

**THE DETERMINANTS OF TRADE AND TRADE
DIRECTIONS OF ARAB MAGHREB UNION (AMU)**

HADI M. OTHMAN ABUHRIBA

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**THE DETERMINANTS OF TRADE AND TRADE
DIRECTION OF ARAB MAGHREB UNION (AMU)**

By

HADI M. OTHMAN ABUHRIBA

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ABSTRACT

The Arab Maghreb Union (AMU) comprising Algeria, Libya, Mauritania, Morocco, and Tunisia have established a framework to enhance regional cooperation on trade facilitation. Today, the AMU countries have increased their trade integration into the world economy. Despite the effort of trade openness in the AMU, the economic growth, intra-trade and inter-trade are still lagging behind other developing countries in the Middle East, Asia, and Latin America. The objectives of this study are: 1) to examine the determinant of intra-regional trade in the AMU countries; 2) to examine the bilateral trade flows between AMU countries with selected European Union (EU) and Middle East (ME) countries; and 3) to investigate a long-run relationship between the trade and its determinants for a group of selected AMU, EU and ME countries. Using a data set of 1989-2009; the standard gravity model is used to measure the pattern and trend of bilateral trade. Overall, the results are consistent with those found in previous study where in all cases, parameters for the variables are found to be correctly signed and highly significant. A higher GDP increases trade while a longer distance inhibits trade. Larger population also results in higher trade. In terms of trade openness, the results show that the trade barriers are found to be positively and significantly correlated with openness. In short, the trade barriers are fairly effective for increasing trade. In analyzing the inter-trade of AMU with selected EU countries, namely Italy, Spain and France and selected ME, namely Egypt, Lebanon, and Syria, the results show that an increase in home GDP and partner's countries GDP cause an increase in AMU's trade. Population size, AMU's real exchange rate, and trade openness are found to be positively related to trade.

Keywords: Intra-trade, Bilateral Trade, GDP, Trade Openness, Gravity Model

ABSTRAK

Negara Algeria, Libya, Mauritania, Magribi dan Tunisia telah menganggotai negara kesatuan Arab Maghreb (Arab Maghreb Union; AMU) bagi menubuhkan satu rangka kerja meningkatkan kerjasama serantau yang berfokus kepada fasiliti perdagangan. Kini, negara-negara AMU telah mempertingkatkan integrasi perdagangan mereka ke dalam ekonomi dunia, iaitu Kesatuan Eropah (EU) dan negara-negara Arab Maghreb. Walaupun usaha keterbukaan perdagangan dilaksanakan, didapati pertumbuhan ekonomi, intra-perdagangan dan inter-perdagangan masih ketinggalan berbanding negara-negara membangun yang lain di Timur Tengah, Asia dan Amerika Latin. Objektif kajian ini adalah: 1) untuk mengkaji penentu integrasi serantau perdagangan di kalangan yang negara-negara AMU; 2) untuk mengkaji kesan perdagangan AMU ke atas negara-negara Eropah (EU) dan negara-negara Timur Tengah (ME) yang terpilih; dan 3) untuk mengkaji hubungan jangka panjang dan penentu perdagangan bagi AMU dan negara-negara terpilih EU dan ME. Dengan menggunakan set data panel bagi tempoh 1989-2009, model graviti digunakan untuk mengukur corak dan trend perdagangan dua hala. Secara keseluruhannya, keputusan adalah konsisten dengan apa yang ditemui di dalam semua kes kajian model graviti yang lain, apabila parameter pemboleh ubah didapati betul tanda arasnya dan amat signifikan. KDNK yang lebih tinggi meningkatkan perdagangan manakala jarak yang lebih jauh menghalang perdagangan. Jumlah penduduk yang tinggi akan meningkatkan perdagangan. Dari segi keterbukaan perdagangan, hasil keputusan menunjukkan bahawa sekatan perdagangan adalah positif dan signifikan di mana hubungan mereka dengan nisbah intensiti perdagangan AMU menunjukkan korelasi yang kuat. Dalam erti kata lain, halangan perdagangan adalah agak berkesan untuk meningkatkan perdagangan. Dalam menganalisis perdagangan antara-AMU dengan negara-negara EU (iaitu Itali, Sepanyol dan Perancis) dan negara ME (iaitu Mesir, Lubnan, dan Syria), hasil dapatan menunjukkan bahawa peningkatan KDNK tuan rumah dan KDNK rakan kongsi negara-negara menyebabkan peningkatan dalam perdagangan AMU. Saiz penduduk, kadar pertukaran sebenar AMU, dan keterbukaan perdagangan didapati secara positif berkaitan dengan perdagangan.

Kata Kunci: Intra Perdagangan, Perdagangan Dua-Hala, KDNK, Keterbukaan Perdagangan, Model Graviti

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LIST OF ABBREVIATION

| | | |
|--------|---|---|
| AMU | = | Arab Maghreb Union |
| ATC | = | Agreement on Textiles and Clothing |
| CENSAD | = | Community of Sahel-Saharan States |
| CPCM | = | Conseil Permanent Consultatif du Maghreb |
| ECOWAS | = | Economic Community of West African States |
| EFTA | = | European Free Trade Association |
| EU | = | European Union |
| FDI | = | Foreign Direct Investment |
| GAFTA | = | Greater Arab Free Trade Area |
| GDP | = | Gross Domestic Product |
| GSTP | = | Global System of Trade Preferences |
| ME | = | Middle East |
| MENA | = | Middle East and North Africa |
| OPEC | = | Organization of Petroleum Exporting Countries |
| PAFTA | = | Pan-Arab Free Trade Area |
| PTA | = | Preferential Trade Arrangements |
| TPR | = | Trade Policy Review |
| WTO | = | World Trade Organization |

CHAPTER 1

OVERVIEW OF THE STUDY

1.1 Background of the Research

The Arab Maghreb Union comprising Algeria, Libya, Mauritania, Morocco, and Tunisia have established a framework to enhance regional cooperation on issues of common interest, focusing initially on trade facilitation. Over the last decade, the Arab Maghreb Union countries have increased their trade integration into the world economy, including in the context of the Association Agreements between the European Union and Arab Maghreb countries. However, there is a debate that, whether the Arab Maghreb countries achieve the goals of this regional cooperation or not. In addition, there were an opposite views that, the Arab Maghreb countries were affected by this regional integration. According to Brenton, Baroncelli and Mahouchel (2006) the Maghreb countries have experienced lacklustre growth rates during the last decade. Tunisia was the best performer with growth at 4.8 per cent, but even this was only average for developing countries; the other two countries grew substantially less at 3.2 per cent. While Maghreb exports of goods and services have grown at global averages in the last decade, they have not fully realized the growth potential associated with their location advantages of close proximity to the European Union (EU). Their exports have grown at less than half the rate of Turkey, Poland and Hungary in the last decade. However, according to the

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