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## **Middle East Trade Initiatives: S. 1121/H.R. 2267 and the Administration's Plan**

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# Middle East Trade Initiatives: S. 1121/H.R. 2267 and the Administration's Plan

## Summary

On May 9, 2003, the Administration proposed the establishment of a U.S. Middle East Free Trade Area (MEFTA) within a decade (by about 2013). This proposal came a year and a half after the September 11, 2001 terrorist attacks on the U.S. World Trade Center and the Pentagon, and after the wars in Afghanistan and Iraq. The MEFTA was billed as part of a plan to fight terrorism — in this case, by supporting the growth of Middle East prosperity and democracy — through trade. On June 23, 2003, the Administration described a six-step process for Middle East countries to become part of that MEFTA: (1) joining the World Trade Organization; (2) possibly participating in the Generalized System of Preferences; successively entering into (3) trade investment framework agreements (TIFAs), (4) bilateral investment treaties (BITs), and (5) free trade agreements with the United States; and (6) participating in trade capacity building.

Meanwhile, on May 22, 2003, Senators Max Baucus and John McCain, and Representatives Adam Smith and Calvin Dooley introduced the bipartisan S. 1121/H.R. 2267, to authorize a “short-run” trade preference program to serve as a “stepping stone” for Middle East countries desiring free trade agreements with the United States. The “short-run” trade preference program would expire at the end of 2011 — two years before the aimed-for completion of the Administration’s initiative. It would be based on and similar to the partial duty-free programs of the Caribbean Basin Economic Recovery Act (CBERA), the Andean Trade Preference Act (ATPA), and the African Growth and Opportunity Act (AGOA).

Both the Administration’s plan and S. 1121/H.R. 2267 would cover 16 countries in common located in what many refer to as the Middle East and North Africa: Bahrain, Egypt, Iraq, Israel, Jordan, the Gaza Strip and the West Bank (Palestine), Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Yemen, Algeria, Morocco, and Tunisia. Each initiative would also include several countries not on the common list. The Administration’s plan would include four such countries: Cyprus, Iran, Syria, and Libya. S. 1121/H.R. 2267 would include five such countries: Afghanistan, Azerbaijan, Bangladesh, Pakistan, and Turkey.

Although U.S.-Middle East trade is small (4-5% of total U.S. trade), oil and gas are key imports, accounting for roughly one-tenth of all oil and gas consumed in the United States each year. Textiles and apparel are the second most important imports from these countries. The most important U.S. exports to these countries are machinery and transportation equipment.

Sponsors of S. 1121/H.R. 2267 argue that their initiative would help diversify and improve the economies of the Middle East, provide jobs for the rapidly growing population, stimulate U.S. exports, and help Middle East countries make economic reforms. The Administration has been ambivalent in its support of S. 1121/H.R. 2267, calling it a “good initiative,” yet stressing that its own plan would be more likely to make Middle East countries “sustainable trading partners.” This report will be updated as events warrant.

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# Middle East Trade Initiatives: S. 1121/ H.R. 2267 and the Administration's Plan

## Introduction

After the terrorist attacks against the New York World Trade Center and the Pentagon on September 11, 2001, and the initial combats in Afghanistan and Iraq, a U.S. objective became, in the words of U.S. Trade Representative Robert B. Zoellick, to fight terrorism by “spreading the message of prosperity and democracy throughout the world.”<sup>1</sup> One way the Administration chose to spread that message was through a proposed Middle East Free Trade Agreement (MEFTA).

The MEFTA Initiative was proposed by President Bush on May 9, 2003, and was slated for completion within a decade (i.e., by around 2013). More detail on the Administration's plan was revealed on June 23, 2003 at the World Economic Forum in Jordan, when U.S. Trade Representative Zoellick spoke on the conceptual details. Mr. Zoellick outlined six steps for Middle East countries wishing to enter into a free trade agreement with the United States.

Meanwhile, on May 22, 2003, Senators Max Baucus and John McCain, and Representatives Adam Smith and Calvin Dooley, introduced bipartisan legislation, S. 1121/H.R. 2267, the *Middle East Trade and Engagement Act*. This legislation was drafted to help stimulate economies of the Middle East through a “short-run” trade preference program for countries that meet eligibility requirements. The preference program would serve as a “stepping stone” to free trade agreements with the United States.<sup>2</sup> The bill also requires: (1) a presidential plan for negotiating and entering into trade agreements with interested beneficiary countries; and (2) the creation of a U.S.-Middle East Trade and Economic Cooperation Forum. The proposed “short-run” trade preference program would expire at the end of 2011 — two years before the Administration's initiative aims to be completed.

The purpose of this report is to compare and contrast the Administration's Initiative with the legislative proposal in terms of (1) the impetus for the initiatives; (2) the major elements of each plan; (3) the definition of “Middle East”; (4) background trade data; (5) details of the two initiatives; and (6) summary differences in their approaches and the arguments for each. At the back of this report are five tables. **Table 1** identifies five steps each of the 25 countries has taken toward a bilateral free trade agreement with the United States: WTO membership, eligibility

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<sup>1</sup> A Man of Many Missions. *Business Week*. March 31, 2003, p. 94-95.

<sup>2</sup> U.S. Senator Max Baucus, Speech: *Middle East Trade and Engagement Act of 2003, “Rebuilding the Silk Road,”* at the Progressive Policy Institute, September 30, 2003.

for the Generalized System of Preferences, and achievement of three types of agreements — trade investment framework agreements, bilateral investment treaties, and free trade agreements. **Table 2** compares basic elements of the Administration’s plan and S. 1121/H.R. 2267. **Tables 3 and 4** list for each country U.S. import and export totals and shares of key commodities traded. **Table 5** shows the current value and share of world and U.S. foreign direct investment, respectively, in various countries.

## Impetus for the Initiatives

Both Middle East trade initiatives captured an idea that was already being debated in Washington — using trade as a tool to fight terrorism. For example, in February 2003, a report by policy analyst Edward Gresser argued that the Muslim world had been the “blank spot” on the U.S. trade agenda, a fact that risked “undermining rather than supporting the war on terrorism.” Gresser pointed to an economic crisis affecting almost all of the western Muslim states, which have “seen their share of world trade and investment collapse since 1980,” resulting in “stagnant growth, [and] falling income,” with social consequences of “unemployment, political tension, and rising appeal for religious extremists.”<sup>3</sup>

Gresser argued that, “A strategic initiative for the Muslim<sup>4</sup> world could end — or at least ease — the tilt.” Gresser called for an initiative “analogous to the programs now available for Central America, the Andean Nations, and Africa” in order to possibly spark “growth and creation, and so reduce the attraction of radicalism and religious fundamentalism.”

Another article written by policy analyst Brink Lindsey of the CATO Institute argued for two concepts. The first was an additional shorter-term program to include “temporary duty-free, quota-free access to the U.S. market for exports of selected Muslim countries.” The shorter term program, he declared, would give tangible, dramatic proof of U.S. commitment to the region, thereby providing an impetus for the longer, arduous process of negotiating free trade agreements. The second concept Lindsey called for was the expansion of the definition of “Middle East” beyond the traditional geographic area to include other countries with “geopolitical significance.”<sup>5</sup>

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<sup>3</sup> Gresser, Edward. *Blank Spot on the Map: How Trade Policy is Working Against the War on Terror*. Public Policy Institute. February 2003. Unemployment in the Middle East in 1999 averaged roughly 25%. Source: The Economic Research Forum for the Arab Countries, Iran and Turkey. *Economic Trends in the MENA Region*, 2002.

