

# Towards a Greater Arab Regional and Global Economic Integration ESCWA's Role and the Experience of the DA project on facilitating the negotiations on the Arab Customs Union

Economic and Social Commission for Western Asia

**Regional Integration Section  
Economic Development and Integration Division  
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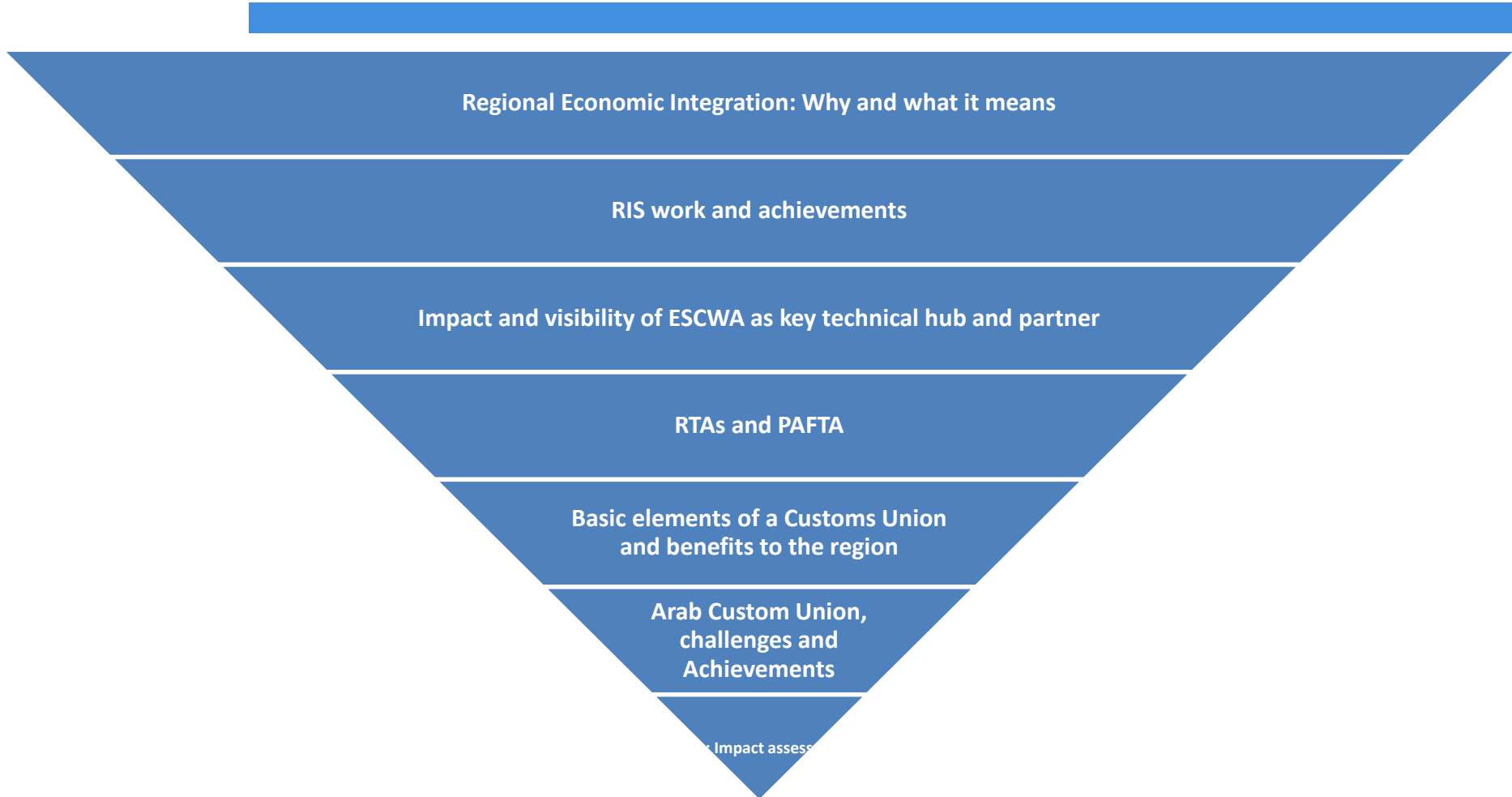


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# Outline





# Regional Economic Integration

- Economic integration is an economic arrangement between different regions, marked by the reduction or elimination of trade barriers. Advanced economic integration level entails coordination of monetary and fiscal policies.

