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**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

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- 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?

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- 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?

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- 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

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## 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

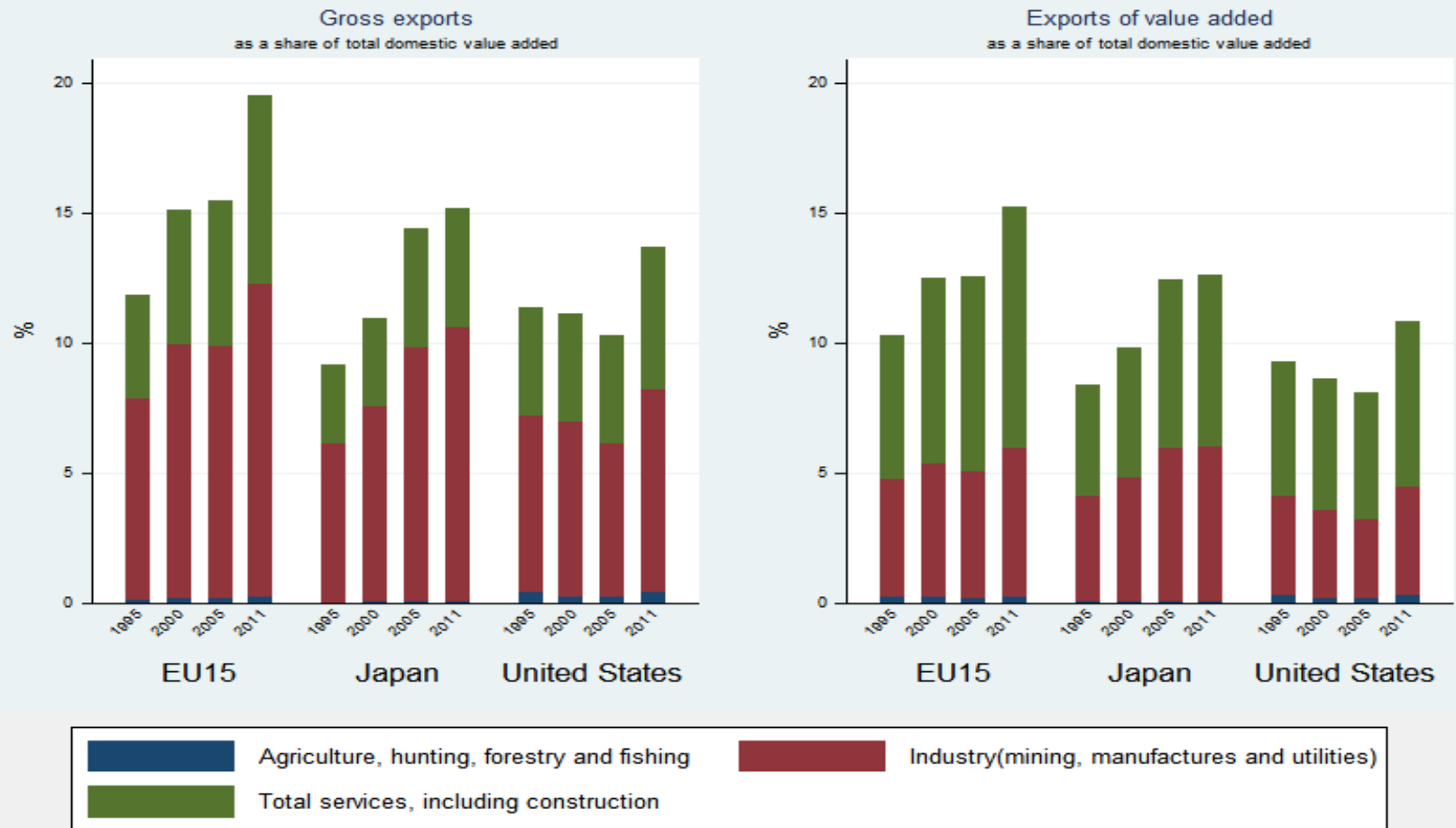
# The benefits of services liberalization