<sup>4</sup> All but two of the countries that would be covered by the initiatives (Israel and Cyprus) are at least two-thirds Muslim.

<sup>5</sup> Lindsey, Brink. *The Trade Front: Combating Terrorism with Open Markets*. CATO Institute. August 5, 2003.

## Major Elements of the Two Plans

Both the Administration's plan and the Baucus/McCain/Smith/Dooley plan (S. 1121/H.R. 2267), in aiming to support economic development, job creation, and political, and humanitarian changes, reflect elements of the two articles referred to above, but differ in the specifics and in emphasis:

### Primary Focus

- While the primary focus of the Administration's plan would be on the long-term establishment of a Middle East Free Trade Area by around 2013, the primary focus of S. 1121/H.R. 2267 would be on a "short run" trade preference program that would expire at the end of 2011.
- The Administration's short-run trade preference component would be to continue the Generalized System of Preferences (GSP) currently available to some Middle East countries.

### Administration's Plan

- The Administration's long-term plan would be for eligible countries to: (1) join the World Trade Organization and then sequentially enter into (2) trade investment framework agreements (TIFAs), (3) bilateral investment treaties (BITs), and (4) free trade agreements (FTAs) with the United States. Once a country has entered into an FTA with the United States, other neighboring countries could achieve some FTA tariff benefits by "cooperatively producing" (with two or more countries contributing to the same product) with that country.

### S. 1121/H.R. 2267

- S. 1121/H.R. 2267's trade preference plan is billed as a "short-run" trade preference program. It is based on and similar to the partial duty-free programs of the Caribbean Basin Economic Recovery Act (CBERA), the Andean Trade Preference Act (ATPA) and the African Growth and Opportunity Act (AGOA).<sup>6</sup>
- S. 1121/H.R. 2267 also calls for (1) a presidential plan for negotiating and entering into trade agreements with interested beneficiary countries, and (2) the creation of a U.S.-Middle East Trade and Economic Cooperation Forum to foster closer economic ties with and expand trade and investment relations among government, nongovernment and business organizations.

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<sup>6</sup>The Caribbean Basin Economic Recovery Act (CBERA), the Andean Trade Preference Act (ATPA) and the African Growth and Opportunity Act (AGOA) offer trade preferences to a total of 91 nations. The benefits go beyond tariff reductions offered to certain developing countries under the Generalized System of Preferences (GSP) because they include tariff reductions on some GSP goods (including some textiles) for which tariff reductions are prohibited under GSP law (19 U.S.C. 2461).

### Definition of “Middle East”

- The Administration’s plan does not define the term “Middle East” but the definition used by the Office of the U.S. Trade Representative includes countries traditionally identified as in the Middle East or North Africa.
- S. 1121/H.R. 2267 omits four countries from the USTR definition and adds five countries outside the USTR definition of “Middle East.”

### Eligibility Requirements

- The Administration’s plan specifies very few eligibility requirements for countries wishing to join the MEFTA.
- S. 1121/H.R. 2267 is much more specific in its eligibility requirements. Based on the requirements of AGOA, it lists political and economic reforms that would be required in order for countries to be eligible for the trade preference program and for participation in the U.S.-Middle East Cooperative Forum.

### Definition of “Middle East”

The “Middle East” does not have a simple definition. Figures 1 and 2 are maps showing (shaded areas) countries included in the Administration’s plan and the S. 1121/H.R. 2267 plan, respectively.<sup>7</sup>

- The two initiatives (See **Figures 1 and 2** below) have 16 “countries”<sup>8</sup> in common: Bahrain, Egypt, Iraq, Israel, Jordan, the Gaza Strip and the West Bank, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Yemen, Algeria, Morocco, and Tunisia.

Each initiative also includes countries not on the other’s list.

- The Administration’s plan (**Figure 1**) includes four such countries: Cyprus, Iran, Syria, and Libya, while
- S. 1121/H.R. 2267 (**Figure 2**) includes five such countries: Afghanistan, Azerbaijan, Bangladesh, Pakistan, and Turkey.<sup>9</sup>

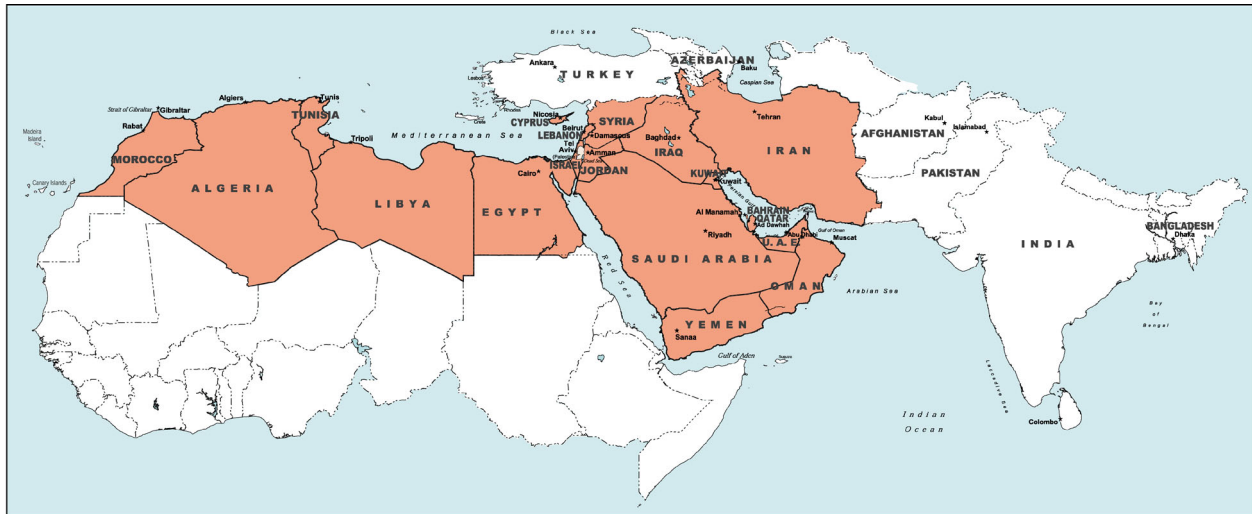
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<sup>7</sup> On June 12, 2003, Representatives Smith and Dooley co-sponsored H.R. 2467 — identical to H.R. 2267 except it adds two more countries to the eligibility list: Armenia and Georgia.

<sup>8</sup> For purposes of this report, the word “countries” or any references to the “25 countries,” shall mean 24 countries plus what is alternately referred to as “the West Bank and the Gaza Strip” (Administration’s plan) or “Palestine” (S. 1121 / H.R. 2267).