The major aim of economic integration:

- Reduce costs for both consumers and producers,
  - increase trade between the countries taking part in the agreement.
  - connect to GVCs and draw benefits from increasing globalization through attracting FDIs and expanding exports.
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- Three major enablers to boost regional economic integration: efficient transport and logistics, macroeconomic and sectoral policy coordination, and perfect competition

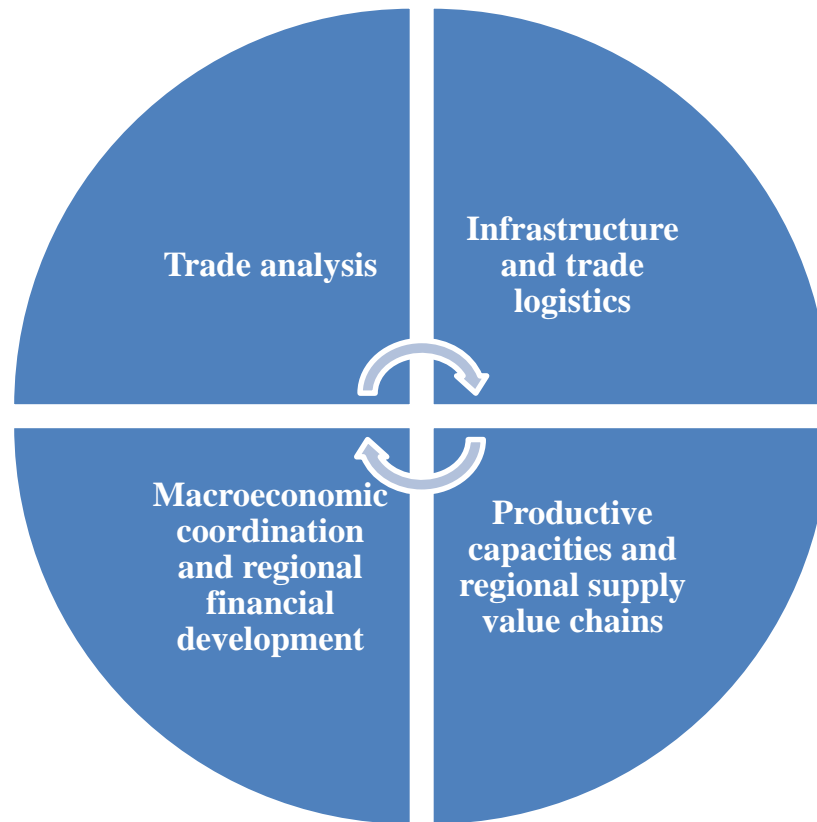
# RIS Objectives



- undertake **policy research** on the interactions among various dimensions of regional and global integration, notably- trade in goods and services, FDI, transportation and logistics, economic transformation, and productive capacity developments
- Create quantifiable measures of regional economic integration, to serve as a **region-tailored benchmark** helping Arab countries and various regional initiatives in **gauging their performance** in different aspects of economic integration (**All**).
- **Build technical and institutional capacities**, to be able to formulate and implement **sound trade policies** and participate more effectively in **trade negotiations** at the bilateral, regional and multilateral levels aimed at strengthening regional cooperation and integration
- **Advocate macroeconomic and sectoral policies** in the region, as a major pillar of regional integration and macroeconomic stability

# Major pillars of Regional Integration Analysis:

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# Main Achievements under RB

## Non-Recurrent Publication:

Transport and connectivity to GVCs: Illustrations from the Arab region

## Recurrent Publication:

Arab Economic Integration Report 2017 (in progress)

## Servicing of intergovernmental and expert bodies:

- Substantive servicing of the seventeenth session of the Committee on Transport 2016;
- Substantive servicing of the eighteenth session of the Committee on Transport 2017 (December 2017)
- Substantive servicing of the eleventh session of the Technical Committee on Liberalizing Foreign Trade, 2017 (November 2017)