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- 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



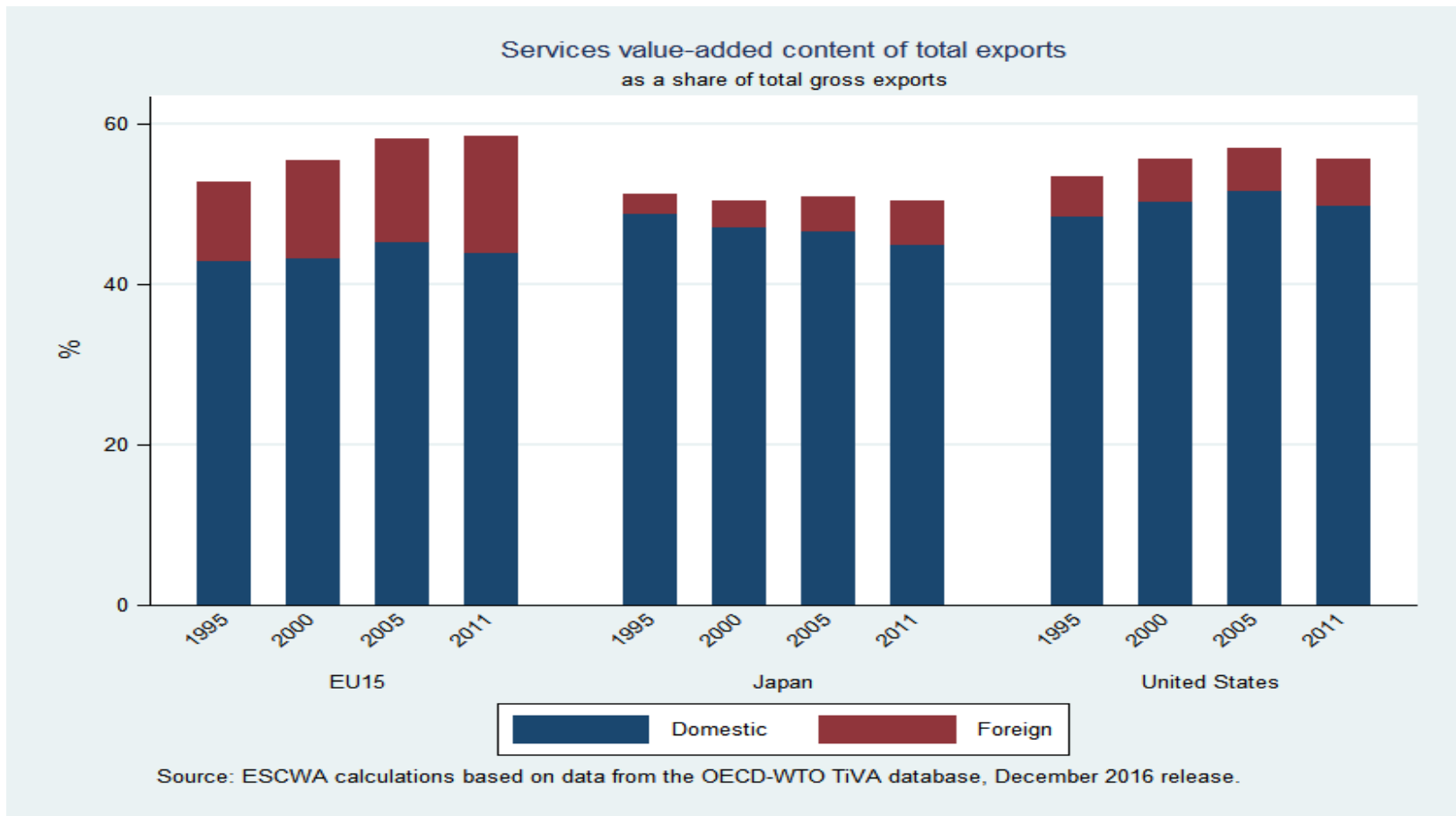
# Services trade and trade in goods (Evidence from the TiVA database)