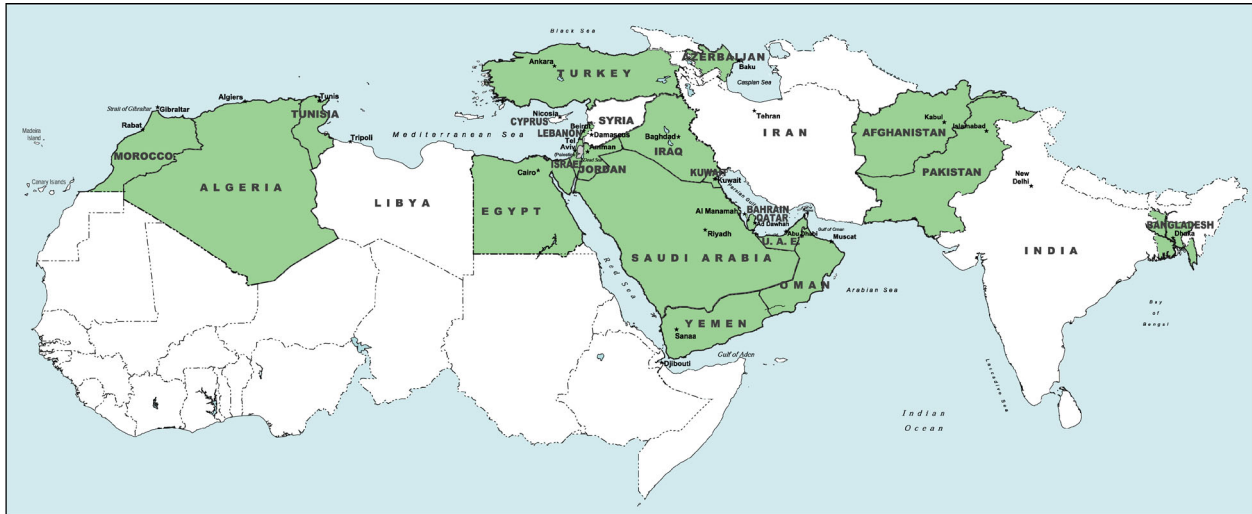
<sup>9</sup> Iran, Libya, and Syria are countries the United States has considered as state sponsors of  
(continued...)

**Figure 1. Countries Included in the Administration’s Definition of “Middle East / North Africa”**



Source: Map Resources. Adapted by CRS. (K.Yancey 2/19/04)

**Figure 2. Countries Included in the S. 1121/H.R. 2267 Definition of “Middle East”**



Source: Map Resources. Adapted by CRS. (K.Yancey 2/19/04)

<sup>9</sup> (...continued)

terrorism. The five countries included in S. 1121/H.R. 2267 but not in the Administration’s definition are considered by the Administration to be outside the “Middle East.” Sources: Baucus Middle East Bill Authorizes Zero Duties for Sensitive Products. *Inside U.S. Trade*. May 30, 2003; and Office of the U.S. Trade Representative. *Transcript of Background Press Conference Call to Discuss Proposed Mideast Free Trade Area Announced by President Bush*, May 9, 2003.

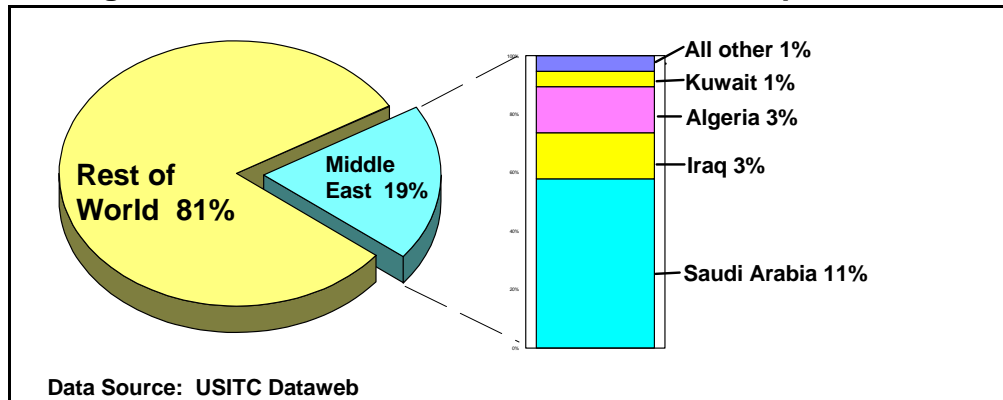


## Some Key Indicators of U.S. Economic Ties to the Middle East

U.S. trade with the Middle East is small. U.S. trade with the 25 Middle East countries covered in this report accounted for less than 4% of all U.S. exports and less than 5% of all U.S. imports in 2003. An important U.S. economic interest in the Middle East, however, is oil and gas. More than one-tenth of all oil and gas consumed in the United States each year is imported from the Middle East.

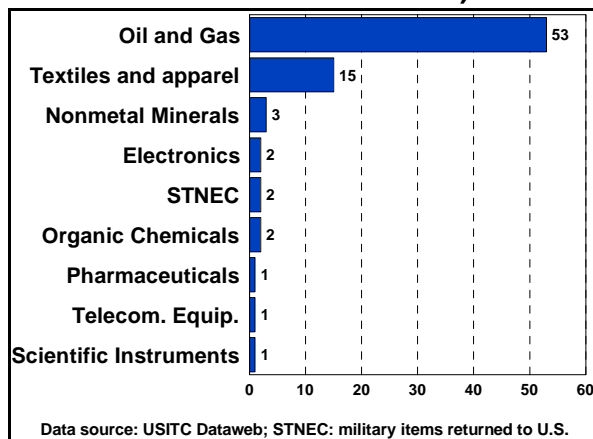
Said another way, less than half of all U.S. gas and oil consumed in 2003 (44%) was produced domestically. The rest (56%) was imported,<sup>10</sup> and of that close to one-fifth (19%) come from Middle East countries. Of the total share of oil and gas imported from the Middle East, nearly half (11%) come from Saudi Arabia. Other major contributors to the 19% of all U.S. oil and gas imports from the Middle East are Iraq (3%), Algeria (3%), and Kuwait (1%). (See **Figure 3** below.)

**Figure 3. Sources of Total U.S. Oil and Gas Imports, 2003**



In turn, U.S. oil and gas imports constitute a little more than half (53%) of the total U.S. imports from the Middle East. (See **Figure 4.**) After gas and oil, the next most important imports from Middle East countries are textiles and apparel, which together account for another 15% of U.S. imports from the Middle East. Other key import categories are diverse — nonmetallic minerals (3%), electronics (2%), organic chemicals (2%), pharmaceuticals (1%), telecom. equip. (1%), scientific instruments (1%),

**Figure 4. Key U.S. Imports from the Middle East, 2003 (as a % of all imports from the Middle East)**

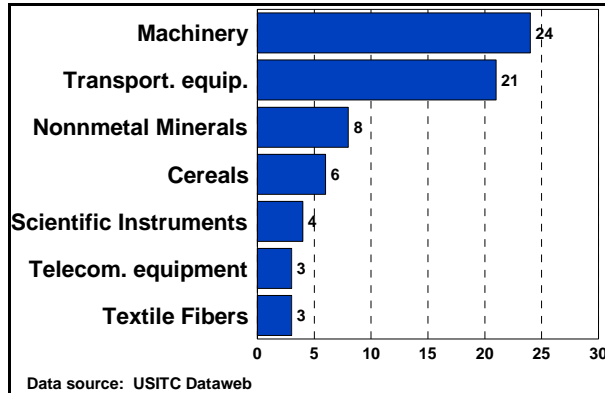


<sup>10</sup> U.S. Energy Information Administration, U.S. Department of Energy. *Monthly Energy Review*, February, 2004.

pharmaceuticals (1%), telecommunications equipment (1%), and scientific instruments (1%).

