall be centered upon:
(a) Water quality in the Mediterranean, and control and prevention of marine pollution;
(b) Waste management, particularly that of toxic waste;
(c) Salinisation;
(d) Environmental management of sensitive coastal areas;
(e) Environmental education and awareness;
(f) The use of advanced instruments for environmental management and monitoring, and in particular the use of the environment information system and studies on environmental impact;
(g) The effect of industrial development on the environment in general and on the safety of industrial plant in particular;
(h) The effect of agriculture on soil quality and water quality;
(i) Soil preservation and conservation;
(j) Rational management of water resources;
(k) Joint research and monitoring activities as well as programmes and projects.</td></tr>
<tr><td>Article 46

Industrial cooperation</td><td>The aim of cooperation shall be to:
(a) Encourage cooperation between the Parties’ economic operators, including cooperation in the context of access for Lebanon to Community business networks;
(b) Support the effort to modernise and restructure Lebanon’s public and private sector industry (including the agri-food industry);
(c) Foster an environment which favors private initiative, with the aim of stimulating and diversifying output for the domestic and export markets;
(d) Enhance Lebanon’s human resources and industrial potential through better use of policy in the fields of innovation and research and technological development;
(e) Facilitate access to capital markets to finance productive investment;
(f) Encourage the development of SMEs, particularly by:
• Promoting contacts between enterprises, partly by using Community networks and instruments for the promotion of industrial cooperation and partnership;
• Facilitating credit access for financing investment;
• Making information and support services available;
• Enhance human resources to encourage innovation, and setting up projects and economic activities.</td></tr>
</table>

Title V. Economic and sector cooperation	
Article 47 **Promotion and protection of investment**	1. Cooperation shall aim at increasing the flow of capital, expertise and technology to Lebanon through, *inter alia*: (a) Appropriate means of identifying investment opportunities and information channels on investment regulations; (b) Providing information on European investment regimes (technical assistance, direct financial support, fiscal incentives, investment insurance, etc.) related to outward investment and enhancing the possibility of Lebanon to benefit from them; (c) Examining the creation of joint ventures (especially for small and medium-sized enterprises), and when appropriate the conclusion of agreements between the Member States and Lebanon; (d) Establishing mechanisms for encouraging and promoting investments; (e) The development of a legal framework conducive to investment between the two Parties, through the conclusion by Lebanon and the Member States of investment protection agreements, where appropriate, and agreements preventing double taxation.
	2. Cooperation may extend to the planning and implementation of projects demonstrating the effective acquisition and use of basic technologies, the use of standards, the development of human resources and the creation of jobs locally.
Article 48 **Cooperation in standardisation and conformity assessment**	The Parties shall cooperate in: (a) Reducing divergences in standardisation, metrology, quality control and conformity assessment; (b) Developing the updating of Lebanese laboratories; (c) Negotiating mutual recognition agreements as soon as the conditions for them are met; (d) Strengthening the Lebanese institutions responsible for standardisation, quality, and intellectual, industrial and commercial property.
Article 49 **Approximation of legislation**	The Parties shall use their best endeavors to approximate their respective laws in order to facilitate the implementation of this Agreement.
Article 50 **Financial services**	The aim of cooperation shall be to achieve closer common rules and standards in areas including the following: (a) Developing the financial markets in Lebanon; (b) Improving accounting, auditing, supervision and regulation of financial services and financial monitoring in Lebanon.
Article 51 **Agriculture and fisheries**	The aims of cooperation shall be: (a) To support policies aiming to diversify production; (b) To reduce food dependency; (c) To promote a form of agriculture which pays due regard to the environment; (d) To establish closer relations between enterprises, groupings and professional organisations of the two Parties;