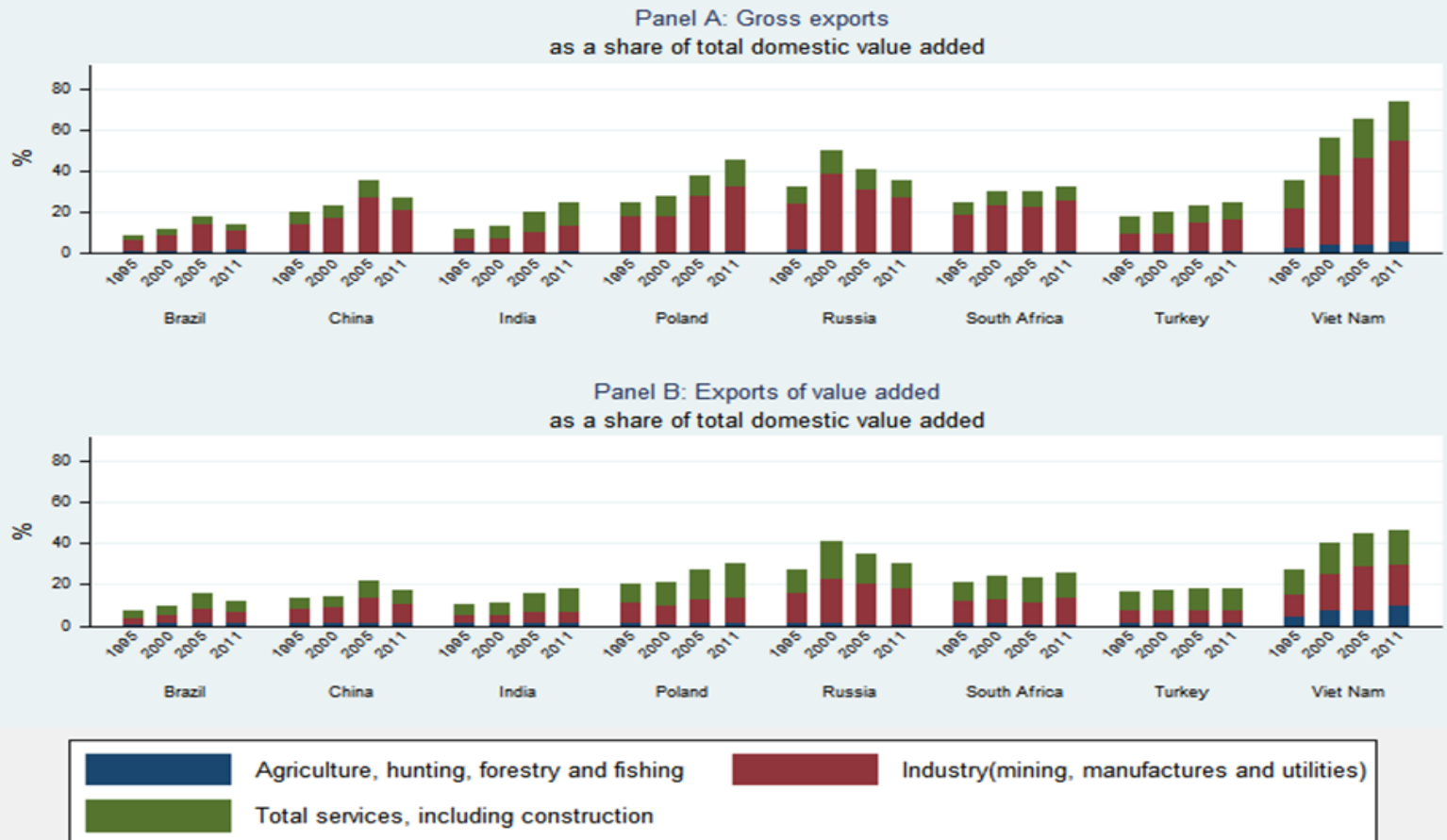
Source: ESCWA calculations based on data from the OECD-WTO TiVA database, December 2016 release.

