Order Code RL32638

CRS Report for Congress
Received through the CRS Web

Middle East Free Trade Area: Progress Report

Updated July 3, 2006

Mary Jane Bolle
Specialist in International Trade
Foreign Affairs, Defense, and Trade Division

Middle East Free Trade Area: Progress Report

Summary

On May 9, 2003, the Bush 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. 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 Bush Administration described a six-step process for Middle East entities to become part of that MEFTA: (1) joining the World Trade Organization (WTO); (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 (FTA) with the United States; and (6) participating in trade capacity building.

The MEFTA would cover 20 entities in what many refer to as the Middle East/North Africa — 16 in the Middle East: Bahrain, Cyprus, Egypt, the Gaza Strip/West Bank, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates and Yemen; and four in North Africa: Algeria, Libya, Morocco, and Tunisia.

Although U.S.-Middle East trade is small (4-5% of total U.S. trade), oil and gas are key imports, accounting for one-fourth of all oil and gas imported and more than 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 entities. The most important U.S. exports to these entities are transportation equipment and machinery.

The Bush Administration's initiative aims to 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 — values echoed by *The 9-11 Commission Report* as part of a comprehensive strategy to countering terrorism.

Since the Bush Administration first announced its trade initiative, it has made substantial progress in working with MEFTA entities to support WTO membership, and to develop TIFAs, BITs, and FTAs and progress along the steps outlined above. Since the beginning of 2003: Saudi Arabia has joined the WTO, and Iraq, Iran, Lebanon, Yemen, and Algeria are negotiating accession. In addition, TIFAS have been completed with seven countries: Kuwait, Oman, Saudi Arabia, the United Arab Emirates, Yemen, Qatar, and Iraq, bringing the total to 12. Other TIFA partners are Bahrain, Egypt, Jordan, Algeria, Morocco, and Tunisia. BITs have been completed with one country, Jordan, bringing the total to five. Other BIT partners are Bahrain, Egypt, Morocco, and Tunisia. Finally, a bilateral free trade agreement has been implemented with Jordan, Israel, Morocco, and Bahrain; signed with Oman (January 19, 2006); and is under negotiation with the United Arab Emirates. This brings the number of MEFTA FTAs to four implemented, one awaiting congressional action, and one under negotiation. FTA negotiations underway with Egypt have been suspended over human rights issues. This report will be updated as events warrant.

Contents

List of Figures

List of Tables (Appendix)

Middle East Free Trade Area: Progress Report

Introduction

After the terrorist attacks against the New York World Trade Center and the Pentagon on September 11, 2001, 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."[1] One way the Bush 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 Bush 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. USTR Zoellick outlined six-steps for Middle East entities wishing to enter into a free trade agreement with the United States.

The purpose of this report is to describe MEFTA in terms of: (1) its impetus, (2) its major elements; (3) background trade data, (4) details; and (5) arguments for each.

At the back of this report are five tables. **Table 1** outlines the basic elements of MEFTA. **Table 2** tracks the steps each entity has taken toward a free trade agreement with the United States: WTO membership, eligibility for the Generalized System of Preferences, and achievement of three types of agreements — trade investment framework agreements, bilateral investment treaties, and free trade agreements. **Tables 3 and 4** list for each entity, 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 entities.

Impetus for the Initiative

MEFTA 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

[1] "A Man of Many Missions." *Business Week*. March 31, 2003, p. 94-95.

investment collapse since 1980," resulting in "stagnant growth, [and] falling income," with social consequences of "unemployment, political tension, and rising appeal for religious extremists."[2]

Gresser argued that, "A strategic initiative for the Muslim[3] 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."[4]

More recently, *The 9-11 Commission Report* affirmed these ideas. It included a recommendation which reads, "A comprehensive U.S. strategy to counter terrorism should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future."[5]

Major Elements

The Bush Administration's MEFTA plan, in aiming to support economic development, job creation, and political, and humanitarian changes, reflects elements of the two articles referred to above:

- **Primary Focus.** The primary focus of the Bush Administration's plan would be on the long-term establishment of a Middle East Free Trade Area by around 2013.

- **Short-Run Trade Preference Program.** The Bush Administration's short-run trade preference component would be to continue the Generalized System of Preferences (GSP) currently

---

[2] Gresser, Edward. *Blank Spot on the Map: How Trade Policy is Working Against the War on Terror*. Public Policy Institute. February 2003.

[3] All but two of the entities that would be covered by the initiatives (Israel and Cyprus) are at least two-thirds Muslim.

[4] Lindsey, Brink. *The Trade Front: Combating Terrorism with Open Markets*. CATO Institute. August 5, 2003.