Title V. Economic and sector cooperation	
	(e) To provide assistance and technical training; support for agronomic research, advisory services, agricultural education and technical training of staff in the agricultural sector; (f) To harmonise phytosanitary and veterinary standards; (g) To support integrated rural development, including improvement of basic services and development of ancillary economic activities, particularly in the regions affected by the eradication of illicit crops; (h) Cooperation between rural areas, exchange of experience and know-how on rural development; (i) Development of sea fishing and aquaculture; (j) Development of packaging, storage and marketing techniques; and the improvement of distribution channels; (k) To develop agricultural water resources; (l) To develop the forestry sector, especially in the fields of reafforestation, forest fire prevention, forest pasture and combating desertification; (m) To develop agricultural mechanisation and promotion of agricultural service cooperatives; (n) To strengthen the agricultural credit system.
Article 52 **Transport**	The aim of cooperation shall be to: (a) Restructure and modernise road, rail, port and airport infrastructure linked to the main trans-European lines of communication of common interest; (b) Establish and enforce operating and safety standards comparable to those prevailing in the Community; (c) Upgrade technical equipment to Community standards for multimodal transport, container traffic and transshipment; (d) Improve road, maritime and multimodal transit and the management of ports, airports, sea and air traffic control, railways and navigation aids; (e) Reorganise and restructure of the mass transport sector including public transport.
Article 53 **Information society and telecommunications**	1. The Parties recognise that information and communication technologies constitute a key element of modern society, vital to economic and social development, and a cornerstone of the emerging information society.
	2. Cooperation in this field shall aim at: (a) A dialogue on the various aspects of the information society, including telecommunications policies; (b) Exchanges of information and technical assistance on regulatory matters, standardisation, conformity tests and certification as regards information technology and telecommunications technology; (c) Dissemination of new information and telecommunications technology, and of updated facilities for advanced communications, information services and technology;

Title V. Economic and sector cooperation	
	(d) Promotion and implementation of joint projects for research, technical development and industrial applications in information technologies, communications, telematics and the information society; (e) The participation of Lebanese organisations in pilot projects and European programmes within the established frameworks; (f) Interconnection and interoperability between Community telematics networks and services and those of Lebanon; (g) A dialogue on regulatory cooperation on international services, including aspects relating to protection of data and privacy.
Article 54 **Energy**	Cooperation shall focus on: (a) Promotion of renewable energy; (b) Promotion of energy-saving and energy efficiency; (c) Applied research relating to networks of databases linking the two Parties' economic and social operators; (d) Supporting modernisation and development of energy networks and the interconnection of such networks with Community networks.
Article 55 **Tourism**	Cooperation shall aim to: (a) Promote investment in tourism; (b) Improve the knowledge of the tourist industry and ensure greater consistency of policies affecting tourism; (c) Promote a good seasonal spread of tourism; (d) Highlight the importance of the cultural heritage for tourism; (e) Ensure that the interaction between tourism and the environment is suitably maintained; (f) Make tourism more competitive through support for increased standards and professionalism; (g) Enhance information flows; (h) Intensify training activities in hotel management and administration, and training in other hotel trades; (i) Organise exchanges of experience so as to ensure balanced, sustainable development of tourism, notably through exchanges of information, exhibitions, conventions and publications on tourism.
Article 56 **Customs cooperation**	1. The Parties shall develop customs cooperation to ensure that the provisions on trade are observed. For this purpose they shall establish a dialogue on customs matters.
	2. Cooperation will focus in particular on: (a) The simplification of controls and procedures concerning the customs clearance of goods; (b) The possibility of interconnection between the transit systems of the Community and of Lebanon; (c) The exchange of information among experts and vocational training; (d) Technical assistance where appropriate.

Title V. Economic and sector cooperation	
	3. Without prejudice to other forms of cooperation provided for in this Agreement, particularly in the fields of combating drug abuse and money laundering, the Contracting Parties' administrative authorities shall provide mutual assistance in accordance with the terms of Protocol 5.
Article 57 **Cooperation in statistics**	The aim of cooperation shall be to harmonise methodology used by the Parties and to put to use data, including data-banks, on all areas covered by this Agreement for which statistics can be collected.
Article 58 **Consumer protection**	Cooperation in this field should be geared to making consumer protection schemes in the Community and Lebanon compatible and should, as far as possible, involve: (a) Increasing the compatibility of consumer legislation in order to avoid barriers to trade; (b) Establishment and development of systems of mutual information on dangerous food and industrial products and interconnecting them (rapid alert systems); (c) Exchanges of information and experts; (d) Organising training schemes and supplying technical assistance.
Article 59 **Cooperation in reinforcement of institutions and rule of law**	The Parties reiterate the importance of the rule of law and the proper functioning of institutions at all levels in the areas of administration in general, and law enforcement and the machinery of justice in particular. An independent and effective judiciary and well-trained legal profession are of particular importance in this context.
Article 60 **Money laundering**	1. The Parties agree on the necessity of making every effort to cooperate to prevent the use of their financial systems for laundering of proceeds from criminal activities in general and drug offences in particular.
	2. Cooperation in this area may include administrative and technical assistance aimed at establishing effective standards and their efficient implementation in the area of combating money laundering in line with international standards.
Article 61 **Prevention and fight against organised crime**	1. The Parties agree to cooperate in order to prevent and fight organised crime, in particular in the following fields: human trafficking; exploitation for sexual purposes; corruption; the counterfeit of financial instruments; the illicit traffic of prohibited, counterfeited or pirated products and of illegal transactions concerning in particular industrial refuse or radioactive material; the trafficking of firearms and explosives; computer criminality; stolen cars.
	2. Parties shall cooperate closely in order to establish appropriate mechanisms and standards.
	3. Technical and administrative cooperation in this field will include training and the strengthening of the effectiveness of the authorities and structures responsible for fighting and for preventing criminality and the formulation of measures for crime prevention.
Article 62 **Cooperation on illicit drugs**	1. Within their respective powers and competencies, the Parties shall cooperate to ensure a balanced and integrated approach towards drugs. Drug policies and actions shall be aimed at reducing the supply, trafficking and demand of illicit drugs as well as at a more effective control of precursors.