## Parliamentary Documents (more than 11 parliamentary documents are prepared): Few examples

- Assessing transport connectivity in the ESCWA region 2016;
- Regional Integration and Structural Transformation: evidence from Jordan
- Methodologies of assessing logistics performance;
- The challenges of launching the Arab Customs Union between ambition and reality
- Trade and SDGs: results from the joint survey ESCWA-ESCAP
- The cost of non Arab-African trade integration
- The MEGA trade agreements: challenges and opportunities for the Arab countries

## EGMs

- **EGM** on transport connectivity and regional value chains. **The Role of Transport in Fostering Connectivity to Global Value Chains (November 2016).**

- **EGM on Deepening Regional Economic Integration through the liberalization of trade in Services in the Arab region:** prospects, requisites and implications (June 2016).

- **EGM on Regional Financial Integration,** (November 2016).

## Working / Technical Papers

- Trade integration and business cycle synchronization: Evidence from Arab Countries
- Identification of Barriers to Trade in Services in Selected Arab countries
- Follow- up report on the status of implementation of TFA in Arab countries in preparation for the Ministerial Meeting of WTO in 2017
- Regional Financial Integration: a focus on banking integration
- The estimation of the AdValorem equivalent of barriers to trade in services
- Technical paper on estimation the impacts of liberalization of trade in services
- Technical paper on the development of the system of indexes for assessing Arab economic integration (development of new indexes)
- Technical paper on identification on policies for economic transformation through a better connectivity to GVCs

## Contribution to Joint Output

- Participation and contribution to the OECD surveys on aid for trade 2016 and 2017;
- Participation and contribution to the OECD Initiative of Economic Transformation and Global Value Chains 2016;
- Participation and contribution to the GTAP board and conference 2017.
- Participation and contribution to the ERF annual conference, 2017
- Participation and contribution to events organized by partner organizations (ITC, UNECA...)

# DA projects

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- **“Strengthening the Capacities of developing Countries to facilitate legitimate border crossing & Regional Integration and cooperation 2012-2015. Implemented in 2016**
- **Facilitating the implementation of the ACU (2016-2019):**
- **Measuring, monitoring and improving performance in regional integration within ECA, ESCWA and ESCAP regions. Beg. 2018**
  - Develop regional integration indexes to allow for ranking countries according to their integration performances>

# Achievements under DA

## Facilitating the implementation of the ACU

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### Materials

- Negotiation Skills
- Techniques of selecting CET and suggested options for the ACU at the HS 6 level
- Structure of fiscal revenues of Arab countries in the perspective of establishing ACU
- Estimating the mechanical fiscal impacts of alternative Common External Tariff on the Economies of member states;
- Estimating the macroeconomic and sectoral impacts of alternative options of CET on the economies of Tunisia, Sudan, and Lebanon using dynamic CGE models
- Assessing the experience of the GCC Customs Union
- Toolkit to monitor the implementation of the Arab Customs Union and the level of compliance of Member States within the ACU framework.



# Achievements under DA

## Facilitating the implementation of the ACU

### Workshops

- Sub-Regional Workshop-Arab African - **Tunis**: to present technical material on issues related to the fiscal challenges of implementing the CET and the techniques of selecting CET at HS 6 level;
- Sub-Regional Workshop-Arab Asian– **Amman**, November 2016 it aims to present technical material on issues related to the fiscal challenges of implementing the CET and the techniques of selecting CET at HS 6 level;
- Workshop on Negotiation skills to members of the CET Committee Members to support negotiations of the ACU (Cairo).
- Workshop on negotiations skills for Lebanon, October 2017
- Facilitating the 38th meeting of the CET committee in UN house-ESCWA
- Workshop on Impact Analysis Toolkit to members of the ACU committee on 28-29 November 2017 (Beirut)
- Workshop on Trade Impact Analysis toolkit (Regional Organizations and country projects.). Beirut May 2018
- Two National workshops for Tunisia and Sudan were completed to present the results of the study completed on Impact of ACU on economy.
- 2 Workshops combined in one for Member States and Regional Workshop on monitoring and evaluation of trade policy convergence in the Arab region

