

**ASSESSING ARAB ECONOMIC INTEGRATION:  
TRADE IN SERVICES AS A DRIVER OF GROWTH AND DEVELOPMENT**

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Economic and Social Commission for Western Asia



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# Assessing Arab Economic Integration Report

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- Recurrent (biennial) flagship publication
- The first edition released in 2015:
  - made the case for regional economic integration
  - introduced a system of indices to monitor economic integration at the bilateral, regional and global levels
  - assessed progress made and the challenges faced in regional economic integration at the sectoral level
  - evaluated the factors that facilitate integration, including transport, energy, water sources, migration for employment, remittances, and financial services
  - analyzed the progress made in the ACU negotiations
- The latest edition focuses on services trade liberalization

# The status of Arab Regional and Global Economic Integration

- Arab intraregional trade mostly stagnant as a share of total trade
- Diversification of products remain limited
- Intraregional exports less dynamic: existing products or markets tend make up a greater portion of the change in merchandise exports
- Limited engagement in international production networks
- Prominent factors weighing on Arab economic regional and global integration:
  - Limited scope of trade agreements, covering goods only
  - Prevalence of non-tariff measures
  - Restrictive rules of origin
  - Overlapping trade agreements: a challenge for private firms
  - Capital account restrictions

# Services Trade Liberalization in the Region

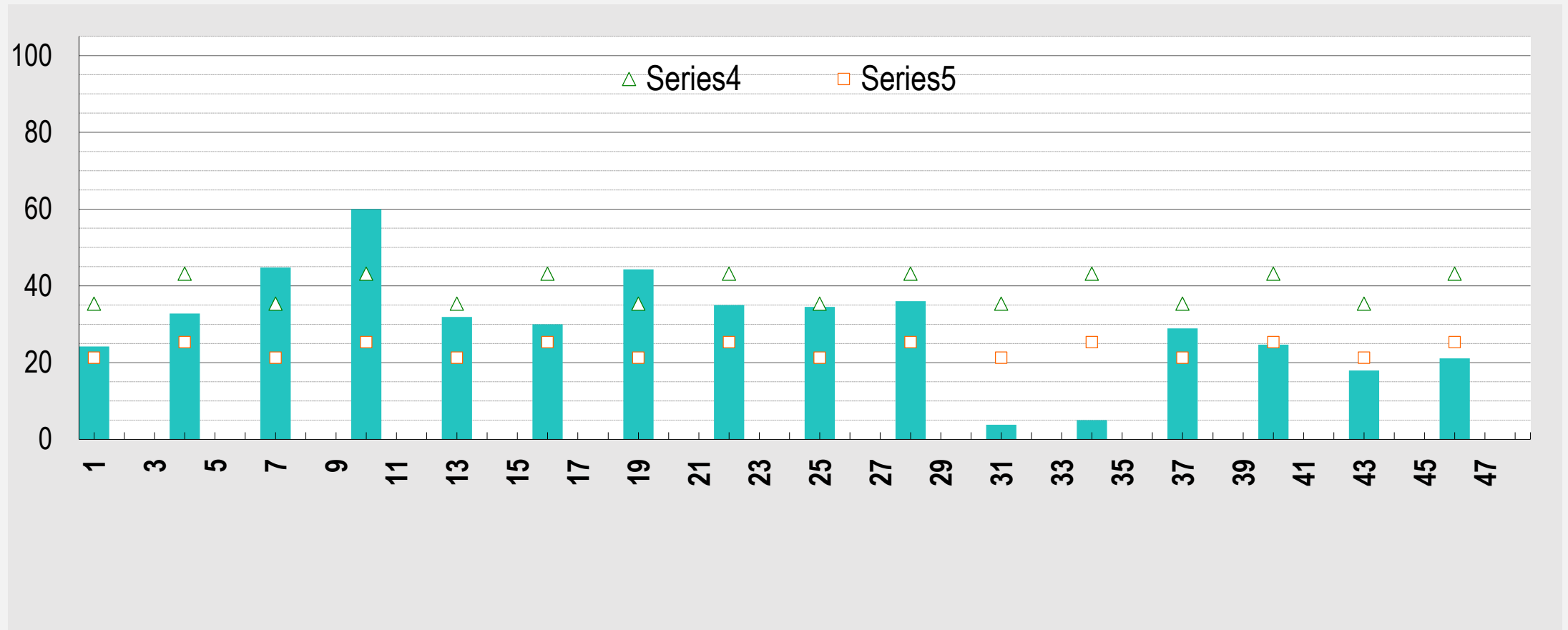
## Why?