U.S. exports to Middle East countries are also heavily concentrated—in two industries: machinery and transportation equipment.<sup>11</sup> One quarter (24%) of U.S. exports to Middle East countries is machinery of various types: general industrial machinery, machinery specialized for particular industries, power generating machinery, electrical machinery, and office machinery. An additional one-fifth (21%) of U.S. exports to Middle East countries is transportation equipment including various types of road vehicles. Other key exports include nonmetallic minerals (8%), cereals (6%), scientific instruments (4%), telecommunications equipment (3%) and textile fibers (3%). (See figure 5.)

**Figure 5. Top U.S. Exports to the Middle East, 2003 (as a % of all U.S. exports to the Middle East)**



**Tables 3 and 4** at the back of this report detail U.S. imports from and exports to each of the 25 Middle East countries covered by this report. Those tables include, for each country (a) the total value of U.S. imports or exports, (b) the main items imported or exported, and (c) the percent of total imports/exports represented by each key commodity.

U.S. investment in the Middle East is limited. The stock of U.S. foreign direct investment (FDI) in Middle East countries in 2002 totaled \$17.1 billion, or 1.1% of total U.S. FDI. However, U.S. FDI represents nearly one-quarter of world FDI in the Middle East. (See **Table 5** for world and U.S. FDI totals in the various countries.) Half of the U.S. total is in two key sectors: mining 26% (primarily oil and gas), and manufacturing (25%). The remaining 49% of U.S. foreign direct investment in the Middle East is distributed throughout the service sector—especially the information sector (13%), and professional, scientific and technical services (7%).<sup>12</sup> In addition, Americans may have considerable portfolio investment in Israel including Israeli bonds.

<sup>11</sup> The Middle East, in general, has high barriers to trade. While the “weighted mean tariffs” (the mean tariffs after the proportion of goods imported for each category is factored in) of some countries are under 10%, they average more than 20% for many other countries, including Afghanistan (22%), Egypt (21%), Algeria (22%), Morocco (32%), Tunisia (31%), Bangladesh (22%), and Pakistan (21%). Source: The World Bank. *World Development Indicators*, p. 327.

<sup>12</sup> Data source: U.S. Bureau of Economic Analysis. Economics and Statistics Administration. U.S. Department of Commerce. *Survey of Current Business*, September, 2003, p. 121.

## Comparison of the Two Plans

The next six pages compare the two Middle East Trade Initiatives, the President's Plan and S. 1121/H.R. 2267, in detail. Each plan has four basic components: (a) trade preferences, (b) steps or activities leading toward free trade agreements, (c) requirements for country eligibility, and (d) time lines for each initiative. An overview chart comparing the two initiatives is included as **Table 2**, below.

### Trade Preference Components

Both the Administration's proposal and S. 1121/H.R. 2267 have trade preference components. They can be described as follows:

**Administration's Plan.** In the short run, the Administration would continue the Generalized System of Preferences (GSP) which includes duty-free entry to the U.S. market for at least 3,500 products from 140 developing countries. The following Middle East countries are currently eligible for GSP benefits: Bahrain, Egypt, Lebanon, Oman, Yemen, Algeria, Morocco, Tunisia, Pakistan, and Turkey. Remaining countries covered by this report are not eligible for GSP benefits. Some are no longer considered "developing." Others do not meet the Administration's eligibility requirements.

**S. 1121 / H.R. 2267.** S. 1121/H.R. 2267 (Sec. 10 of the bill) would authorize the President to establish new trade preferences. He could designate articles as eligible for duty-free treatment by Executive Order or presidential proclamation, with advice from the International Trade Commission. All eligible articles would have to meet GSP rules-of-origin requirements for a 35% domestic content requirement.

S. 1121/H.R. 2267 would limit trade preferences for agricultural products in excess of the quota portion of established Tariff Rate Quotas (including beef, cotton, dairy, peanuts, sugar and tobacco.). The President would also be prohibited from extending duty-free access for products while they are subject to section 201 safeguard or other trade actions.<sup>13</sup> This "short-term" trade preference program would be patterned after African Growth and Opportunity Act (AGOA), Andean Trade Partnership Act (ATPA) and Caribbean Basin Economic Recovery Act (CBERA) programs which offer tariff-free trade preferences for some articles excluded under GSP. This program would expire at the end of 2011.

### Steps or Activities Leading Toward Free Trade Agreements

Both the Administration's program and S. 1121/H.R. 2267 include steps or activities that could help integrate the Middle East more fully into the world trading system:

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<sup>13</sup> Additional background on the bill can be found in Baucus Middle East Bill Authorizes Zero Duties for Sensitive Products. *Inside U.S. Trade*, May 30, 2003.

**The Administration's Plan.**<sup>14</sup> The Administration's proposed program consists of six consecutive steps which each country may take, culminating in a free trade agreement with the United States. The second step, GSP participation, was discussed above as the trade preference component. **Table 1** lists each country included in the USTR or S. 1121/H.R. 2267 definition of Middle East, and for each country indicates which steps it has already fulfilled. The other five steps are:

**First.** World Trade Organization (WTO) membership for beginning integration with the world trading system. Eleven Middle East entities are not yet members of the WTO: the Gaza Strip and the West Bank, Iran, Iraq, Lebanon, Saudi Arabia, Syria, Yemen, Algeria, Libya, Afghanistan, and Azerbaijan.

**Second.** The continuation of GSP, discussed above.

**Third.** Trade and investment framework agreements (TIFAs) that establish a framework for expanding trade and for resolving outstanding disputes. Eleven Middle East entities do not have TIFAs with the United States: Cyprus, the Gaza Strip and the West Bank, Iran, Iraq, Lebanon, Oman, Syria, Libya, Afghanistan, Azerbaijan, and Bangladesh.

**Fourth.** Bilateral investment treaties (BITs) which oblige governments to treat foreign investors fairly and to offer them legal protections equal to those afforded domestic investors. BITs make the business climate more attractive to U.S. companies. The following 16 Middle East entities do not have BITs with the United States: Cyprus, the Gaza Strip and the West Bank, Iran, Iraq, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, Yemen, Algeria, Libya, Afghanistan, and Pakistan.

**Fifth.** Free trade agreements (FTAs), which typically remove tariff and non-tariff barriers to trade across all sectors. Currently two countries in the Middle East — Israel and Jordan — have congressionally-approved free trade agreements with the United States. In addition, the United States completed negotiations on a free trade agreement with Morocco on March 2, 2004. Negotiations with Bahrain are ongoing.