Title V. Economic and sector cooperation	
	2. The Parties shall agree on the necessary methods of cooperation to attain these objectives. Actions shall be based on commonly agreed principles along the lines of the five basic principles endorsed at the United Nations General Assembly Special Session on Drugs of 1998 (UNGASS).
	3. Cooperation between the Parties may comprise technical and administrative assistance in particular in the following areas: drafting of national legislation and policies; establishment of institutions and information centres; training of personnel; drug related research; and the prevention of diversion of precursors used for the illicit manufacture of drugs. The Parties may agree to include other areas.

Table annex I.9 Euro-Mediterranean Agreement Provisions on Dialogue and Cooperation in the Social Field

Title VI. Chapter 1 – Dialogue and cooperation in the social field
Article 64 **1. The Parties shall conduct regular dialogue on any social matter which is of interest to them.**
2. This dialogue shall be used to find ways to achieve progress in the field of movement of workers and equal treatment and social integration of Lebanese and Community nationals legally residing in the territories of their host countries.
3. The dialogue shall notably cover all issues related to: **(a) The living and working conditions of the migrant communities;** **(b) Migration;** **(c) Illegal immigration;** **(d) Schemes and programmes to encourage equal treatment between Lebanese and Community nationals, mutual knowledge of cultures and civilisations, the furthering of tolerance and the removal of discrimination.**
Article 65 **1. With a view to consolidating cooperation between the Parties in the social field, projects and programmes shall be carried out in any area of interest to them, including:** **(a) Improving living conditions, particularly in disadvantaged areas and areas whose population has been displaced;** **(b) Promoting the role of women in the economic and social development process, particularly through education and the media;** **(c) Bolstering and developing Lebanon's family planning and mother and child protection programmes;** **(d) Improving the social security and health insurance systems;** **(e) Improving the health care system, notably through cooperation in the field of public health and prevention, health security and medical training and management;** **(f) Implementing and financing exchange and leisure programmes for mixed groups of Lebanese and European Young people, youth workers, youth NGO representatives, and other experts in the youth field residing in the Member States, with a view to promoting mutual knowledge of their respective cultures and fostering tolerance.**

2. The Parties shall engage in a dialogue on all aspects of mutual interest, and particularly on social problems such as unemployment, rehabilitation of the less able-bodied, equal treatment for men and women, labour relations, vocational training, safety and health at work.

Article 66

Cooperation schemes may be carried out in coordination with Member States and relevant international **organisation**s.

Table annex I.10 Euro-Mediterranean Agreement Provisions on Cooperation in Cultural Matters, Audiovisual Media and Information

Title VI. Chapter 2 – Cooperation in cultural matters, audiovisual media and information
Article 67 1. The Parties agree to promote cultural cooperation in fields of mutual interest and in a spirit of respect for each other's cultures. They shall establish a sustainable cultural dialogue. This cooperation shall promote in particular: (a) Conservation and restoration of historic and cultural heritage (monuments, sites, **artefacts**, rare books and manuscripts, etc.); (b) Exchange of art exhibitions and artists; (c) Training of persons working in the cultural field.
2. Cooperation in the field of audiovisual media shall seek to encourage cooperation in such areas as co-production and training. The Parties shall seek ways to encourage Lebanese participation in Community initiatives in this sector.
3. The Parties agree that existing cultural **programmes** of the Community and of one or more of the Member States and further activities of interest to both sides, can be extended to Lebanon.
4. The Parties shall in addition, work to promote cultural cooperation of a commercial nature, particularly through joint projects (production, investment and marketing), training and exchange of information.
5. The Parties shall, in identifying cooperation projects, **programmes** and joint activities, give special attention to young people, self-expression, heritage conservation issues, the dissemination of culture, and communication skills using written and audiovisual media.