- Large share in output, employment, investment and trade
- Strong spillover effects on other productive sectors
  - business services key role in the production of most other goods and services
- Crucial factor determining insertion into international production networks
- Substantial and extensive impact on a wide range of economic and social outcomes
- Major avenue to deepen regional economic integration
  - Barriers to trade in goods reduced significantly
  - Subject to negotiations: WTO, PAFTA, DCFTA
- never tackled by ESCWA and existing work limited

# Services Trade Liberalization in the Region

## Why?

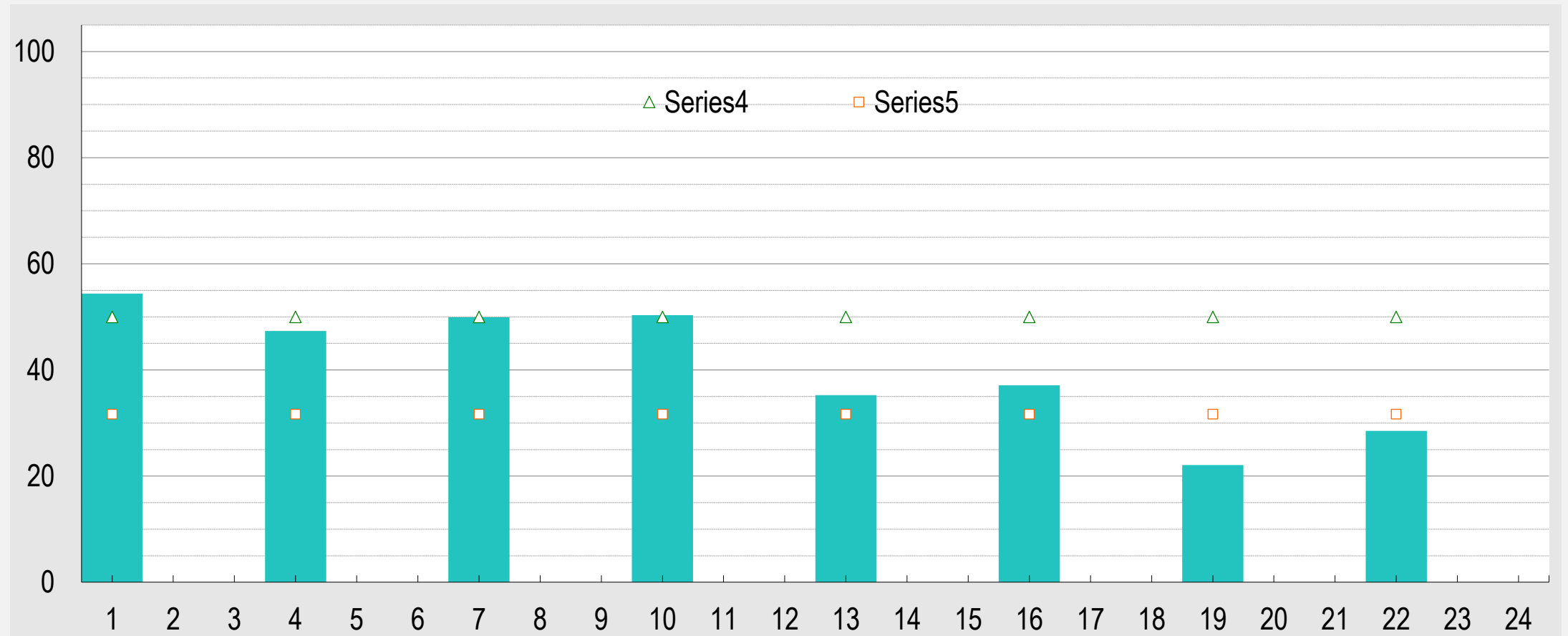
Financial sector restrictiveness index across selected regions and blocs