[5] National Commission on Terrorist Attacks Upon the United States. *The 9-11 Commission Report,* released on August 29, 2004.

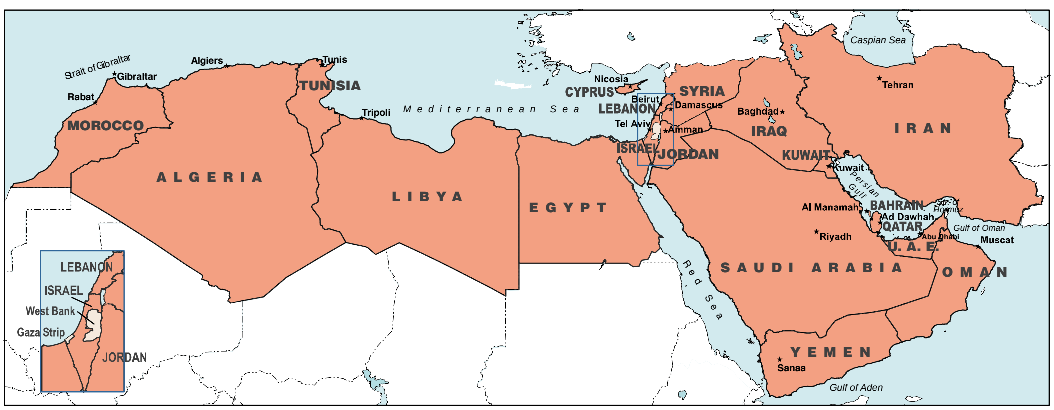
available to some Middle East countries. The Bush Administration is also considering offering sub-regional groups within the Middle East some eligibility to export goods to the United States tariff free or at reduced tariffs.

- **Long-Term Plan.** The Bush 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.

- **Definition of "Middle East."** The Bush Administration's plan uses the Office of the U.S. Trade Representative definition of "Middle East" and includes countries traditionally identified as in the Middle East or North Africa.[6] (See **Figure 1**.)

- **Eligibility Requirements** The Bush Administration's plan specifies very few eligibility requirements for countries wishing to join the MEFTA.

Figure 1. Entities Included in the Bush Administration's Definition of "Middle East / North Africa"



Source: Map Resources. Adapted by CRS. (K.Yancey 10/4/04)

[6] Iran and Syria are countries the United States has considered as state sponsors of terrorism. The Bush Administration announced on May 15, 2006, that it was restoring full diplomatic ties with Libya after more than two decades of strained relations. This means a U.S. embassy is reopening in Tripoli and Libya is being removed from the Administration's list of designated state sponsors of terrorism. Inside U.S. Trade. May 30, 2003; 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; and *Washington Trade Daily*. U.S. Normalizes Relations with Libya, May 16, 2006.

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

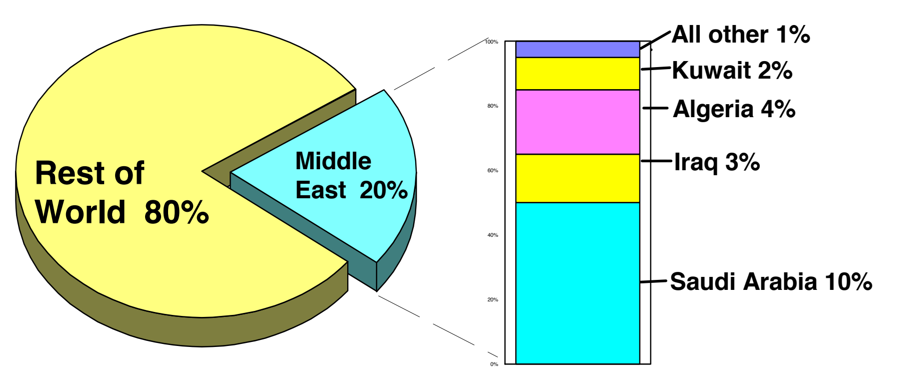
U.S. trade with the Middle East represents a small share of total U.S. trade — 4.1% of all U.S. exports and 4.6% of all U.S. imports in 2005. An important and fast-growing U.S. economic interest in the Middle East is oil and gas. In 2005, imports of these commodities from MEFTA countries were two and a half times what they were in 2002.

U.S. Imports

More than 60% of the oil and gas consumed in the United States each year is imported. Imports from MEFTA countries accounted for one-fifth of all U.S.-imported and more than one-tenth of all U.S.-consumed and oil and gas in 2005.