Table annex I.11 Euro-Mediterranean Agreement Provisions on Cooperation for the Prevention and Control of Illegal Immigration

Title VI. Chapter 3 – Cooperation for the prevention and control of illegal immigration
Article 68 1. The Parties agree to cooperate in order to prevent and control illegal immigration. To this end: (a) Each of the Member States agrees to readmit any of its nationals illegally present on the territory of Lebanon, upon request by the latter and without further formalities once such persons have been positively identified as such; (b) Lebanon agrees to readmit any of its nationals illegally present on the territory of a Member State, upon request by the latter and without further formalities once such persons have been positively identified as such.

Title VI. Chapter 3 – Cooperation for the prevention and control of illegal immigration
The Member States and Lebanon will also provide their nationals with appropriate identity documents for such purposes.
2. In respect of the Member States of the European Union, the obligation in this Article applies only in respect of those persons who are to be considered their nationals for Community purposes in accordance with the Treaty establishing the European Community.
3. In respect of Lebanon, the obligation in this Article applies only in respect to those persons who are considered Lebanese in accordance to the Lebanese legal system and all the relevant laws concerning citizenship.
Article 69 1. After the entry into force of this Agreement, the Parties, at the request of any of them, shall negotiate and conclude bilateral agreements with each other, regulating specific obligations for the readmission of their nationals. These agreements shall also cover, if deemed necessary by any of the Parties, arrangements for the readmission of third country nationals. Such agreements will lay down details about categories of persons covered by these arrangements as well as the modalities of their readmission.
2. Adequate financial and technical assistance to implement these agreements may be provided to Lebanon.

Table annex I.12 Euro-Mediterranean Agreement Provisions on Financial Cooperation

Title VII. Financial cooperation
Article 71 1. With a view to full attainment of this Agreement's objectives, financial cooperation shall be considered for Lebanon in line with the appropriate financial procedures and resources.
2. These procedures shall be adopted by mutual agreement between the Parties by means of the most suitable instruments once this Agreement enters into force.
3. In addition to the areas covered by Titles V and VI of this Agreement, cooperation may entail, *inter alia*: (a) Facilitating reforms aimed at modernizing the economy; (b) Rebuilding and updating economic infrastructure; (c) Promoting private investment and job creation activities; (d) Taking into account the effects of the progressive introduction of a free trade area on the Lebanese economy, in particular where the updating and restructuring of the affected economic sectors, especially industry, is concerned; (e) Flanking measures for policies implemented in the social sectors, particularly for reform of social security.
Article 72 Within the framework of Community instruments intended to buttress structural adjustment **programmes** in the Mediterranean countries – and in close coordination with the Lebanese authorities and other contributors, in particular the international financial institutions – the Community will examine suitable ways of supporting structural policies carried out by Lebanon to restore financial equilibrium in all its key aspects and create an economic environment conducive to boosting growth, while at the same time enhancing social welfare.
Article 73 In order to ensure a coordinated approach to dealing with the exceptional macroeconomic and financial problems which could stem from the progressive implementation of this Agreement, the Parties shall closely monitor the development of trade and financial relations between the Community and Lebanon as part of the regular economic dialogue established under Title V.

Table annex I.13 Euro-Mediterranean Agreement Institutional, General and Final Provisions