# Services Trade Liberalization in the Region

## Why?

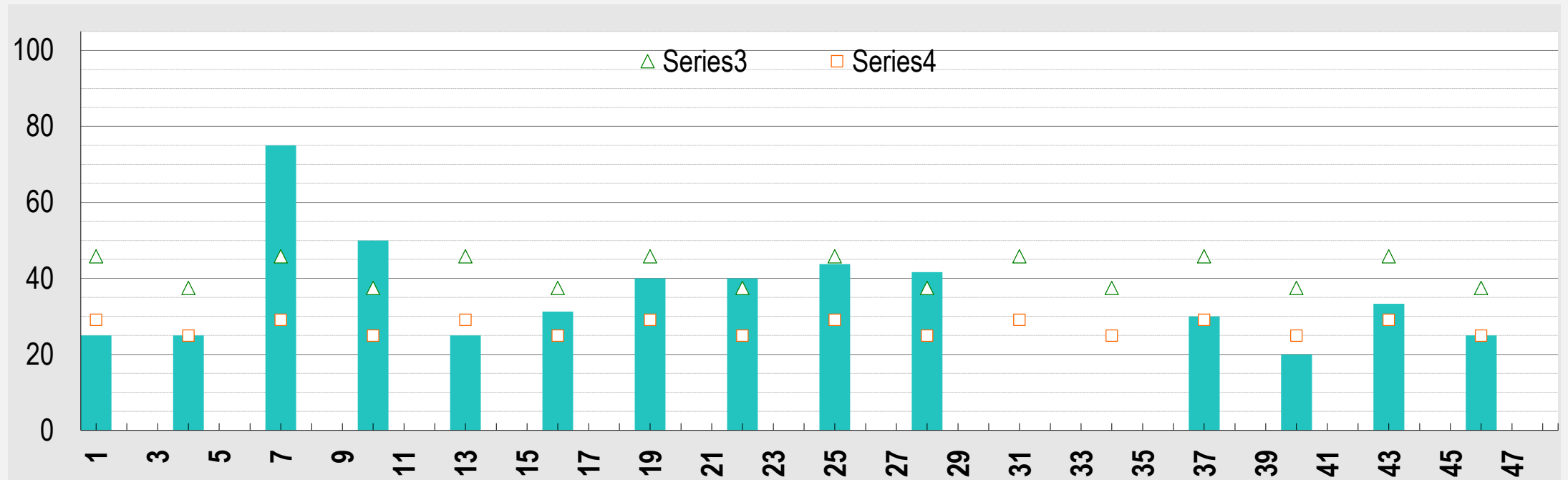
Transportation services restrictiveness index across selected regions and blocs