Figure 2 looks only at sources and shares of the one-fifth of all imported oil and gas that comes from MEFTA countries. Nearly half of MEFTA-sourced oil and gas — 10% of all imported oil and gas — comes from Saudi Arabia, with 4% from Algeria, 3% from Iraq, 2% from Kuwait, and nearly 1% from Libya. The remainder comes from other MEFTA countries combined.[7]

Figure 2. Source of Total U.S. Oil and Gas Imports, 2005



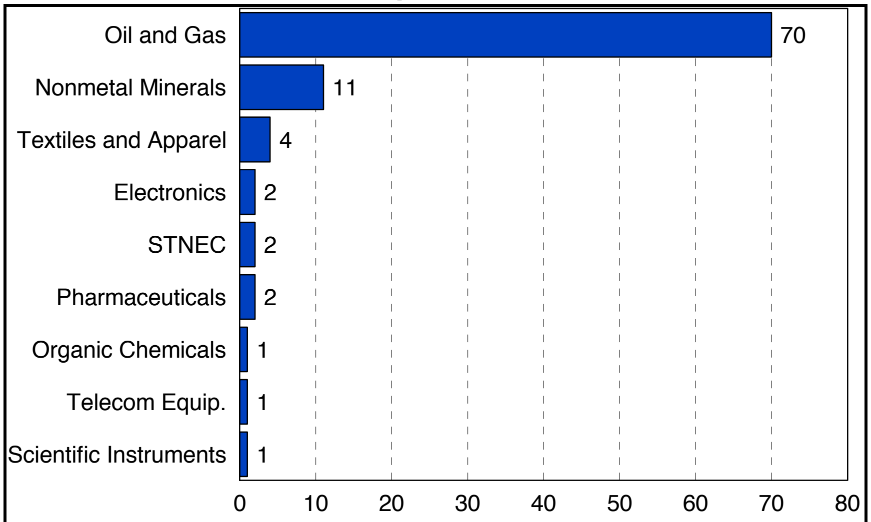
Data Source: USITC Dataweb

Oil and gas imports from the Middle East constitute 70% of total U.S. imports from that region. (See **Figure 3**.) After gas and oil, the next most important imports from Middle East countries are nonmetallic minerals (11%), textiles and apparel (4%), electronics (2%), pharmaceuticals (2%), organic chemicals (1%), telecommunications equipment (1%), and scientific instruments (1%).

---

[7] Energy Information Administration, U.S. Department of Energy. *Monthly Energy Review*, February, 2004.

Figure 3. Key U.S. Imports from the Middle East, 2005 (as a Percent of All Imports from the Middle East)



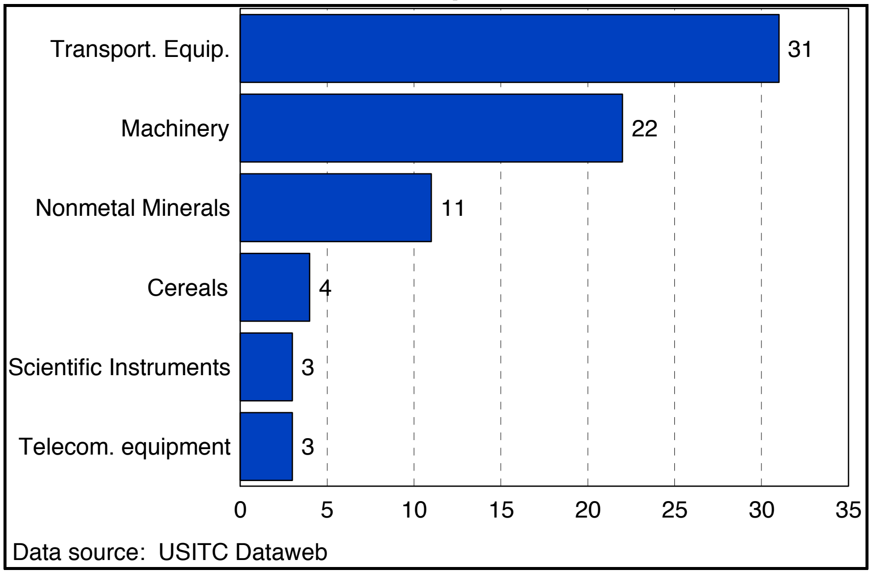
Data source: USITC Dataweb; STNEC: military items returned to U.S.

U.S. Exports

U.S. *exports* to Middle East countries are heavily concentrated in two industries: transport equipment and machinery.[8] Nearly one-third (31%) of U.S. exports to the Middle East are various types of transport equipment. More than one-fifth (22%) is machinery of various types: general industrial machinery, machinery specialized for particular industries, power generating machinery, electrical machinery, and office machinery. Other key exports include nonmetallic minerals (11%), cereals (4%), scientific instruments (3%), and telecommunications equipment (3%). (See **Figure 4**.)

[8] 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 Egypt (21%), Algeria (22%), Morocco (32%), and Tunisia (31%) Source: The World Bank. *World Development Indicators '03*, p. 327.