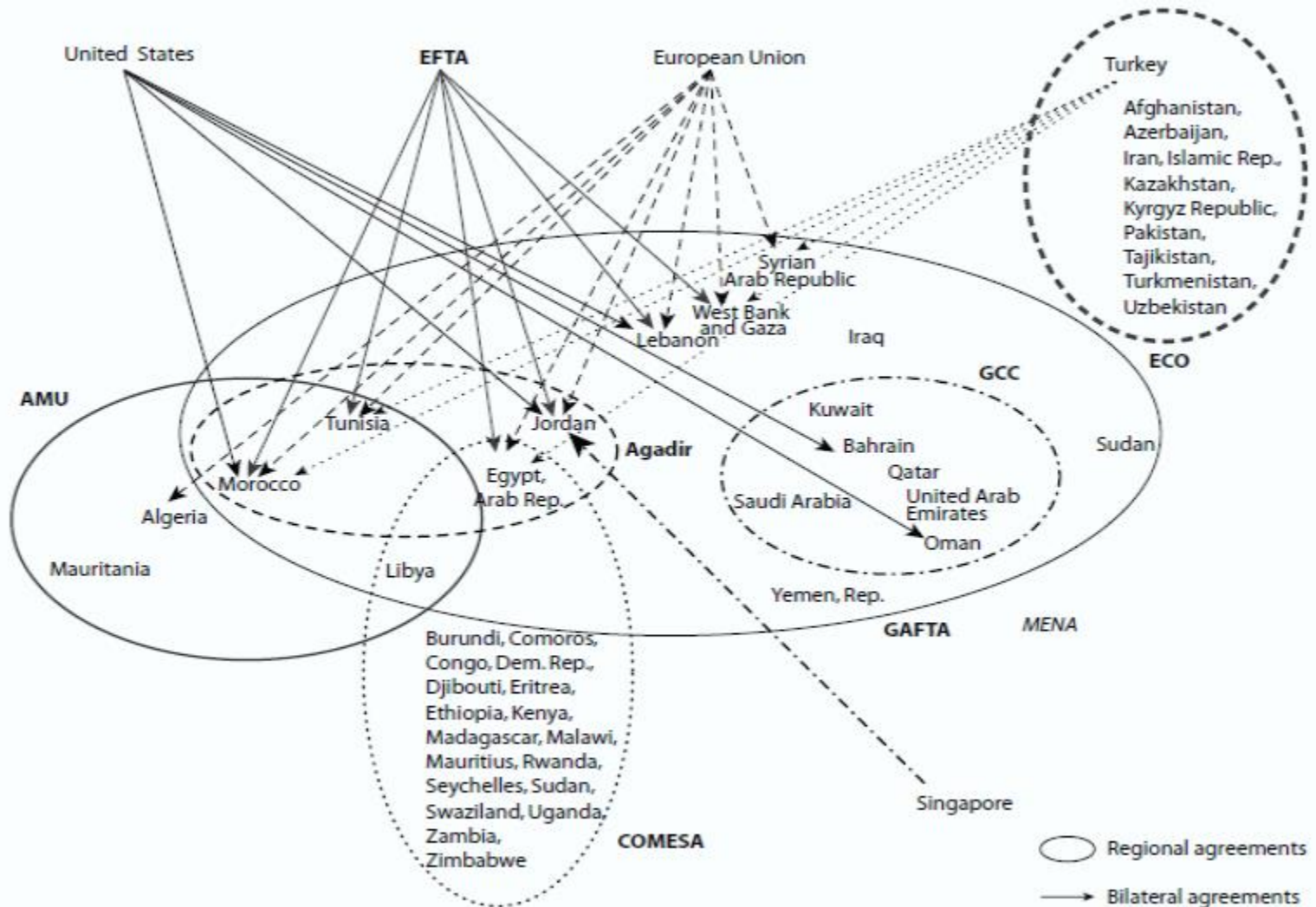
# Cooperation with Regional and international Agencies

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- **Through DA:** UNECA, ESCAP, ECLAC, ECE, LAS, UMO, Aghadir, GCC
- **Through RB:** OECD, World Bank, ITC, CEPII
- **Through RPTC:** UNECA, ISDB, WCO, ITC, IFPRI, Kiel institute for the world economy

# Arab Economic Integration Experience

## FTAs in the Arab region



# Why Customs Union for The Arab Region?

## FTA and CU: Benefits

- economies of scale



- promotes fair competition

- reduces transaction costs and results in timely deliveries.