Title VIII. Institutional, general and final provisions
Article 74 1. An Association Council is hereby established which shall meet at ministerial level when circumstances require, on the initiative of its Chairman and in accordance with the conditions laid down in its rules of procedure.
2. The Association Council shall examine any major issues arising within the framework of this Agreement and any other bilateral or international issues of mutual interest.
Article 75 1. The Association Council shall consist of the members of the Council of the European Union and members of the Commission of the European Communities, on the one hand, and of members of the Government of Lebanon, on the other.
2. Members of the Association Council may arrange to be represented, in accordance with the provisions laid down in its rules of procedure.
3. The Association Council shall establish its rules of procedure.
4. The Association Council shall be chaired in turn by a member of the Council of the European Union and a member of the Government of Lebanon in accordance with the provisions laid down in its rules of procedure.
Article 76 1. The Association Council shall, for the purpose of attaining the objectives of this Agreement, have the power to take decisions in the cases provided for therein.
2. The decisions taken shall be binding on the Parties, which shall take the measures necessary to implement the decisions taken. The Association Council may also make appropriate recommendations.
3. The Association Council shall draw up its decisions and recommendations by agreement between the two Parties.
Article 77 1. Subject to the powers of the Association Council, an Association Committee is hereby established which shall be responsible for the implementation of this Agreement.
2. The Association Council may delegate to the Association Committee, in full or in part, any of its powers.
Article 78 1. The Association Committee, which shall meet at the level of officials, shall consist of representatives of members of the European Union and of the Commission of the European Communities, on the one hand, and of representatives of the Government of Lebanon, on the other.
2. The Association Committee shall establish its rules of procedure.
3. The Association Committee shall normally meet alternately in the Community and in Lebanon.
Article 79 1. The Association Committee shall have the power to take decisions for the management of this Agreement as well as in the areas in which the Association Council has delegated its powers to it.

2. The Association Committee shall draw up its decisions by agreement between the Parties. These decisions shall be binding on the Parties, which shall take the measures necessary to implement the decisions taken.

Article 80

The Association Council may decide to set up any working group or body necessary for the implementation of this Agreement. It shall define the terms of reference of any such working group or body that shall be subordinated to it.

Article 81

The Association Council shall take all appropriate measures to facilitate cooperation and contacts between the European Parliament and the Lebanese Parliament, and between the Economic and Social Committee of the Community and its counterpart in Lebanon.

Article 82

1. Each of the Parties may refer to the Association Council any dispute relating to the application or interpretation of this Agreement.

2. The Association Council may settle the dispute by means of a decision.

3. Each Party shall be bound to take the measures involved in carrying out the decision referred to in paragraph 2.

4. In the event of it not being possible to settle the dispute in accordance with paragraph 2, either Party may notify the other of the appointment of an arbitrator; the other Party must then appoint a second arbitrator within two months. For the application of this procedure, the Community and the Member States shall be deemed to be one Party to the dispute.

The Association Council shall appoint a third arbitrator.

The arbitrators' decisions shall be taken by majority vote.

Each Party to the dispute must take the steps required to implement the decision of the arbitrators.

Article 83

Nothing in this Agreement shall prevent a Party from taking any measures:

(a) Which it considers necessary to prevent the disclosure of information contrary to its essential security interests;

(b) Which relate to the production of, or trade in, arms, munitions or war materials or to research, development or production indispensable for **defence** purposes, provided that such measures do not impair the conditions of competition in respect of products not intended for specifically military purposes;

(c) Which it considers essential to its own security in the event of serious internal disturbances affecting the maintenance of law and order, in time of war or serious international tension constituting threat of war or in order to carry out obligations it has accepted for the purpose of maintaining peace and international security.

Article 84

In the fields covered by this Agreement, and without prejudice to any special provisions contained therein:

(a) The arrangements applied by Lebanon in respect of the Community shall not give rise to any discrimination between the Member States, their nationals, or their companies or firms;

(b) The arrangements applied by the Community in respect of Lebanon shall not give rise to any discrimination between Lebanese nationals or its companies or firms.

Title VIII. Institutional, general and final provisions

Article 85

As regards direct taxation, nothing in this Agreement shall have the effect of:

(a) Extending the fiscal advantages granted by either Party in any international agreement or arrangement by which it is bound;

(b) Preventing the adoption or application by either Party of any measure aimed at preventing fraud or the evasion of taxes;

(c) Opposing the right of either Party to apply the relevant provisions of its tax legislation to taxpayers who are not in an identical situation, in particular as regards their place of residence.

Article 86

1. The Parties shall take any general or specific measures required to **fulfil** their obligations under this Agreement. They shall see to it that the objectives set out in this Agreement are attained.

2. If either Party considers that the other Party has failed to **fulfil** an obligation under this Agreement, it may take appropriate measures. Before so doing, except in cases of special urgency, it shall supply the Association Council with all the relevant information required for a thorough examination of the situation with a view to seeking a solution acceptable to the Parties.