Figure 4. Top U.S. Exports to the Middle East, 2005 (as a Percent of all U.S. Exports to the Middle East)



Appendix Tables 3 and 4 detail U.S. imports from and exports to each of the 20 Middle East entities 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

U.S. investment in the Middle East is limited. The stock of U.S. foreign direct investment (FDI) in Middle East countries in 2004 totaled $28 billion, or 1.4% of total U.S. FDI. U.S. FDI represents 17% of total world FDI in the Middle East. (See **Table 5** for world and U.S. FDI totals in the various MEFTA entities.)

Nearly half (44%) of U.S. investment in MEFTA countries is in oil and gas facilities; nearly two-fifths (38%) is in services, and nearly a fifth (18%) is in utilities and manufacturing.[9] In addition, individual Americans may have considerable portfolio investment in Israel including Israeli bonds.

Recent Growth in Trade With MEFTA Entities

Between the end of 2002 and the end of 2005 (most recent data available), U.S. exports to Middle East/North African countries grew by 56% while U.S. imports from these entities nearly doubled. Accounting for the greatest growth in imports were petroleum and natural gas, which were affected by increased prices as well as increased volume traded. Accordingly, petroleum imports increased 143% while natural gas imports increased sevenfold (728%). Other major increases in imports

---

[9] 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.

occurred in nonmetallic mineral manufactures, medicinal and pharmaceutical products, and organic chemicals. Meanwhile types of goods making large contributions to the growth in exports included transport equipment/road vehicles, electrical and non-electrical machinery, nonmetallic mineral manufactures, telecommunications, and scientific instruments.[10]

Details of the MEFTA Program

MEFTA can be examined in terms of 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 outlining these components is included as **Table 1.**

Trade Preference Components

In the short run, the Bush Administration would continue the Generalized System of Preferences 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: Egypt, Iraq, Jordan, Lebanon, Oman, Yemen, Algeria, and Tunisia. Remaining countries covered by this report are not eligible for GSP benefits. Of those not eligible, some are no longer considered "developing."[11] Others do not meet the Bush Administration's eligibility requirements. 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.[12]

Steps or Activities Leading Toward Free Trade Agreements[13]

The Bush Administration's proposed program consists of six steps which each country may take, culminating in a free trade agreement with the United States.

---

[10] USITC Dataweb.

[11] For example, Bahrain "graduated" from the GSP program on January 1, 2006.

[12] Only eight out of the 20 entities covered by the two Middle East Trade Initiatives are currently eligible for GSP (as indicated in **Table 2.**) 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 entities), 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 20 Middle East entities covered by this report, imports under GSP represent only a fraction (0.2% for 2005) of all imports from these entities.

[13] 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."

Table 1 lists each country included in the USTR definition of Middle East/North Africa, and for each country indicates which steps it has already fulfilled. The six steps are:

First. World Trade Organization (WTO) membership to promote integration into the world trading system. Nine 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, and Libya.

Second. The continuation of GSP, discussed in the section above.

Third. Trade and investment framework agreements (TIFAs) to establish a framework for expanding trade and for resolving outstanding disputes. Six Middle East entities do not have TIFAs with the United States: Cyprus, the Gaza Strip and the West Bank, Iran, Lebanon, Syria, and Libya.

Fourth. Bilateral investment treaties (BITs) 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 14 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, and Libya.

Fifth. Free trade agreements (FTAs), typically to remove tariff and non-tariff barriers to trade across all sectors. Currently four countries in the Middle East — Israel, Jordan, Morocco, and Bahrain — have congressionally-approved free trade agreements with the United States. In addition, the United States has completed an FTA with Oman and is negotiating an FTA with the UAE. It has suspended preliminary negotiations which were underway with Egypt over human rights issues.

The Bush 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 requirements.[14] Under the Bush Administration's initiative, now that the FTAs have been implemented 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.[15] The program whereby Jordan, Egypt, the

---

[14] U.S. Department of State. *Middle East Trade Initiative*. Office of the USTR, February 27, 2003.

[15] 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*

(continued...)

Gaza Strip and the West Bank were authorized gain tariff relief by co-producing with Israel under the U.S.-Israel free trade agreement is an example of this concept.[16]

Sixth. The final step in the Bush 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 (MEPI) aims to help allocate structural adjustment funding to partner countries to help ease the burden of free trade's impact on local industries. The initiative is also aimed at increasing educational opportunities, strengthening civil society and rule of law, and supporting small business. The MEPI aims to 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. It has received an estimated $294 million in funding between FY2002 and FY2005. For 2006 the Bush Administration has requested an $125 million.[17]

Meanwhile, for 2005, total funding for U.S. Trade Capacity Building reached $1.3 billion, of which $236 million, or 18%, went to Middle East countries.[18]

Requirements for Eligibility

The Bush Administration's plan is open to: a) those "peaceful" countries that seek an increased trade relationship with the United States and b) "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.[19]

---

[15] (...continued)
Representative, Jordanian Minister of Trade Salah Bashir, Movenpick Hotel, Dead Sea, June 23, 2003.