The Administration is considering including “cumulation clauses” which would afford sub-regional groups within the Middle East some eligibility to export goods to the United States tariff-free or at reduced tariffs. Stipulations would likely require that (1) those goods be produced in concert with a neighboring country which already has a free trade agreement, and that (2) the exported products meet rules of origin

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<sup>14</sup> These steps are taken from Office of the U.S. Trade Representative (USTR). *Trade Facts*, June 23, 2003. Additional explanatory material is taken from Office of the USTR. *Transcript of Background Press Conference Call to Discuss Proposed Mideast Free Trade Area Announced by President Bush*, May 9, 2003 (hereafter referred to as “Transcript of May 9, 2003”). This transcript specifies that the USTR official holding the press briefing be identified only as a “senior administration official.”

requirements.<sup>15</sup> Under the Administration's initiative, once FTAs are completed with Morocco and Bahrain, for example, other North African countries might be able to "dock" with and co-produce with Morocco; and other Gulf countries could "dock" with and co-produce with Bahrain. So, for example, to qualify for tariff benefits under a U.S.-Bahrain FTA, products could be jointly produced by Bahrain and Qatar or Oman or the United Arab Emirates, or a combination of the named countries.<sup>16</sup>

**Sixth.** The final step in the Administration's plan is trade-capacity building to help countries realize more fully the benefits of open markets (e.g., build the "legal entrepreneurial infrastructure.") The Middle East Partnership Initiative would help allocate structural adjustment funding to partner countries to help ease the burden of free trade's impact on local industries. The initiative would also be aimed at increasing educational opportunities, strengthening civil society and rule of law, and supporting small business.<sup>17</sup> The Middle East Partnership Initiative would help target more than \$1 billion of annual funding from various Government agencies and spur partnerships with private organizations and businesses that support trade and development. For 2003, funding for U.S. Trade Capacity Building totaled \$752 million, of which \$174 million, or 23% went to Middle East countries.<sup>18</sup>

**S. 1121 / H.R. 2267.** S. 1121/H.R. 2267 (Sec. 6 and 7) outlines three main activity areas which could lead eventually to bilateral free trade agreements and a Middle East Free Trade Area.

First, under these bills, the President shall develop a "plan" for negotiating and entering into trade agreements with beneficiary countries. That plan shall include (a) U.S. objectives for negotiation and a suggested timetable; (b) benefits of the FTA to the United States and relevant beneficiary countries; (c) subjects anticipated to be covered by the negotiations, and (d) laws of participating eligible countries and existing agreements. The plan shall also include procedures to ensure (1) adequate consultations: (a) with Congress and the private sector during negotiations; (b) with Congress relating to implementation; and (c) with relevant Middle East governments during negotiation; and (2) approval by Congress of the agreement. The President shall transmit to Congress a report of his plan no later than 12 months after enactment [Sec. 7(d)].

Second, the President shall establish a U.S.-Middle East Trade and Economic Cooperation Forum, patterned after a Forum created for Sub-Saharan Africa under

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<sup>15</sup> U.S. Department of State. *Middle East Trade Initiative*. Office of the USTR, February 27, 2003.

<sup>16</sup> Office of the USTR. *Transcript of Joint Press Conference: Secretary of State Colin L. Powell, Jordanian Foreign Minister Marqan Muasher, Robert B. Zoellick, U.S. Trade Representative, Jordanian Minister of Trade Salah Bashir, Movenpick Hotel, Dead Sea*, June 23, 2003.

<sup>17</sup> See U.S. Library of Congress. Congressional Research Service. *The Middle East Partnership Initiative: An Overview*, by Jeremy M. Sharp. CRS Report RS21457.

<sup>18</sup> U.S. Agency for International Development. *U.S. Contributions to Trade Capacity Building*, September, 2003, p. 2.

AGOA.<sup>19</sup> It shall host meetings to foster close economic ties and expand trade and investment relations for those countries “taking substantial positive steps toward meeting eligibility requirements,” plus Israel and Jordan, which already have FTAs with the United States. (“Eligibility requirements” are defined in the section below.) Separate annual meetings shall be held for appropriate government officials, nongovernment organizations, and representatives of the private sector. Every two years, meetings shall take place between the President and heads of various eligible governments, to the extent practicable (Sec. 6).

Third, bilateral free trade agreements shall be negotiated with interested countries to serve as the catalyst for increasing U.S.-Middle East trade and private sector investment. For FTA eligibility, a country shall be a member of the WTO or be “working diligently” toward membership and to satisfy the eligibility criteria of this act [Sec. 7(a) and (b)].

## Requirements for Eligibility

While the Administration’s plan specifies few eligibility requirements, S. 1121/H.R. 2267 includes a long list of requirements for eligibility to participate, which are taken primarily from AGOA and from the Trade Act of 1974.

**Administration’s Plan.** The Administration’s plan is open to those “peaceful” countries that seek an increased trade relationship with the United States and “open, ultimately, to all those countries that are prepared to participate in economic reform and liberalization.” Eligible countries must among other things: (1) “be prepared to participate in economic reform and liberalization,” and (2) not participate in a primary, secondary, or tertiary boycott of Israel.<sup>20</sup>

**S. 1121/H.R. 2267.** S. 1121/H.R. 2267 (Sec. 4) has a much longer list of eligibility requirements, which are similar to those in Subtitle B, Sec. 111 of AGOA, except for the latter part of item 8 and items 11-13 below which are specific to the Middle East. For eligibility, countries must be taking “substantial positive steps toward meeting” the following eligibility requirements:

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<sup>19</sup> The language in Sec. 6 of S. 1121/H.R. 2267 creating the Forum is virtually identical to that in Sec. 105 of AGOA.

<sup>20</sup> Office of the USTR. *Transcript of May 9, 2003*; and *Global Trade and the Middle East: Reawakening a Vibrant Past*, Robert B. Zoellick, USTR, Remarks at the World Economic Forum, Dead Sea, Jordan, June 23, 2003. The primary boycott of Israel banned all trade relationships with Israeli companies; the secondary boycott prohibited any entity in the League of Arab States\* from doing business with other firms that contribute to Israel’s military or economic development; the tertiary boycott was the injunction on Arab countries from doing business with foreign companies that had been blacklisted because of their ties with Israel. Source: U.S. Government to Enforce Laws in Face of Arab League Threat to Israeli Trade, *Global Business Magazine*. Oct 10, 2002.

\* The 22 members of the League of Arab States are Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, Yemen, Algeria, Libya, Morocco, Tunisia, Comoros, Djibouti, Mauritania, Palestine, Somalia, and Sudan.

1. a market-based economy that protects private property, incorporates rules-based trading, and minimizes government interference in the private sector;
2. a judicial process incorporating the rule of law, the right to due process, a fair trial, and equal protection;
3. a political climate free of political intimidation and restrictions on peaceful activity, and which includes political pluralism and democratic elections;
4. the elimination of barriers to U.S. trade and investment, the protection of intellectual property, and a dispute resolution mechanism;
5. economic policies that reduce poverty, expand physical infrastructure, promote development of private enterprise and encourage the formation of capital markets;
6. a system to combat corruption and bribery; and
7. policies to protect the environment and internationally recognized worker rights: (a) the right of association; (b) the right to organize and bargain collectively; (c) prohibition of forced labor; (d) minimum age for the employment of children; and (e) acceptable conditions of work.