3. In the selection of the appropriate measures referred to in paragraph 2, priority must be given to those which least disturb the functioning of this Agreement. The Parties also agree that these measures shall be taken in accordance with international law and shall be proportional to the violation.

These measures shall be notified immediately to the Association Council and shall be the subject of consultations within the Association Council if the other Party so requests.

Article 87

Annexes 1 and 2 and Protocols 1 to 5 shall form an integral part of this Agreement.

Article 88

For the purposes of this Agreement, ‘Parties’ shall mean, on the one hand, the Community, or the Member States, or the Community and its Member States, in accordance with their respective powers, and Lebanon, on the other hand.

Article 89

1. This Agreement shall be concluded for an unlimited period.

2. Either Party may denounce this Agreement by notifying the other Party. This Agreement shall cease to apply six months after the date of such notification.

Article 90

This Agreement shall apply, on the one hand, to the territories in which the Treaty establishing the European Community is applied and under the conditions laid down in that Treaty and, on the other hand, to the territory of Lebanon.

Article 91

This Agreement is drawn up in duplicate in the Arabic, Danish, Dutch, English, Finnish, French, German, Greek, Italian, Portuguese, Spanish, and Swedish languages, each of these texts being equally authentic. It shall be deposited with the General Secretariat of the Council of the European Union.

Title VIII. Institutional, general and final provisions
Article 92 1. This Agreement shall be approved by the Parties in accordance with their own procedures.
2. This Agreement shall enter into force on the first day of the second month following the date on which the Parties notify each other that the procedures referred to in paragraph 1 have been completed.
3. Upon its entry into force, this Agreement shall replace the Cooperation Agreement between the European Economic Com- munity and the Republic of Lebanon and the Agreement between the Member States of the European Coal and Steel Community and Lebanon, signed in Brussels on 3 May 1977.
Article 93 In the event that, pending the completion of the procedures necessary for the entry into force of this Agreement, the provisions of certain parts of this Agreement, in particular those relating to the free movement of goods, are put into effect by means of an Interim Agreement between the Community and Lebanon, the parties agree that, in such circumstances, for the purposes of Titles II and IV of this Agreement and Annexes 1 and 2 and Protocols 1 to 5 thereto, the terms 'date of entry into force of this Agreement' mean the date of entry into force of the Interim Agreement in relation to obligations contained in these Articles, Annexes and Protocols.

Annex II

GAFTA Provisions

Table annex II.1 Greater Arab Free Trade Agreement General Provisions

Chapter One. General Provisions
Article II This Agreement is designed to: 1. Free trade Exchange among Arab Countries from various charges and restrictions imposed on it, in accordance with the following rules: A. Full relief for some Arab goods and products traded between Member-States from varied charges and restrictions imposed on non-national (non-Country) products; B. Gradual reduction of Various Charges and restrictions imposed on some other traded Arab goods and products; C. Provision of gradual protection for Arab goods and products to face competition from similar or alternative non-Arab goods; D. Determination of the goods and products referred to in paragraphs (A, B and C) in the light of the guiding criteria set forth in Article IV or determined by the Council. 2. Harmonized matching between production of and trade in Arab goods, using various means, particularly provision of funding facilities required for their production. 3. Facilitating the funding of inter-Arab trade and settlement of payments resulting from such trade. 4. Granting special concessions to services associated with trade among party-states. 5. Adopting the principle of direct exchange in trade among party-states. 6. Taking into account the development conditions of each of the party- states. 7. Equitable sharing of the benefits and burdens resulting from the enforcement of the Agreement.
Article III The principle agreed upon in the Agreement shall constitute the minimum level of trade cooperation among the party-states. Each party-state shall be entitled to grant further advantages and preferences to any other Arab state or states, through concluding either bilateral or multilateral agreements.
Article IV Selection of the Arab goods and products referred to in paragraph (3) and (5) of Article VI and in Article VII shall be guided by one or more of the following criteria: 1. That the good occupies a strategic place in the consumption pattern satisfying the population's needs. 2. That the good be in substantial and continuous demand. 3. That the value of production of the good account for a significant percentage of the gross product of a party-state. 4. That the good occupies an important place in the interrelations within the production machinery of a party-state. 5. That growth of trade in the good lead to increased acquisition of technological capacity and location and development of appropriate technology. 6. That the good be of major export significance to a party-state. 7. That the good be important to the development of a party-state but face severe discriminatory or restrictive measures in foreign markets.