[16] Under this legislation, goods wholly produced by the Gaza Strip or the West Bank could also enter the United States duty-free under the terms of the U.S.-Israel free trade agreement.

[17] CRS Report RS21457, *The Middle East Partnership Initiative: An Overview*, by Jeremy M. Sharp.

[18] U.S. Agency for International Development (USAID), *Trade Capacity Building Databas*e.

[19] 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* (also called the Arab League) 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,
(continued...)

Time Line

The Bush Administration aims for a Middle East Free Trade Area by about 2013. Cathi Novelli, USTR chief negotiator on FTAs with countries in the Middle East until the fall of 2005, has indicated that the overall objective of the MEFTA exercise is not to meet the deadline, which she calls "ambitious," but to push the reform process in the region along.[20]

Progress So Far

According to the Bush Administration, each of the steps listed above would aim to address political, economic, and humanitarian objectives in order to help Middle East countries to become "sustainable trading partners."[21] The hope is that each of the successive steps involved in negotiating TIFAs, BITs, and FTAs might help induce internal changes in the laws and regulations of the various countries.

Since the MEFTA program was announced in 2003, Saudi Arabia has joined the WTO, and the United States has negotiated new TIFAS with seven countries (Kuwait, Oman, Saudi Arabia, the United Arab Emirates, Yemen, Qatar, and Iraq. See **Table 2**.) Thus, almost three-quarters of the MEFTA entities (14) now have TIFAs with the United States. Other countries with which it already has TIFAS are Bahrain, Egypt, Jordan, Israel, Algeria, Morocco, and Tunisia.

In addition, since the MEFTA program was announced, a BIT between the United States and Jordan has been fully approved. As a result, the United States currently has BITs with more than one-quarter (6) out of 20 of the MEFTA entities. Other countries with which the United States already had BITS were Bahrain, Egypt, Jordan, Morocco, and Tunisia.

Finally, since the MEFTA program was announced, the United States has completed bilateral trade agreements with three countries: Morocco, Bahrain, and Oman. The President signed implementing legislation for the Morocco FTA in August, 2004 (P.L. 108-302); and for the Bahrain FTA on January 11, 2006 (P.L. 109-169). An FTA with Oman was signed by the two countries on January 19, 2006, and awaits congressional action. FTAs were already in effect for Israel and Jordan. In addition, an FTA with the United Arab Emirates is under negotiation. Thus, currently one-quarter (five) MEFTA entities have signed trade agreements with the United States; one of those awaits final consideration by Congress; and a sixth awaits

---

[19] (...continued)
Yemen, Algeria, Libya, Morocco, Tunisia, Comoros, Djibouti, Mauritania, Palestine, Somalia, and Sudan.

[20] Bush's Plan to Create Mideast Free Trade Area by 2013 Could Take Off This Year. *International Trade Reporter*, 2006 Outlook, Jan. 19, 2006, p. 103.

[21] Transcript of Background Press Conference Call to Discuss Proposed Mideast Free Trade Area Announced by President Bush, May 9, 2003.

completion by the negotiators. A seventh FTA under negotiation with Egypt has been suspended over human rights issues in Egypt.[22]

Current Congressional Issues

In May of 2006, the National Labor Committee (NLC), a nonprofit organization that works for worker rights around the world, released a 161-page report allegedly documenting sweatshop conditions in 28 manufacturing operations in Jordan where clothing is produced primarily for export to the United States. The NLC report says that tens of thousands of foreign guest workers who entered employment willingly were subsequently stripped of their passports and trapped in involuntary servitude, sewing clothing for Wal-Mart, Gloria Vanderbilt, Target, Kohl's, Thalia Sodi for Kmart, Victoria's Secret, L.L.Bean and others.[23]

The report has raised congressional concerns first about the treatment of workers producing U.S. imports from Jordan, whose FTA with the United States has been in effect since 2001. Second, it has raised concerns about the treatment of workers who are or will be producing U.S. imports from other MEFTA countries for which FTAs have been or are in the process of being negotiated and/or implemented.

Congressional concern over MEFTA labor conditions is focusing in part on the labor provisions of the FTAs. In most MEFTA-FTAs, the only labor provision which is enforceable through a dispute resolution procedures is that each country agrees to effectively enforce its own labor laws in a manner affecting trade. Some MEFTA country labor laws do not cover foreign guest workers, who typically make up large portions of workers employed in multinational manufacturing operations producing for export in MEFTA countries.