# Services Trade Liberalization in the Region

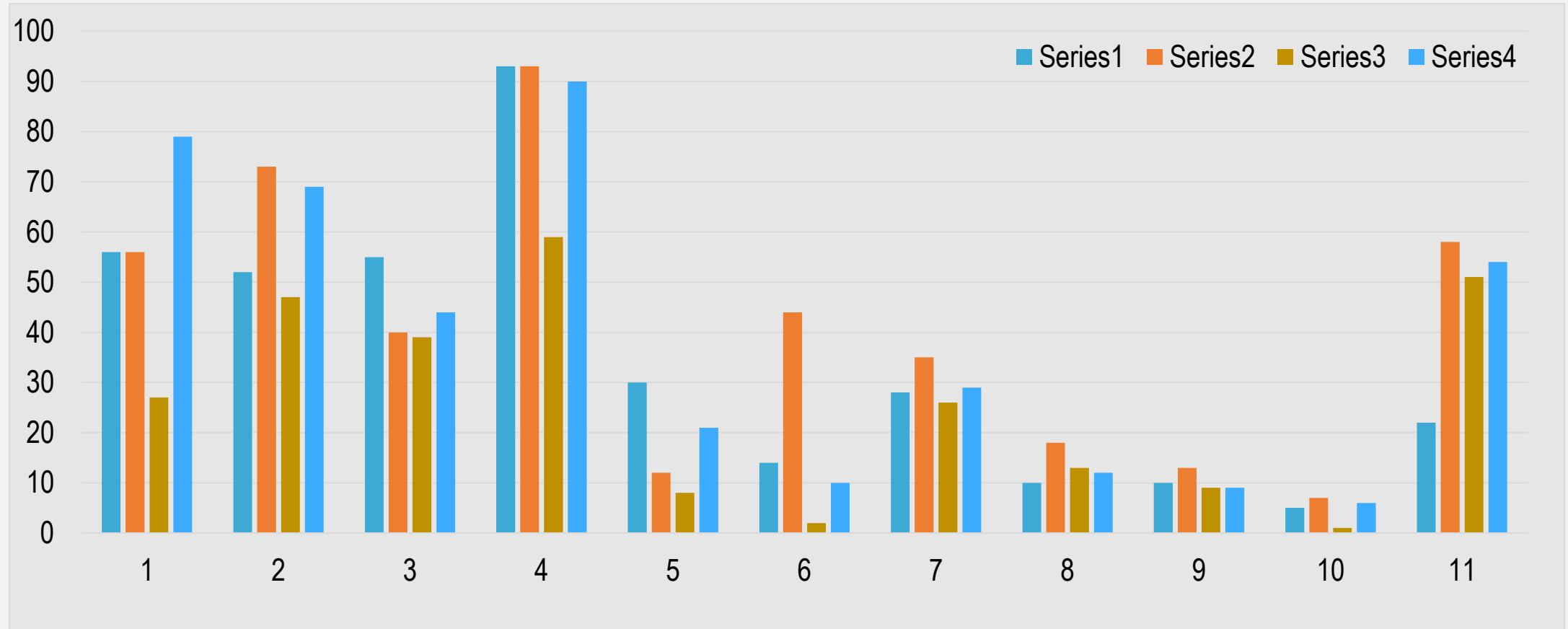
## Why?

Telecommunications services restrictiveness index across selected regions and blocs



# Services Trade Liberalization in the Region

Estimated ad valorem tariff equivalent of STRIs, per cent



Source: Yaghoob Jafari and David G. Tarr, 'Estimates of Ad Valorem Equivalents of Barriers Against Foreign Suppliers of Services in Eleven Services Sectors and 103 Countries,' Policy Research Working Paper 7096 (The World Economy 2014).