On international matters, a country may be eligible if it:

8. does not engage in activities that undermine U.S. national security or foreign policy interests and supports a peaceful resolution to the Israeli-Palestinian conflict;
9. is a signatory to the U.N. declaration on Internationally Recognized Human Rights, does not engage in gross violations, and is making continuing and verifiable progress in adopting such rights;
10. is not listed by the U.S. State Department as a state sponsor of terrorism, and cooperates fully in international efforts to combat terrorism;
11. does not participate in primary, secondary, or tertiary boycott of Israel;
12. meets GSP eligibility requirements in Sec. 502(b)(2) of the Trade Act of 1974 [19U.S.C. 2462(b)(2)].<sup>21</sup>

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<sup>21</sup> The basis for GSP eligibility under this section of the Trade Act of 1974 includes: engages in no terrorist activity; is taking steps toward internationally recognized worker rights; provides reasonable access to its markets; offers effective protection of intellectual property rights; and is taking action to reduce trade-distorting investment practices. S. 1121/H.R. 2267 would exempt otherwise eligible countries from the GSP eligibility requirement in Sec. 502(b)(2)(B) which excludes Organization of the Exporting Petroleum Countries (OPEC) countries from GSP eligibility.

In addition:

13. Palestine's eligibility is dependent on all of the above factors plus its acceptance of Israel's right to exist in peace within secure borders.

## Time Line

The Administration aims for a Middle East Free Trade Area within 10 years (by about 2013). S. 1121 /H.R. 2267 provides for a trade preference program which the sponsors refer to as "short-term," which would expire at the end of 2011. Requirements for the President's annual report, which shall include information on each country's progress in meeting eligibility requirements, would also expire at that time.

## Differences in Approach and Arguments

The main difference between the Administration's Middle East Initiative and S. 1121/H.R. 2267 is that the latter is intended as a short-term trade preference "stepping stone" to a Middle East Free Trade Area (MEFTA). The Administration's plan, on the other hand, would specifically create the MEFTA. In this respect, the two initiatives may be viewed as complementary.

To summarize the differences in approach: The Administration would continue its efforts to negotiate TIFAs, BITs, and FTAs with Middle East countries to create a MEFTA by 2013.

S. 1121/H.R. 2267, on the other hand, patterned after AGOA, would offer intermediate short-term preferences that would expire in 2011, two years before the Administration's target completion date for MEFTA. The trade preferences of S. 1121/H.R. 2267, with eligible articles and eligible countries to be determined by the President in consultation with the International Trade Commission, would go beyond those currently available under GSP. GSP limits country participation on the basis of: (a) per-capita income, and (b) participation in the Organization of Petroleum Exporting Countries (OPEC). It also limits product preferences on the basis of import sensitivity.<sup>22</sup>

Each initiative would aim to address political, economic, and humanitarian objectives. Sponsors of S. 1121/H.R. 2267 argue that their initiative would help diversify and improve economies of the Middle East and provide jobs for the rapidly

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<sup>22</sup> Only ten out of the 25 countries covered by the two Middle East Trade Initiatives are already eligible for GSP (as indicated in **Table 1.**) GSP provisions [U.S. Trade Act of 1974 as amended (19U.S.C. 2461)] specifically exclude from tariff preferences certain textiles and apparel (the second most important export category from these Middle East countries), watches, footwear, handbags, luggage, flat goods (e.g. wallets and briefcases), work gloves, and other leather wearing apparel, steel, glass, and electronics. As a result, for the 25 Middle East countries covered by this report, imports under GSP represent only a fraction (2% for 2003) of all imports from these countries.



growing population as well as stimulate U.S. exports. In addition, the sponsors argue, the legislation would help Middle East countries make significant economic reforms that would serve as a necessary precursor to a free trade agreement.<sup>23</sup>

Although the Administration is committed to its own initiative, it has been ambivalent in its support of S. 1121/H.R. 2267. USTR Zoellick argued in testimony on March 9, 2004, that it is a “good initiative.” On March 10, 2004, however, representatives from the Departments of State and Commerce argued that the Administration would prefer to follow its own “country-by-country approach.”<sup>24</sup> They argued that this approach was more likely to help Middle East countries to become “sustainable trading partners,”<sup>25</sup> because each of the successive steps involved in negotiating TIFAs, BITs, and FTAs could help induce internal changes in the laws and regulations of the various countries.

## Conclusion

Both Middle East trade proposals would aim to help stimulate greater economic development in the Middle East. Shorter term goals from these stimuli would be (a) for the region to grow enough to begin absorbing some of the unemployment (which averages around 22%)<sup>26</sup> — arguably the region’s most pressing economic problem; and (b) for the region to begin attracting more foreign investment to help diversify output beyond oil and gas, textiles and apparel, and a few other commodities. As the shorter term stretches into the longer term, goals would be for the Middle East to develop alternative economic resources and industries that could help ease and even reverse its declining share of world economic growth and investment, its unemployment, and perhaps some of the conditions in the Middle East that support terrorism.

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<sup>23</sup> U.S. Congress. Senate Finance Committee. *Baucus to Introduce Comprehensive Middle East Trade Initiative: Welcomes President’s Proposal to Expand Trade to the Region*. Press Release, May 9, 2003.

<sup>24</sup> Testimony of USTR Zoellick before the Senate Finance Committee on March 9, 2004, and testimony of Undersecretary of State for Economic Business and Economic Affairs Alan Larson and Commerce Department Undersecretary for International Trade Grant Aldonas before the same committee on March 10, 2003. *Pursuing Free Trade in the Middle East*. *Washington Trade Daily*, March 11, 2004.

<sup>25</sup> Transcript of Background Press Conference Call to Discuss Proposed Mideast Free Trade Area Announced by President Bush, May 9, 2003.

<sup>26</sup> Galal, Ahmed and Bernard Hoekman, editors. *Arab Economic Integration: Between Hope and Reality*. Egyptian Center for Economic Studies, 2003. p. 29. (The data were based on The World Bank. *World Development Indicators '01 CD-ROM*. This unemployment estimate is slightly smaller than that included in footnote 3. This different estimate is included here to show a range of estimates on a subject: (a) that is difficult to quantify, (b) that suffers from statistical problems, and (c) whose numbers may vary from year to year and may also depend on the countries included in the various estimates.)

