Assessing Arab economic integration: the missing roles of trade in services

by

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ASSESSING ARAB ECONOMIC INTEGRATION:
THE MISSING ROLES OF TRADE IN SERVICES

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Assessing Arab Economic Integration Report

- Recurrent (biennial) flagship publication
- The first edition released in 2015:
  - made the case for regional integration
  - introduced a system of indices to monitor economic integration at the bilateral, regional and global levels
  - evaluated the factors that facilitate integration
  - analyzed the progress made in the negotiations on the ACU

- The current edition focuses on services trade liberalization
Why services trade liberalization?

- Services key in output, employment, investment and trade
- Strong spillover effects on other productive sectors
- 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
- Services trade liberalization never tackled by ESCWA
What issues the report seeks to address?

- What is included in “services”?
- Behind-the-border barriers constrain services trade
- Data limitations are severe
- Extending the analysis into specific SDGs for illustrative purposes but in depth analysis is beyond the scope
The structure of the Report

Chapter 1: Recent developments in the intra-regional and global economic integration of Arab countries
- Performance in export, FDI inflows and remittances
- The global trade slowdown: the new normal for Arab countries
- Intra-Arab integration as a global shock absorber

Chapter 2: The economics of services trade
- Theoretical channels through which services affect economic outcomes
- Evidence on the benefits of services trade liberalization
- Evidence from the TiVA database to gauge the true extent of services’ contribution to trade
The structure of the Report……(cont’d)

Chapter 3: The performance of and barriers to trade in services in the Arab

• Services sector performance in output, employment and trade
• The restrictiveness of policies and regulation bearing on services trade in international comparison
• Illustration from three services sectors: the case of transport, telecommunication and financial services

Chapter 4: Economy-wide and cross-cutting impacts of promoting trade in services in the Arab Region in the context of PAFTA and DCFTA

• The impact of services liberalization in the context of negotiations under PAFTA and DCFTA
• FDI inflows and services trade restrictions
• Gender equality, income distribution and poverty, greenhouse gas emissions
The benefits of services liberalization

• Services sector as an engine of economic activity and productivity:
  • Promoting trade in services an important driver of economic activity, employment, investment and job creation

• Services-based integration could offer opportunities for deeper global and regional integration
  • Issuing region-wide licenses could bring global players in the region and spur further competition
Services trade and trade in goods (Evidence from the TiVA database)

Source: ESCWA calculations based on data from the OECD-WTO TiVA database, December 2016 release.
Services trade and trade in goods (Evidence from the TiVA database)

- Developed countries

Source: ESCWA calculations based on data from the OECD-WTO TiVA database, December 2016 release.
The economics of services trade

Panel A: Gross exports
as a share of total domestic value added

Panel B: Exports of value added
as a share of total domestic value added

Source: ESCWA calculations based on data from the OECD-WTO TiVA database, December 2016 release.
The economics of services trade

- Developing countries

Source: ESCWA calculations based on data from the OECD-WTO TIVA database, December 2016 release.
Chapter 2: The economics of services trade

- Arab countries

Source: ESCWA calculations based on data from the OECD-WTO TIVA database, December 2016 release.
The performance of and barriers to trade in services in the Arab region

- Trend in services sector development in Arab countries over last two decades
  - Short period of strong expansion of the sector in the early 2000s
  - The services sector’s output share in Arab countries still lower than peers and what their income level suggests

- Traditional services such as tourism dominate over business services, that are associated with innovation, productivity and competitiveness
  - De-industrialization issue for Arab LDCs
  - Services sector crucial for diversified private sectors
  - A vibrant services sector helps overcome middle-income trap
Overall services trade restrictiveness across different regions and in the Arab region

- In general, the Arab region is more restrictive than the other major regions/blocs
  - GCC: the highest overall STRI score among regions/blocs considered
  - AMU: relatively liberal stance in retail, financial and telecommunication services while transport services are also highly restricted
  - Other Arab: professional and transport services are among the most restrictive in the world but financial, telecommunication, and retail services are closer to other regions
- Detailed breakdown of services trade restrictions in three key services subsectors
  - Transport: significantly more restricted in the Arab region in comparison to other regions/blocs (apart from ASEAN)
    - Algeria/Lebanon/Jordan the most and Yemen/Morocco the least restricted transport services trade
  - Telecom: GCC countries rather restrictive, rest of Arab countries more open regimes
  - Financial: great majority of Arab countries have little or no barriers
Maritime transport services trade restrictiveness across Arab countries

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The performance of and barriers to trade in services in the Arab

- Cross cutting effects of services trade liberalization under the DCFTA & PAFTA
  - Challenge of the fundamental issue of whether the reasons behind advancing reform in the goods & services sector can be directly transferred to the achievement of other important goals indirectly linked to trade liberalisation: GDP, imports & exports or production & investments
  - Tailored versions of CGE & gravity models have been developed & used for the specific purpose of identifying these effects
- Services Trade Liberalisation & FDI inflows
  - FDI is important to 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 would increase productivity & competitiveness of domestic firms
  - Could potentially lead to domestic firms becoming competitive in some markets after high quality & cost-efficient services are made available through FDI
Impact of Service liberalization on FDI

• FDI is major channel for foreign services operators

• Specifically for the Report constructed bilateral data on FDI inflows at the sectoral level with DHAMAN

• Conducted econometric analysis on these panel data

• Empirical findings points to a negative effect of an increase in trade restrictions on FDI inflows.
Impact of service liberalization on poverty and income distribution

- More pronounced effects of services trade liberalization on income also means stronger employment effects
Services trade liberalization and the gender dimension

• Favorable impact on gender equality

• More competition through mitigating trade barriers, encouraging firms to reduce the costs associated with discrimination between women and gender.

• Simulation results for the liberalization of transport and transport sectors in Tunisia corroborates higher participation rate of women as the GDP expands
Services trade liberalization and GHG emissions

- Simulation results for Tunisia, Saudi Arabia, Egypt, and Kuwait presented

- Services trade liberalization:
  - within the context of PAFTA: lead to sizable increases in GHG emissions
  - with the EU: lower impact on GHG emissions

- But likely to impose higher adjustment costs
Conclusions

• Most GVC-enhancing reforms will also have a positive impact on non-GVC trade

• RTAs can facilitate closer cooperation and continuous exchange of information

• Liberalization of services in terms of competitiveness and efficient access to resources is a priority

• Most Arab countries are still lacking on introducing reforms to promote trade in services
THANK YOU