- Consumers: wider choice of goods, increased productivity which leads to lower prices



# Why Customs Union for The Arab Region?

## FTA and CU: Benefits

### To the CU Members:

- intra-regional trade is enhanced as there are no tariffs or quotas on goods originating from within the region,
- maintain a price advantage for regionally produced goods over goods produced outside the Customs Union.

### To the Region as a Whole (CU Members):

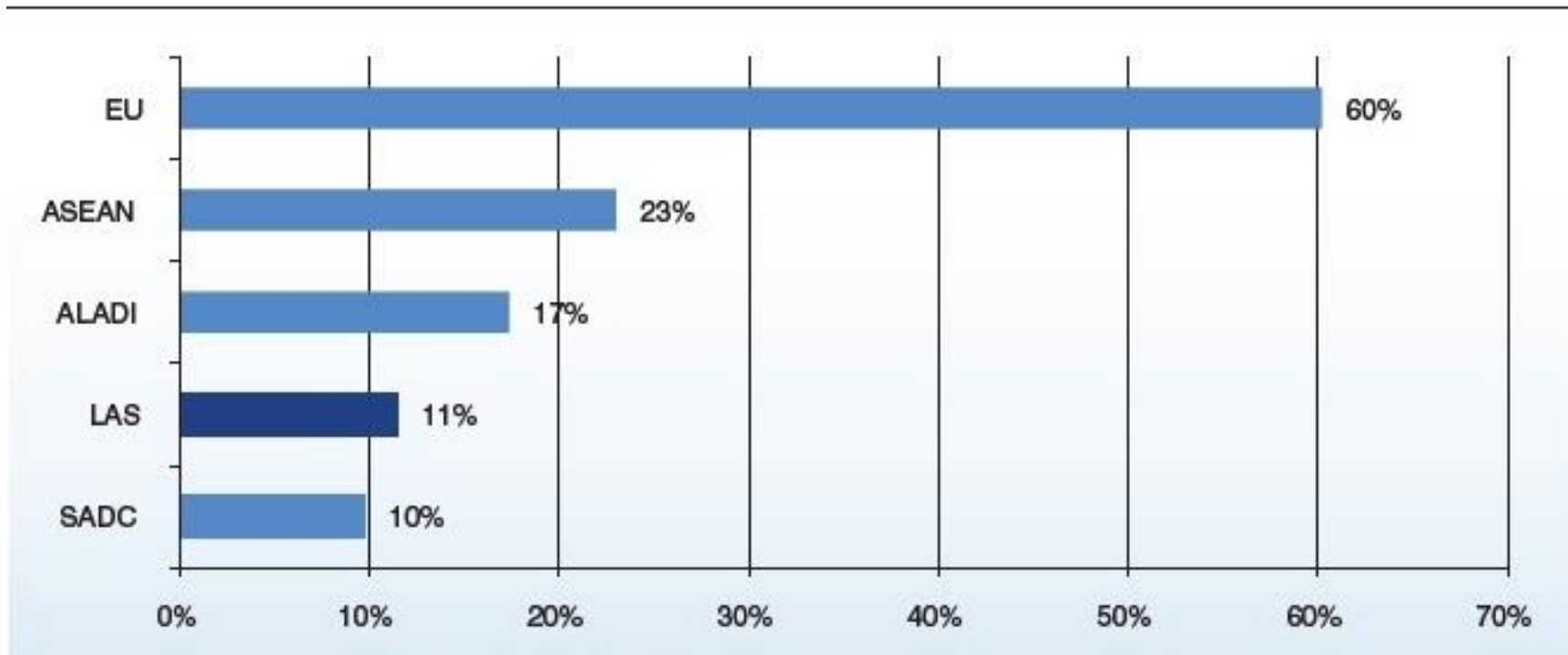
- promotes cross-border investment and attract investment, both Foreign Direct Investment (FDI) and domestic investment, as the enlarged market is more attractive to investors than the previously small individual national markets.
- Even negotiations on CU may take many years (10 in average), the negotiations represent an important chance to boost regional cooperation through implementing the full provisions of FTAs (PAFTA) and even go beyond through more cooperation and coordination.