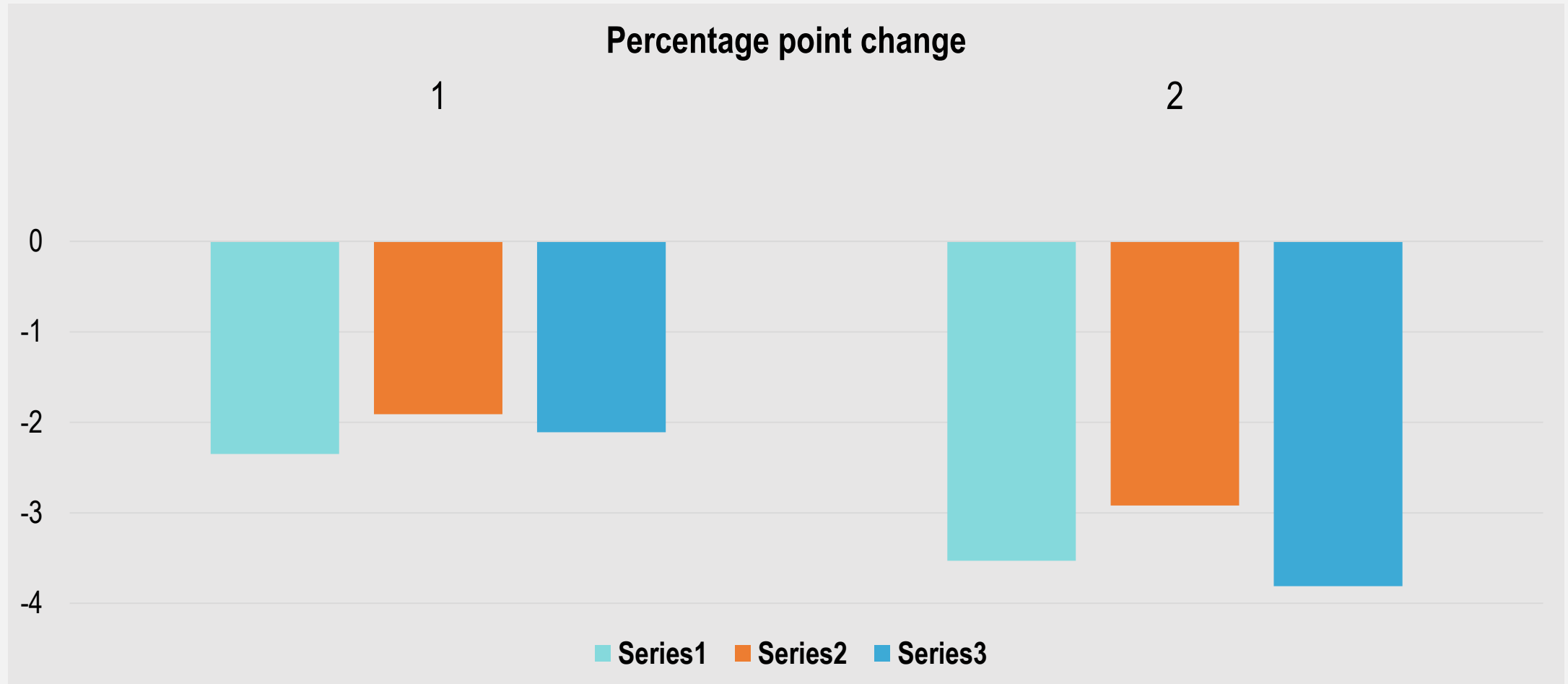
# Services Trade Liberalization in the Region

## Could yield large dividends

- Countries with fully competitive and open telecom and financial services sectors grow up to 1.5 percentage points faster (Mattoo and Rathindran., 2006)
- Using a simulation model, If Tunisia liberalizes services trade with EU; expected impact on GDP may reach 6% per year, FDI inflows will grow by additional 15 p.p. (estimates 2000)
  - The model has been extended to simulate liberalization scenarios in transport and financial services for Egypt, Morocco, and Tunisia with the EU and the Arab countries
  - Relatively strong positive effect on the GDP
  - Strong poverty mitigation effects.

# Services Trade Liberalization in the Region

Impact of scenarios on poverty



# Services Trade Liberalization in the Region and GHG emissions

- GHG emission relatively low in the region
- Scenarios of transport and financial services liberalization within the context of PAFTA and EU DCFTAs for Tunisia, Saudi Arabia, Egypt, and Kuwait analyzed:
  - sizable increases in GHG emissions in both cases
  - Intra-Arab liberalization: CO<sub>2</sub> (N<sub>2</sub>O) increase by about 1.5 (1.8)% for Tunisia, 2.4(3.7)% for Kuwait, 2.8(2.2)% for Egypt, 3.7(3.2)% for Saudi Arabia
  - with the EU, lower impact on GHG emissions
  - but likely to impose higher adjustment costs

# Services Trade Liberalization in the Region

## Impact on FDI

- FDI is major channel for foreign services operators
  - important for gaining access to services-related know-how, technology and sectoral best practices
  - greater competition in services markets & access to a broader range of differentiated services
  - domestic firms become competitive after gaining access to high quality & cost-efficient services
- Using our estimates, halving the overall STRI score would lead to around 30% increase in FDI inflows into the services sector

# Conclusions

Most Arab countries have not embarked on services trade liberalization

Sub-par economic integration performance of the region in part driven by limited access to cost-efficient, high quality services

Restrictive regulations on trade in services remain severe

More detailed assessments on the impact of alternative services trade liberalization scenarios will be undertaken at country level using the ESCWA's simulation tools.