**Table 1. Countries Covered by:**  
**(a) USTR Definition of MENA;**  
**(b) S. 1121 / H.R. 2267; and**  
**(c) Steps toward and Including a Bilateral Free Trade Agreement with the U.S.**

Country	(a) USTR definition of MENA <sup>1</sup>	(b) S. 1121/ HR2267: Baucus/ McCain	(c) Steps Toward an FTA with the U.S				
			WTO Member- ship	GSP Eligibil- ity	TIFA with the U.S.	BIT with the U.S.	Bilateral FTA with the U.S.
<b>Middle East</b>							
Bahrain	✓	✓	✓	✓	✓	✓	in negotiation
Cyprus	✓		✓				
Egypt	✓	✓	✓	✓	✓	✓	
Gaza Strip and West Bank	✓	✓					
Iran	✓						
Iraq	✓	✓					
Israel	✓	✓	✓		-	-	✓
Jordan	✓	✓	✓		✓	✓	✓
Kuwait	✓	✓	✓		✓		
Lebanon	✓	✓		✓			
Oman	✓	✓	✓	✓			
Qatar	✓	✓	✓		✓		
Saudi Arabia	✓	✓			✓		
Syria	✓						
UAE	✓	✓	✓		✓		
Yemen	✓	✓		✓	✓		
<b>North Africa</b>							
Algeria	✓	✓		✓	✓		
Libya	✓						
Morocco	✓	✓	✓	✓	✓	✓	(✓)
Tunisia	✓	✓	✓	✓	✓	✓	
<b>Other</b>							
Afghanistan		✓					
Azerbaijan		✓				✓	
Bangladesh		✓	✓			✓	
Pakistan		✓	✓	✓	✓		
Turkey		✓	✓	✓	✓	✓	

<sup>1</sup>USTR definition of the Middle East-North Africa.

Source of data on WTO membership and agreements: World Trade Organization and USTR.

✓ = applies to this country (✓) = signed but not entered into force.

<sup>2</sup> While Afghanistan is on the USTR list of Middle East countries, the Administration no longer considers it in the Middle East.

**Table 2. Brief Comparison of the Administration’s Middle East Initiative and S. 1121 / H.R. 2267**

	<b>Administration’s Plan</b>	<b>S. 1121 / H.R. 2267</b>
<b>“Middle East” — Countries</b>	Both initiatives: Bahrain, Egypt, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, United Arab Emirates, Yemen, Algeria, Morocco, Tunisia, West Bank and Gaza Strip/Palestine plus:	
<b>— Plus</b>	Cyprus, Iran, Syria, Libya	Afghanistan, Azerbaijan, Bangladesh, Pakistan, Turkey (Sec. 4).
<b>Trade Preferences</b>	Generalized System of Preferences (GSP) for eligible countries*	For eligible countries: Similar to AGOA, ATPA, and CBERA. The President is authorized to designate articles as eligible for duty-free treatment by Executive Order or Presidential proclamation, with advice from the International Trade Commission (Sec. 5).
<b>Efforts Toward a Middle East Free Trade Agreement or Area</b>	<p>Steps for each country:*</p> <ol style="list-style-type: none"> <li>1. World Trade Organization Membership;</li> <li>2. GSP (see above);</li> <li>3. Trade Investment Framework Agreement (TIFA);</li> <li>4. Bilateral Investment Treaty (BIT);</li> <li>5. Free Trade Agreement (FTA) to which other eligible countries may “dock”; and</li> <li>6. Trade capacity building (through various U.S. assistance efforts.)</li> </ol>	<p>A Presidential Plan for negotiating and entering into trade agreements with beneficiary countries shall be developed and shall include [Sec. 7(c)]:</p> <ul style="list-style-type: none"> <li>• U.S. objectives for negotiation and a suggested timetable;</li> <li>• Benefits of the FTA to the U.S. and relevant beneficiary countries;</li> <li>• Subjects anticipated to be covered by the negotiations, as well as laws of participating eligible countries and existing agreements; and</li> <li>• Procedures to ensure: (1) adequate consultations: (a) with Congress and the private sector during negotiations, (b) with Congress relating to implementation, and (c) with relevant Middle East governments during negotiation; and (2) approval by Congress of the agreement(s).</li> </ul> <p>A U.S.-Middle East Trade and Economic Cooperation Forum shall host meetings to foster close economic ties and expand trade and investment relations for countries “taking substantial positive steps toward meeting eligibility requirements “ plus Israel and Jordan (Sec. 6).</p> <ul style="list-style-type: none"> <li>• Separate annual meetings shall be for appropriate government officials, nongovernment organizations, and representatives of the private sector.</li> <li>• Every two years meetings shall take place between the President and heads of government, to the extent practicable [Sec. 6(c)(2)(B)].</li> </ul> <p>Bilateral free trade agreements should be negotiated with interested countries to serve as the catalyst for increasing U.S.-Middle East trade and private sector investment. For eligibility, countries shall be a member of the WTO or be “working diligently” toward membership and to satisfy the eligibility criteria of this act (see below) [Sec. 7 (a) and (b)].</p>
<b>Reporting requirements for plan</b>	None	Reporting requirements: The President shall transmit to Congress a report of his plan no later than 12 months after enactment [Sec. 7(d)].
<b>Time line of the initiative</b>	Aim for MEFTA “within 10 years” (i.e., by 2013.)	Trade preferences and reporting requirements expire December 31, 2011. [Sec. 8(b) and Sec. 10].

\* See **Table 1** for the status of various countries.

	<b>Administration's Plan</b>	<b>S. 1121 / H.R. 2267</b>
<b>Requirements for country eligibility</b>	<p>The Administration has indicated that the countries need:</p> <ul style="list-style-type: none"> <li>● to be “peaceful”;</li> <li>● to be prepared to undertake economic reform and liberalization ;</li> <li>● to not participate in a primary, secondary, or tertiary boycott of Israel.</li> </ul>	<p>Domestically, countries must have established or be making continual progress toward establishing (Sec. 4 — similar to AGOA):</p> <ul style="list-style-type: none"> <li>● a market-based economy that protects private property, incorporates rules-based trading; and minimizes government interference in the private sector;</li> <li>● the rule of law, the right to due process, a fair trial, and equal protection;</li> <li>● political pluralism, a political climate free of intimidation and restrictions on peaceful activity, and democratic elections;</li> <li>● the elimination of barriers to U.S. trade and investment, the protection of intellectual property, and a dispute resolution mechanism;</li> <li>● economic policies that reduce poverty, expand physical infrastructure, promote development of private enterprise and encourage the formation of capital markets;</li> <li>● a system to combat corruption and bribery (i.e. sign and implement the OECD Convention on Combating Bribery); and</li> <li>● policies to protect the environment and internationally recognized worker rights: (a) the right of association; (b) the right to organize and bargain collectively; (c) prohibition of forced labor; (d) minimum age for the employment of children; and (e) acceptable conditions of work.</li> </ul> <p>International Matters:</p> <ul style="list-style-type: none"> <li>● Does not engage in activities that undermine U.S. national security or foreign policy interests and supports a peaceful resolution to the Israeli-Palestinian conflict;</li> <li>● On Internationally Recognized Human Rights (IRHR) is a signatory to the U.N. declaration, does not engage in gross violations, and is making continuing and verifiable progress;</li> <li>● Is not listed by the U.S. State Department as a state sponsor of, and cooperates fully in international efforts to combat, terrorism;</li> <li>● Does not participate in a primary, secondary, or tertiary boycott of Israel;</li> <li>● Meets GSP eligibility requirements in the 1974 Trade Act, Sec. 502(b)(2)**</li> <li>● Palestine must accept Israel’s right to exist peacefully within secure borders.</li> </ul>
<b>Reporting Requirements for country eligibility</b>	None	Reporting requirements: Presidential report annually through 2011 on each country’s progress in meeting eligibility requirements, a comprehensive discussion of the implementation of this Act and an analysis of the trade and investment policy of the U.S. toward “Middle East” countries (Sec. 8).