Guest workers are technically not covered by Jordan's labor laws, for example, according to *Country Reports on Human Rights Practices*, 2005. However, under the U.S.-Jordan FTA, which differs from more recent MEFTA-FTAs, all labor provisions are technically enforceable, including the provision that "the parties reaffirm their obligations as members of the ILO." As members of the ILO, all countries are committed to uphold the eight core labor standards. Jordan has ratified both core labor standards pertaining to the elimination of forced or compulsory labor. The Jordanian government has reportedly begun to take steps to address the violations alleged in the NLC report, and has invited the NLC and the ILO to Jordan and formed nine special inspection teams to visit factories cited in the NLC report.[24]

---

[22] The Realities of Exporting Democracy. *The Washington Post*, January 25, 2006, p. A-1.

[23] National Labor Committee. *U.S.-Jordan Free Trade Agreement Descends into Human Trafficking and Involuntary Servitude*. May, 2006, 161 p. The report is available at [http://www.nlcnet.org].

[24] The Information was taken from the NLC report, from *Country Reports*, and from *Inside U.S. Trade*. USTR Cool to Finance Labor Amendment to Oman Draft FTA Bill, May 19, 2006.

The issue of possible forced labor conditions in other MEFTA countries, and specifically Oman, was addressed at a Senate Finance Committee mock markup of the U.S.-Oman FTA implementation bill on May 18, 2006, with the unanimous adoption of an amendment. The amendment, offered by Senator Kent Conrad, would prohibit any products made in Oman "with slave labor (including under sweatshop conditions so egregious as to be tantamount to slave labor) or with the benefit of human trafficking," from benefitting from the agreement.

Representatives of the Administration, which is not obligated to accept amendments to draft implementing legislation, responded that while they would consider the amendment, they had some concerns with the concept. Oman has promised to issue Royal Decrees and Ministerial Decisions to strengthen the country's labor laws in response to earlier congressional concerns, by no later than October 31, 2006.[25] While some Republicans argue that Oman needs time to craft new laws with technical support from the ILO, some Democrats argue for changes in Omani laws before the U.S.-Oman FTA implementing legislation is considered by Congress.[26] For more details on this issue, see the "Current Issues" section of *Proposed U.S.-Oman Free Trade Agreement*, CRS Report RL33328.

Meanwhile, several days after the Senate Finance Committee's mock markup of the U.S.-Oman implementing legislation, Jordan's trade minister Sharif Zu'bi indicated that the report incorrectly identified three sweatshops that are not even in Jordan, and that three others had been closed before the report had been released in May. In addition, he noted that the Jordanian government had formed nine inspections teams to investigate the entire garment trade in the country, and is working with the International Labor Organization, U.S. labor committees, the USTR, the State Department, and U.S. and Jordanian apparel companies to address the challenges and improve their monitoring system.

Conclusion

The MEFTA 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 13.5%)[27] — arguably the region's most pressing economic problem; and (b) for the

---

[25] Ibid; a letter from Rep. Charles B. Rangel and Benjamin L. Cardin to Her Excellency Hunaina Sultan Ahmed Al-Mughairy, Ambassador of the Sultanate of Oman on April 6, 2005; and a letter from Maqbool Ali Sultan, Minister of Commerce and Industry of the Sultanate of Oman to USTR Robert Portman on May 8, 2006.

[26] *International Trade Daily*. Bilateral Agreements: House Democrats Again Press Oman on Labor Laws Ahead of Free Trade Vote, April 12, 2006; *Washington Trade Daily*. Ways and Means Approves Oman FTA, May 11, 2006; *Congress Daily AM*. Dems Urge Slowdown On Trade Deals to Stress Labor Rights, June 6, 2006; and news release from Representative Charles B. Rangel on May 19, 2006.

[27] The World Bank. *World Development Indicators '05*. Data from many countries show some improvement in the unemployment rate since the 1990s. However, no data exist for (continued...)

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.

---

[27] (...continued)
a number of MEFTA countries including Iraq, Lebanon, Libya, Oman, and Yemen. Overall, unemployment levels in many MEFTA countries may (a) be difficult to quantify; (b) suffer from statistical problems; (c) vary from year to year; and (d) be a function of included in the various estimates.