# Services trade and trade in goods (Evidence from the TiVA database)

- Developed countries



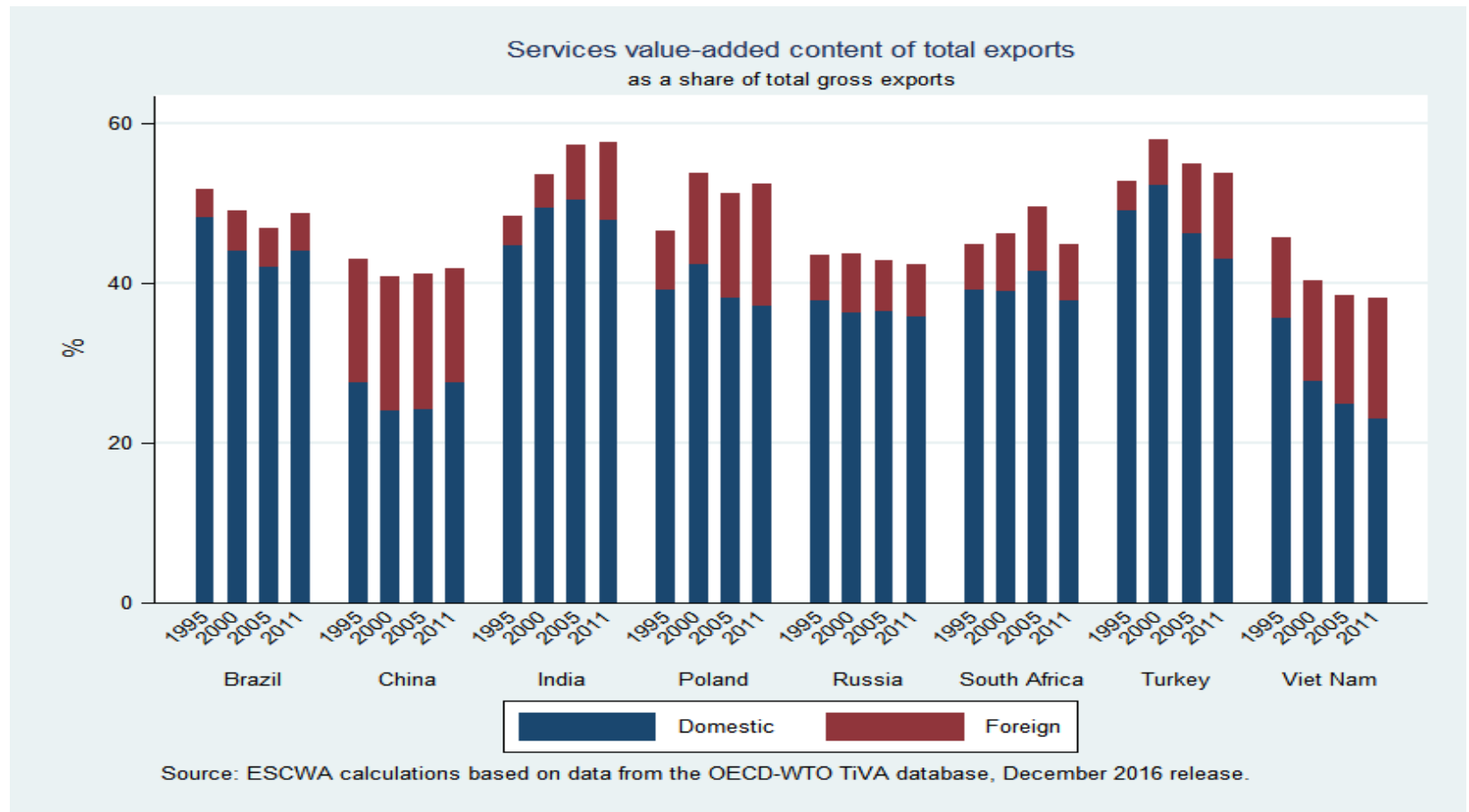
# The economics of services trade



Source: ESCWA calculations based on data from the OECD-WTO TIVA database, December 2016 release.