Chapter One. General Provisions
8. That growth of trade in the good lead to strengthening Arab economic integration. 9. That growth of trade in the good lead to realization of national security in general and military security in particular. 10. Any other criteria adopted by the Council.
Article V Economic sanctions among party-states in the trade area regulated by the Agreement may be used only by resolution of the Economic Council and for supreme national reasons.

Table annex II.2 Greater Arab Free Trade Agreement Substantive Provisions

Chapter Two. Substantive Provisions
Article VI The following Arab goods shall be exempted from customs duties and other taxes of similar effect as well as from non-tariff import restrictions: 1. Agricultural and animal products, whether in their primary form or after changes are introduced to make them consumable. 2. Mineral and non-mineral ores, whether in their primary form or in a form suitable for processing. 3. Semi-finished goods included in lists approved by the Council if they enter in the production of industrial goods. 4. Goods produced by Arab joint ventures established within the framework of the League of Arab States or Arab organizations operating within its context. 5. Finished goods to be agreed upon in accordance with lists approved by the Council.
Article VII 1. The parties concerned shall negotiate the gradual reduction of customs duties and taxes of a similar effect imposed on imported Arab goods, in the percentages and ways consistent with the lists approved by the Council.
2. The relative reduction shall be gradual and for a specified period of time by the end of which all customs duties and taxes of a similar effect imposed on trade among the party-states shall be terminated.
3. Without prejudice to the provisions of paragraphs (1) and (2) of this Article, the products of party-states determined by the Council to be less developed shall be granted preferential treatment in accordance with the criteria and limits it may determine.
4. A party-state may grant any additional advantages to another Arab state or states under bilateral or multilateral agreements, whether or not it is party to this Agreement.
5. No party-state may grant any preferential advantages to a non-Arab state that exceeds those granted to party-states.
Article VIII 1. The parties concerned shall hold negotiations with the aim of imposing uniform and appropriate minimum customs duties, taxes and restrictions of a similar effect on goods imported from non-Arab States, which are competitive with or alternative to Arab goods. Resolution shall be adapted by the Council, which will also gradually increase them from time to time, in consultation with the said states.
2. The party-states shall determine a comparative advantage for Arab Goods vis-à-vis competitive or alternative non-Arab goods. Priority of application shall be accorded to government purchases. The Council shall establish the

Chapter Two. Substantive Provisions
conditions for determining the comparative advantage in accordance with the circumstances of each party-state or group of party-states, taking into account, in particular, determining a comparative advantage for Arab goods related to food security or national security in general.
3. The Council may adopt any other measures in excess of the limits referred to in this Article, with a view to dealing with cases of dumping and discriminatory policies that non-Arab states may adopt.
4. Should the products of party-states be inadequate to meet the needs of the local markets of the importing party-states, the latter shall be entitled to import quantities of similar products to bridge the gap while observing the limits specified in accordance with the provisions of this Article.
Article IX 1. To treat to good as Arab for the purposes of this Agreement, it shall meet the rules of origin determined by the Council, and the value added as a result of its production in a party-state shall not be less than 40 value when finished. This percentage shall be reduced to a minimum of 20 Per cent for Arab assembly industries. The Council shall work out a timetable to increase these two percentages gradually.
2. Any party-state may request the Council to lower the percentage referred to in paragraph (1) of this Article if the good is of a strategic nature or has special importance to for a specific period of time.
Article X 1. Party-states shall, through their monetary and banking policies, promote trade among them, facilitate required funding and expand its base under preferential and concessional terms and conditions.
2. In accordance with its Articles of Agreement, the Arab Monetary Fund shall work out a suitable system to facilitate the settlement of payments resulting from trade among party-states. It shall also be asked to submit proposals for banking policies that would serve the same purpose to Arab central banks and monetary institutions in.
3. Joint Arab financial institutions shall, in accordance with their regulations, be urged to promote trade exchanges among party-states, facilitate and provide necessary funding and expand their base under preferential and concessional terms and conditions.
4. The Inter-Arab Investment Guarantee Corporation and other specialized Arab institutions shall be urged to provide necessary guarantees to trade among party-states under preferential terms and conditions, and in accordance with their rules.