Table 1. Brief Summary of the MEFTA Initiative

MEFTA Entities	**Middle East:** Bahrain, Cyprus, Egypt, Gaza Strip/West Bank, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen **North Africa:** Algeria, Libya, Morocco, Tunisia,
Efforts Toward a Middle East Free Trade Agreement or Area	Steps for each entity:* 1. World Trade Organization Membership; 2. GSP; 3. Trade Investment Framework Agreement (TIFA); 4. Bilateral Investment Treaty (BIT); 5. Free Trade Agreement (FTA) to which other eligible countries may "dock"; and 6. Trade capacity building (through various U.S. assistance efforts.)
Time line of the initiative	Aim for MEFTA "within 10 years" (i.e., by 2013.)
Requirements for eligibility	The Bush Administration has indicated that the entities need: • to be "peaceful"; • to be prepared to undertake economic reform and liberalization; • to not participate in a primary, secondary, or tertiary boycott of Israel.

* See **Table 2** for the status of various entities.

Table 2. Entities Covered by the MEFTA: Progress Toward a Bilateral Free Trade Agreement with the United States

MEFTA Entity	Steps Toward an FTA with the United States				
	WTO Membership and year of joining	GSP Eligibility[c]	TIFA with the U.S. and Year TIFA was signed	BIT with the U.S. and year BIT was signed	Bilateral Trade Agreement with the U.S.
Middle East					
Bahrain	✚1995	ineligible	✚ 2002	✚2001	✚ Approved 1/11/2006
Cyprus	✚1995	ineligible			
Egypt	✚1995	✚	✚1999	✚1992	See table note b
Gaza Strip and West Bank					See table note b
Iran	negotiating accession	ineligible			
Iraq	negotiating accession	✚	✚2005		
Israel	✚1995	ineligible	✚[b]	✚[b]	✚1985
Jordan	✚2000	✚	✚[b]	✚2003	✚2001
Kuwait	✚1995	ineligible	✚2004		
Lebanon	negotiating accession	✚			
Oman	✚2000	✚	✚ 2004		✚ Signed 1/19/2006
Qatar	✚1996	ineligible	✚ 2004		
Saudi Arabia	✚2005	ineligible	✚2003		
Syria		ineligible			
United Arab Emirates	✚1996	ineligible	✚2004		Under negotiation
Yemen	negotiating accession	✚	✚2004		
North Africa					
Algeria	negotiating accession	✚	✚2001		
Libya	observer	ineligible			
Morocco	✚1995	ineligible	✚[b]	✚1991	✚ Effective 1/1/2006
Tunisia	✚1995	✚	✚2002	✚1993	

Source of data: World Trade Organization, USTR.

✚ Step is currently in effect.

a. USTR materials indicate that these TIFAS or BITs are in existence, but do not specify the dates.

b. Goods are eligible for U.S. free trade benefits under a1996 amendment to the United States-Israel Free Trade Area Implementation Act of 1985, P.L. 104-234 if co-produced with Israel, Jordan, or Egypt in a Qualifying Industrial Zone (QIZ) in compliance with rules of origin requirements, or wholly produced in the Gaza Strip/West Bank.

c. Ineligibility may reflect a high income level or a country viewed as a state sponsor of terrorism.

Table 3. Top U.S. Imports (and Percent of Total That They Represent) from 20 Middle East Entities (2005)

Entity	Value of U.S. Imports ($million)	Main U.S. imports and % of all U.S. imports from these entities that they represent	
Saudi Arabia	27,227	petroleum (96%), chemicals (2%)	= 98%
Israel	16,875	nonmnetal manufactures (49%), pharmaceutical (9%), machinery (11%)	= 69%
Algeria	10,354	petroleum (84%), natural gas (16%)	= 99+%
Iraq	9,038	petroleum (96%)	= 96%
Kuwait	4,335	petroleum (94 %) , STNC* (4%)	= 98%
Egypt	2,091	natural gas (36%), apparel (21%), petroleum (15%)	= 72%
Libya	1,562	petroleum (97%), natural gas (2%)	= 99%
United Arab Emirates	1,469	petroleum (17%), STNC* (16%), apparel (15%)	= 48%
Jordan	1,267	apparel (85%), misc. (10%), STNC*(3%)	= 98%
Oman	555	petroleum (72%), apparel (10%),	= 82%
Qatar	448	fertilizer (37%), petroleum (14%), organic chem. (14%), gas (8%)	= 73%
Morocco	442	electronics (24%), fertilizer (21%), apparel (13%), petrol. (10%)**	= 68%
Bahrain	432	apparel (28%), STNC* (20%), non-ferrous metals (20%)	= 68%
Syria	324	petroleum (86%), apparel (4%), coffee, tea, spices (3%)	= 93%
Yemen	279	petroleum (98%), coffee, tea (1%)	= 99%
Tunisia	231	petroleum (52%), apparel (23%), veg. fats (9%)	= 84%
Iran	175	textiles (74%), misc. mfg (9%), veg. &fruit (9%)	= 92%
Lebanon	87	misc manufacturing (21%), furniture (18%), nonmetal minerals (10%) vegetables & fruits (9%)	= 58%
Cyprus	31	STNC* (32%), essential oils (10%),dairy (6%)	= 48%
West Bank	2	nonmetal mineral (63%), chemicals (30%), telecommunications (5%)	= 98%
Gaza Strip	0	apparel (48%), nonmetal mfg. (47%)	= 95%
TOTAL* **	**77,224**		

Source: U.S. International Trade Commission (USITC) Dataweb, based on the Standard Industrial Trade Classification (SITC).
* "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.
*** Total reflects rounded import values.