# Why Customs Union for The Arab Region?

## First objective boost intra-trade and intra-investment

### INTRAREGIONAL TRADE SHARES AROUND THE WORLD IN 2010 (EXCLUDING OIL)



# From GAFTA to ACU: challenges and pending issues

- GAFTA is based on the 1981 Inter-Arab Trade Facilitation and Development Agreement, ratified by 18 Arab states- Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen. Algeria joined the agreement in 2009.
- GAFTA still suffers from unclear ROOs, un-harmonized SPA, overlap of FTAs, convergence in macroeconomic and sectoral policies (interest rates, exchange rate, pricing of important inputs such as energy and water)...
- Moving to the negotiations of ACU has allowed speeding negotiations on these pending issues.
- **Achievements so far:** unified custom law, consolidation of classifications of commodities, common custom declaration, and ACU procedures guide.
- **Ongoing negotiations:** CET
- **Pending issues:** mechanisms for collecting and distributing customs revenues, mechanisms for compensating the economic and fiscal losses that may result from the implementation of CET, and how to deal with FTAs with the rest of the world.

# ESCWA assistance to LAS and MCs on the ACU

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## DA ACU

- Techniques of selecting CET to facilitate the formulation of CET proposals by MSs: workshops and technical papers
- Negotiations skills: workshops and technical materials
- Impact analysis of CET options (mechanical and economywide analysis): national studies and regional workshop
- Monitoring and evaluation toolkit for trade policy convergence in the region (workshops and training materials)
- ACU and fiscal reforms: workshops and training materials

## RPTC implementing GAFTA and moving to ACU

- Identification of barriers on trade in services and suggest options for integrating them in GAFTA
- Moving from ROOs under GAFTA to Pan-Arab ROOs under the ACU
- Competition policy and coordination of macroeconomic and sectoral policies
- Trade liberalization and FDI inflows
- Dealing with the overlap of FTAs: priorities to the Arab regions
- Accession to WTO's: options for non- Member countries
- The Doha Round negotiations from Doha (2001) to Buenos Aires (2017): what implications for Arab countries



# Impact Analysis Studies

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- **Mechanical impacts of CET Scenarios**
- **Economy wide impacts of CET Scenarios**



# Assessing the effects of tariff changes

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Three key mechanisms are used to measure the effects of changing trade policies:

- Mechanism for measuring the mechanical effects of trade policies on tax revenue on goods: this assumes that the impact of tariff changes on financial income is measured without taking into account any other change in the economy.
- The use of partial equilibrium models to assess the effects of trade policies on a specific economic sector: this focuses on a particular sector (agriculture sector, for example) and is influenced by changes in trade policy without taking into account changes in the rest of the productive sectors on the one hand and macroeconomic variables on the other.
- The use of general equilibrium models to measure the overall and sectoral impacts of trade policies: which include all impacts on all macroeconomic and sectoral components taking into account direct, indirect and dynamic impacts.

# Case study under the DA project: ESCWA's proposed scenarios for the common external tariff

Three scenarios have been adopted in this study:

- Scenario 1: 4 tariff levels (30%, 20%, 10% and 0%)
- Scenario 2: 3 tariff levels (20%, 10%, 0%)
- Scenario 3: 2 tariff levels (11.1% and 5%)

These scenarios were applied on all product codes and according to 3 hypotheses:

1. Consolidate the trade policies of member countries by abolishing all trade agreements with the rest of the world (a complete but an unrealistic customs union): Scenarios 1.3, 1.2 and 1.3
2. Maintain trade agreements with the rest of the world (a limited but more realistic customs union): Scenarios 2.1, 2.2 and 2.3
3. Consolidate the trade policies of the Arab countries by expanding trade agreements signed between some Arab countries to include all member states (not yet).

The global database of international foreign trade was used and which provides each country with the value of imports and tariff levels by product (level 6) and by source (nearly 200 countries).