\*\* For eligibility: no terrorist activity, reasonable access to its markets; effective protection of intellectual property rights, and taking steps toward internationally recognized worker rights and reducing trade-distorting practices.

**Table 3. Top U.S. Imports (and % of total that they represent) from 25 Middle East Countries, 2003**

Country	Value of U.S. Imports (\$million)	Main U.S. imports and % of all U.S. imports from these countries that they represent
Saudi Arabia	18,047	petroleum (96%), chemicals (3%) = 99%
Israel	11,823	apparel (86%), misc. mfg.(8%) STNC* (4%) = 98%
Iraq	4,574	petroleum (100%) = 100%
Algeria	4,753	petroleum (86%), natural gas (13%) = 99%
Turkey	3,405	apparel (34%), textiles (13%), misc. mfg. (8%) = 55%
Pakistan	2,509	textiles (46%), apparel, (44%), misc. mfg. (3%) = 93%
Kuwait	2,276	petroleum (93 %) , STNC* (2%), apparel (2%) = 97%
Bangladesh	2,072	apparel (89%), textiles (5%), fish (4%) = 98%
United Arab Emirates	1,102	apparel (23%), petroleum (21%), STNC* (13%) = 63%
Egypt	1,096	apparel (34%), petroleum (15%), textiles (13%) = 62%
Oman	695	petroleum (57%), apparel (19%), STNC* (10) = 86%
Jordan	670	apparel (86%), misc. (8%), STNC*(4%) = 98%
Bahrain	378	apparel (43%), STNC* (22%), non-ferrous metals (10%) = 75%
Morocco	369	electronics (23%),apparel (20%), fertilizer (18%), petrol. (15%)** = 61%
Qatar	331	apparel (26%), gas (18%), fertilizer (17%) = 61%
Syria	258	petroleum (77%), apparel (12%), misc. mfg. (4%) = 93%
Iran	161	textiles (80%), Misc. mfg. (12%), fish (5%) = 92%
Tunisia	96	apparel (34%),petroleum (24%), iron & steel (9%) = 67%
Lebanon	88	misc manufacturing (22%), tobacco (22), furniture (12%) = 56%
Yemen	66	petroleum (90%), coffee, tea (7%) = 97%
Afghanistan	56	petroleum (77%), STNC* (11%), misc. mfg. (6%) = 94%
Cyprus	24	STNC* (42%), apparel (14%),dairy (6%) = 62%
Azerbaijan	9	chemicals (60%), animal/veg. (28%) misc. mfg. (3%) = 91%
Libya	0	
Palestine	—	
<b>TOTAL</b>	<b>56,341</b>	

\* “STNC” refers to “special transactions not classified” According to the Department of Commerce, these exports are typically military items that are returned to the United States.

\*\* petroleum is not counted in the top three exports.

No data are available for the West Bank/Gaza Strip, or Libya.

Source of Data: U.S. International Trade Commission (USITC) Dataweb.

**Table 4. Top U.S. Exports (and % of total that they represent) from 25 Middle East Countries (2003)**

Country	Value of U.S. exports (\$million)	Main U.S. Exports and % of all U.S. exports to these countries that they represent
Israel	6,878	nonmetals (30%), transport equip (11%), electronics (8%) = 49%
Saudi Arabia	4,596	machinery (28%), transport equip. (25%) = 53%
United Arab Emirates	3,510	transport equip. (30%), machinery (29%) = 59%
Turkey	2,904	machinery (16%), textile fibers (14%), transport equip. (16%) = 31%
Egypt	2,660	cereals (29%), transport equip. (14%), machinery (16%) = 59%
Kuwait	1,509	transport equip. (38%), machinery (21%), telecom. equip. (4%) = 44%
Pakistan	840	textile fibers (22%), machinery (26%), transport equip. (10%) = 58%
Bahrain	509	transport vehicles (55%), machinery (11%) = 66%
Jordan	492	transport equip. (32%), cereals (9%), telecom. equip. (7%) = 48%
Algeria	487	cereals (29%), machinery (26%), animal food (8%) = 63%
Morocco	465	Transport equip. (28%), cereals & seeds (28%), machinery (7%) = 63%
Qatar	408	Machinery (50%), transport. equip. (17%), scientific inst. (7%) = 74%
Cyprus	327	transport equip. (74%), cereals (3%), tobacco (3%) = 80%
Iraq	316	machinery (57%), food (25%) = 82%
Oman	323	machinery (34%),Transport. equip (29%) = 63%
Lebanon	314	transport equip. (14%), tobacco (13%), cereal % seeds (15%) = 42%
Bangladesh	227	textile fibers (27%), machinery (18%), pulp & waste paper (6%) = 51%
Syria	214	cereals (32%), machinery (22%), tobacco (7%) = 61%
Azerbaijan	121	machinery (42%), meat (12%)(, tobacco (8%) = 62%
Yemen	195	cereals (36%), machinery (35%) = 71%
Tunisia	171	cereals (24%), veg. oils (19%), transport. equip. (6%) = 49%
Iran	99	oil seeds (44%), tobacco (34%), pharmaceuticals (6%) = 84%
Afghanistan	61	machinery (32%) veg. oils (22%), scientific instruments (11%) = 65%
Palestine	—	
Libya	0	cereals (92%), electronics (6%) = 98%
<b>TOTAL</b>	27,627	

No data are available for the West Bank/Gaza Strip, or Libya.

Source of Data: USITC Dataweb.

**Table 5. Foreign Direct Investment in Middle East Countries:  
Stock of Investment by the World, 2000 and by the United States, 2002**  
(\$ Millions)

Entity	Stock of World Foreign Direct Investment, 2000		Stock of U.S. Foreign Direct Investment, 2002	
	Value in \$ millions	% of world total	Value in \$ millions	% of U.S. total
<b>World</b>	6,314,271	100	1,520,965	100
<b>Total Middle East</b>	96,700	1.38	17,113	1.11
<b>Algeria</b>	1,407	0.02		
<b>Bahrain</b>	5,908	0.09		
<b>Egypt</b>	19,005	0.30	2,959	0.19
<b>Iran</b>	2,115	0.02		
<b>Israel</b>	NA		5,207	0.34
<b>Jordan</b>	1,771	0.02		
<b>Kuwait</b>	527	0.01		
<b>Lebanon</b>	998	0.02		
<b>Morocco</b>	5,848	0.02		
<b>Oman</b>	2,517	0.01		
<b>Qatar</b>	1,987	0.03		
<b>Saudi Arabia</b>	28,845	0.46	3,687	0.24
<b>Syria</b>	1,338	0.02		
<b>Tunisia</b>	11,566	0.18		
<b>Turkey</b>	9,335	0.15		
<b>United Arab Emirates</b>	2,645	0.04	1,398	0.09
<b>Yemen</b>	888	0.01		
<b>Other Middle East (non-identified)</b>			3,862	0.25

NA: Not available

Data source: For World: Economic Research Forum. *Economic Trends in the MENA Region*, p. 52; For the United States: *Survey of Current Business*, September, 2003, p. 121.