Table annex II.3 Greater Arab Free Trade Agreement Provisions on the Supervision of Agreement Implementation

Chapter Three. Supervision of Agreement Implementation
Article XI 1. The Council shall supervise the implementation of the Agreement. Specifically, it shall: A. Draft and publish collective lists of goods exempted from (customs) duties and taxes of a similar impact as well as from tariff (sic) restrictions; B. Draft and publish collective lists of goods enjoying reduced (customs) duties and taxes of a similar effect as well as from tariff (sic) restrictions; C. Draft and publish lists of non-Arab goods competitive with or alternative to Arab goods; D. Determine the rules and conditions under which gradual reduction of (customs) duties and taxes of a similar effect, as well as tariff (sic) restrictions shall be made;

Chapter Three. Supervision of Agreement Implementation
E. Determine the less developed party-states for the purposes of this Agreement; F. Examine the complaints by party-states of discriminatory problems encountered in trade transactions with other states.
2. The Council shall adopt its resolutions related to the provisions of this Agreement by a two-thirds majority of Member-States.
3. The Council may form committees to be entrusted with some of its powers referred to in this Agreement.
Article XII The General Department for Economic Affairs at the General Secretariat of the League of Arab States shall draft an annual report to be submitted to the council on progress of trade among party-states to the Agreement, difficulties facing enforcement, solutions thereto, and proposals to deal with the situation.

Table annex II.4 Greater Arab Free Trade Agreement Provisions on the Settlement of Disputes

Chapter Four. Settlement of Disputes
Article XIII Disputes arising from the enforcement of this Agreement shall be submitted to the Council for resolution. It may refer them to a committee or sub-committees to which it shall delegate some of its powers. It may also apply thereto the dispute settlement provisions set forth in Chapter Six of the United Agreement for the Investment of Arab Capital in Arab States and its annex. In each case, the Council shall determine the method of settling a dispute.

Table annex II.5 Greater Arab Free Trade Agreement Final Provisions

Chapter Five. Final Provisions
Article XIV Goods and products traded in accordance with this Agreement shall be re-exported to another non-party country only with the approval of the country of origin.
Article XV Any party-state may request the imposition of some duties and taxes of a similar effect or quantitative or administrative restrictions, or maintenance of existing ones, on a temporary basis, to ensure the growth of a certain domestic product. The Council shall approve this for the period of time it shall specify.
Article XVI Bodies of the General Secretariat of the League of Arab States shall collect and analyze necessary information to identify the course of trade among the party-states and between them and other states. Party-states shall provide all data considered necessary by the General Secretariat for the effective enforcement of the Agreement.
Article XVII Goods shall be traded among party-states directly and without mediation of a non-Arab party.

Chapter Five. Final Provisions

Article XVIII

The party-states shall cooperate to facilitate transport and communications among them by all means, on a preferential basis, and also to facilitate transit trade associated with the exchange of Arab goods among party-states.

Article XIX

The party-states shall cooperate to strengthen and coordinate their economic and trade relations with other states or with international and regional economic organizations and blocs, on a bilateral or joint basis. They shall seek to take unified stands in international economic conferences and seminars, in line with their common interests.

Article XX

While enforcing this agreement, the terms and principles of Arab boycott and relevant decisions made by various competent agencies shall be observed.

Article XXI

No party-state may enact legislation or make a decision which is in conflict with the provisions of this Agreement or which may block its enforcement.

Article XXII

1. The Agreement shall be deposited with the General Secretariat of the League of Arab States for signature.

2. The Agreement shall become effective three months after its ratification documents have been deposited by at least five Arab States.

3. Documents of Arab states and enforce the Agreement in relation to each acceding state one month after it has deposited its ratification documents.

4. States to deposit ratification documents with it.

Article XXIII

No party-state shall withdraw from the Agreement before the lapse of three years after enforcement in relation thereto. Withdrawal shall be by written notice addressed to the Secretary General of the League of Arab States, and shall become effective one year after notice has been served to him.

Article XXIV

This agreement shall be amended by approval of two thirds of the party-states, and the amendment shall become effective in respect to the ratifying states one month after parties or by at least five states.

Article XXV

1. The Council shall assume its powers stipulated in the Agreement as soon as two thirds of the Member-States have acceded to this Agreement, in which case non-party-states shall not have the right to participate in voting.

2. Until the event set forth in the previous paragraph has taken place, representatives of party-member states of the Council shall meet as a board to be called (the Arab Trade Board) which shall assume the powers of the Council stipulated in this Agreement.

3. The General Department for Economic Affairs at the General Secretariat of the League of Arab States shall carry accordance with by-laws to be issued by the Board, which shall determine its resources and how to dispose of.

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