# Common external Tariff Scenarios by Product Groups (Level 2 of the Harmonized System)

<b>Product classification at the HS2 Level</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
01-05 Animal & Animal Products	30	20	11.1
06-15 Vegetable Products	30	20	11.1
16-24 Foodstuffs	30	20	11.1
25-27 Mineral Products	10	10	5
28-38 Chemicals & Allied Industries	10	10	5
39-40 Plastics / Rubbers	10	10	5
41-43 Raw Hides, Skin, Leather & Furs	20	10	5
44-49 Wood & Wood Products	20	10	5
50-63 Textiles	20	10	5
64-67 Footwear / Headgear	20	10	5
68-71 Stone / Glass	0	0	5
72-83 Metals	0	0	5
84-85 Machinery / Electrical	10	10	5
86-89 Transportation	10	10	5
90-97 Miscellaneous	0	0	5

**Mechanical impacts: The effects on customs revenues compared to the year 2015 in the event of the abolishment of all the differential agreements with the rest of the world**

	<b>Scenario 1.1</b>	<b>Scenario 1.2</b>	<b>Scenario 1.3</b>	<b>Revenues in 2015</b>
<b>Tunisia</b>	653	555	314	408
<b>Sudan</b>	1246	938	546	1400
<b>Egypt</b>	3682	2818	1691	2790
<b>Lebanon</b>	3167	2530	1550	1360
<b>Morocco</b>	2263	1806	1038	817
<b>Jordan</b>	553	422	253	469
<b>UAE</b>	74	62	45	35
<b>Algeria</b>	4522	3648	2204	3800

## Mechanical impacts: Effects on customs revenues compared to 2015 if all the differential agreements are maintained with the rest of the world but without expansion

	<b>Scenario 2.1</b>	<b>Scenario 2.2</b>	<b>Scenario 2.3</b>	<b>Revenues in 2015</b>
<b>Tunisia</b>	661	539	355	408
<b>Sudan</b>	1372	1316	1246	1400
<b>Egypt</b>	3181	2812	2344	2790
<b>Lebanon</b>	2013	1782	1428	1630
<b>Morocco</b>	1748	1454	964	817
<b>Jordan</b>	516	446	352	469
<b>UAE</b>	45	42	38	35
<b>Algeria</b>	3948	3762	3496	3800

# Economy wide impacts Scenarios

## Case Study: Lebanon

### Four Scenarios were selected:

- The first includes three customs tariffs for the standard foreign tariff (10% tariff in 2018, 20% tariff in 2019 and 30% tariff in 2020) covering all products classified according to the second level of product classification coordinator. (HS-2)
- The second scenario assumes two types of the common external tariff (tariff 11.1% in 2018 and 20% tariff in 2020) also cover all products.
- The third scenario assumes two definitions, but at levels below the previous namely 5 and 11.1%.
- The fourth scenario, compared to the previous scenario, assumes that definitions of 5 and 11.1% are for all products except agricultural and food products, which remained unchanged .
- This Common External tariff has also been applied to Lebanon's imports from outside the countries with which it has free trade agreements.
- **These scenarios were applied using the standard computable general equilibrium model “CGE”**

# Scenarios

sec	Sc1	Sc2	Sc3	Sc4
ANI	30	20	11.1	No change
VEG	30	20	11.1	No change
FOO	30	20	11.1	No change
OthMin	10	11.1	5	11.1
CHE	10	11.1	5	11.1
RAW	10	11.1	5	11.1
WOO	20	20	11.1	11.1
TEX	20	20	11.1	11.1
STO	10	11.1	5	5
MET	10	11.1	5	5
MAC	10	11.1	5	5
TRE	10	11.1	5	5
MIS	10	11.1	5	5



## Tools and approaches and databases used by RIS

- Economic analysis using EViews and STATA
- Simulation models: Partial Equilibrium model (country and global) and Computable general Equilibrium model using GAMS
- Gravity models
- Global databases: TiVA, MacMap, COMTRADE, GTAP, WITS



# Outlook and Prospects

- Advisory services for Sudan, Egypt, Palestine, Mauritania Jordan, LAS, Tunisia (Collaboration with UNECA sub-regional office for North Africa)
- Agricultural trade liberalization and sustainable development in the Arab region
- Economies of overlapping FTAs
- Trade and Economic transformation
- Trade and SDGs
- Measuring trade costs
- Monitoring and evaluation of RI performance
- Sectoral policy coordination and competition policy



# Thank you

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