# Recommendations

Liberalization of key business services (ICT, e-commerce, supply chain management services, financial services, & improved logistic services) is a priority for the region

Deepening PAFTA through extending it services offers opportunities. Follow through with the agreement on the liberalization of trade in services among Arab States and ensure that commitments are fulfilled.

Concerned Arab countries should proceed with DCFTA, which represents another chance through which the involved Arab countries could tap into financial resources and technical expertise of their partners to liberalize services

Extending trade integration with other regions should be based on a comprehensive development strategy

THANK YOU

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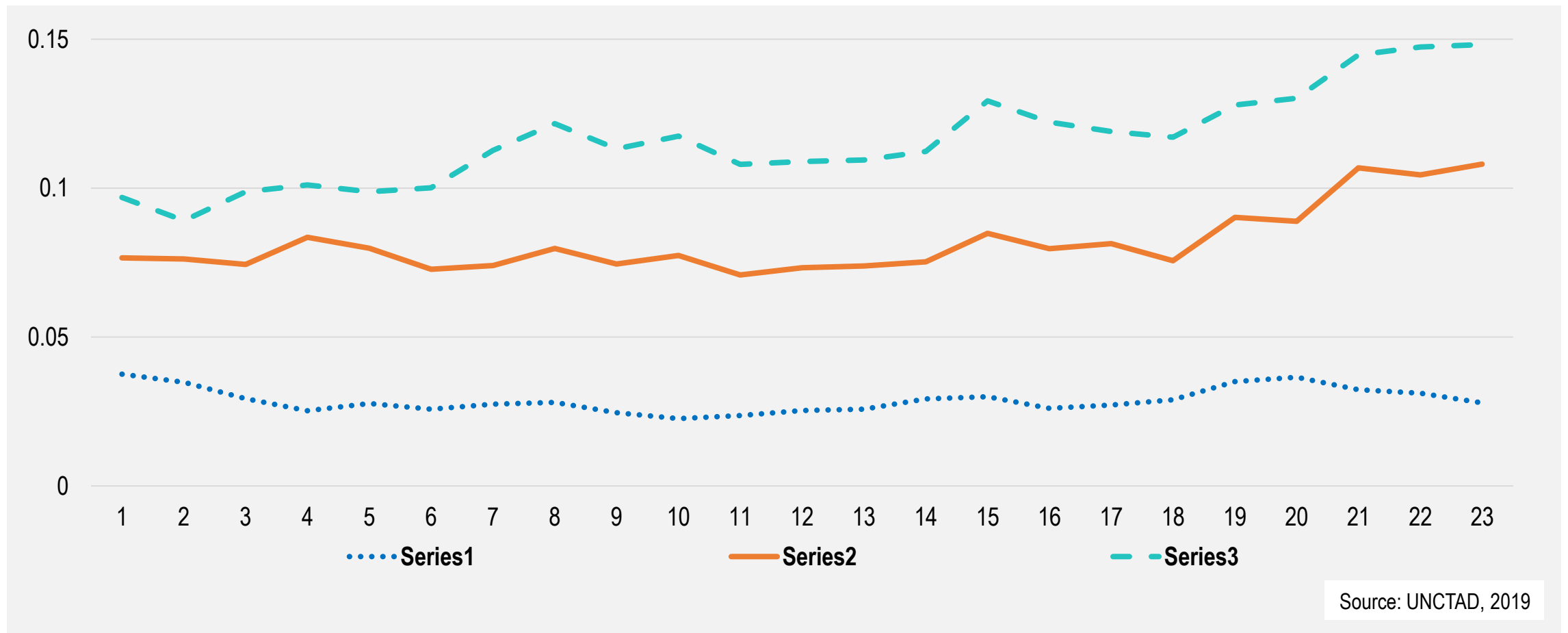
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# The status of Arab Regional and Global Economic Integration

## Intra-Arab trade remains limited...

The share of intraregional trade in total merchandise trade



Source: UNCTAD, 2019



# The status of Arab Regional and Global Economic Integration

## ...particularly compared with other regions

The share of intraregional trade in total merchandise trade