Table 4. Top U.S. Exports (and Percent of Total That They Represent) from 20 Middle East Entities (2005)

Entity	Value of U.S. exports ($million)	Main U.S. Exports and % of all U.S. exports to these entities that they represent	
Israel	9,732	nonmetal manufactures (39%), all transport equip (15%), machinery (16%)	= 70%
United Arab Emirates	8,477	all transport equip. (52%), machinery (20%)	= 82%
Saudi Arabia	6,830	all transport equip. (39%), machinery (28%), scientific instruments (3%)	= 70%
Egypt	3,169	machinery (21%), cereals (17%), transport equip. (11%)	= 49%
Kuwait	1,974	transport equip. (47%), machinery (19%), STNC (4%)	= 70 %
Iraq	1,372	cereal (23%), telecom (20%), transport. equip. (19%), machinery (19%)	= 81%
Algeria	1,161	machinery (31%), all transport. equip. (23%), telecom, equip. (15%), cereals (12%), iron & steel (3%)	= 84%
Qatar	986	Machinery (47%), transport. equip. (28%), scientific inst. (4%)	= 79%
Jordan	643	transport equip. (23%), machinery (20%), cereals (9%), telecom. equip. (5%)	= 57%
Oman	593	transport. equip (56%), machinery (25%),	= 81%
Morocco	528	all transport equip. (33%), cereals (16%), machinery (13%)	= 62%
Lebanon	464	transport equip. (30%), machinery (14%), tobacco (10%), cereal (6%)	= 60%
Bahrain	351	transport vehicles (29%), machinery (22%), telecom. (4%)	= 55%
Tunisia	261	veg. fats/oils (26%), machinery (18%), transport. equip. (17%), cereals (9%)	= 70%
Gaza Strip	231	pharmaceuticals (97%)	= 97%
Yemen	217	cereals (38%), machinery (34%)	= 72%
Syria	157	cereals (68%), oil seeds (18%)	= 86%
Iran	96	tobacco (53%), pharmaceuticals (19%), crude animal/veg materials (8%)	= 80%
Cyprus	84	machinery (31%), transport equip. (11%), scientific inst. (7%), telecom. (6%)	= 55%
Libya	83	machinery (52%), road vehicles (20%)	= 72%
West Bank	4	cereals (77%)	= 77%
TOTAL*	37,413		

Source: USITC Dataweb, based on the Standard Industrial Trade Classification (SITC).
Note: "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.
* Total reflects rounded import values.

Table 5. Foreign Direct Investment in Middle East Entities: Stock of Investment by the World and by the United States, 2004

($ Millions)

Entity	Stock of World Foreign Direct Investment, 2004		Stock of U.S. Foreign Direct Investment, 2004	
	Value in $ millions	% of world total	Value in $ millions	% of U.S. total
World	8,895,279	100	2,063,998	100
Total Middle East	162,703	1.83	28,112	1.36
Algeria	7,423	0.08	3,961	0.19
Bahrain	7,585	0.09	176	0.01
Egypt	20,902	0.23	4,240	0.21
Iran	4,065	0.05	NA	NA
Iraq	273	0.00	137	0.01
Israel	33,081	0.37	6,790	0.33
Jordan	3,501	0.04	54	0.00
Kuwait	381	0.00	478	0.02
Lebanon	2,269	0.03	176	0.01
Morocco	17,959	0.02	306	0.01
Oman	3,432	0.04	438	0.02
Qatar	4,144	0.05	4,377	0.21
Saudi Arabia	20,454	0.23	3,835	0.19
Syria	12,491	0.14	NA	NA
Tunisia	17,626	0.20	181	0.01
United Arab Emirates	4,422	0.05	2,368	0.11
Yemen	990	0.01	534	0.03

NA: Not available.

Source: For World: *United Nations World Investment Report*, 2005, p. 308-312; for the United States: *Survey of Current Business*, September, 2005, p. 136-138. Some discrepancies result from the source differences. For example, for both Kuwait and Qatar, the U.S.-reported stock of investment is higher than the U.N.-reported total world stock.