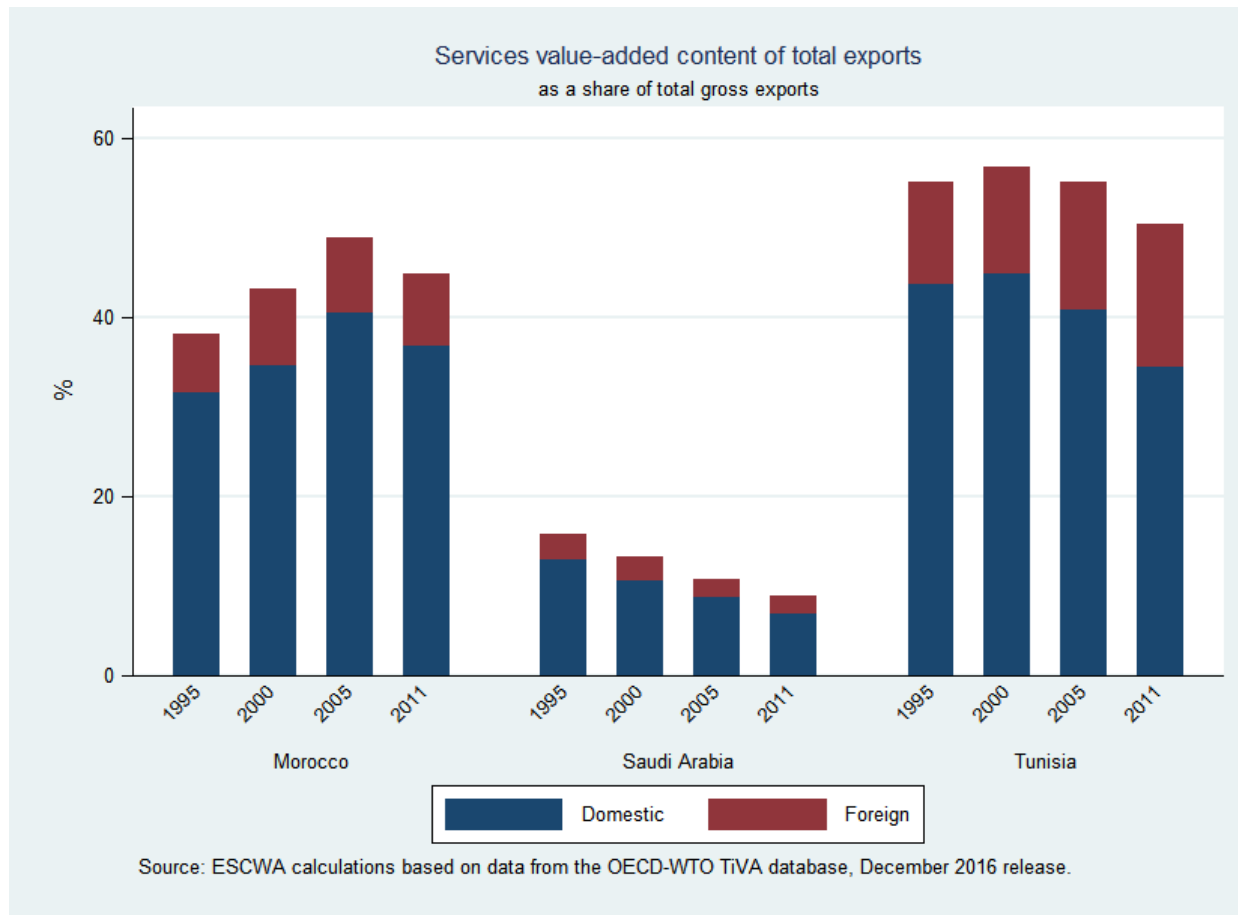
# The economics of services trade

- Developing countries



# Chapter 2: The economics of services trade

- Arab countries



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

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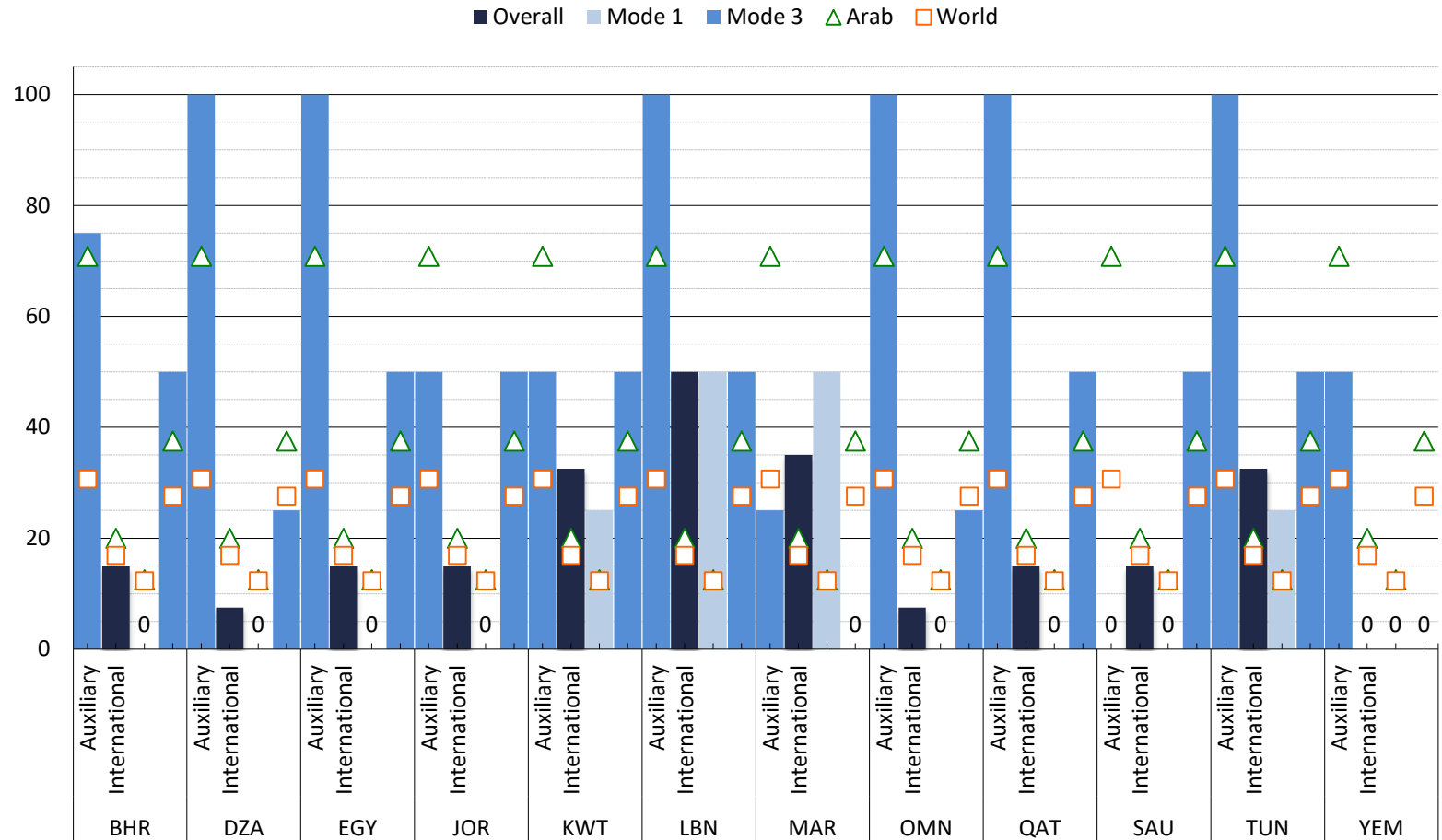
- Trend in services sector development in Arab countries over last two decades
  - Short period of strong expansion of the sector in the early 2000s
  - The services sector's output share in Arab countries still lower than peers and what their income level suggests
- Traditional services such as tourism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

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- 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





# 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

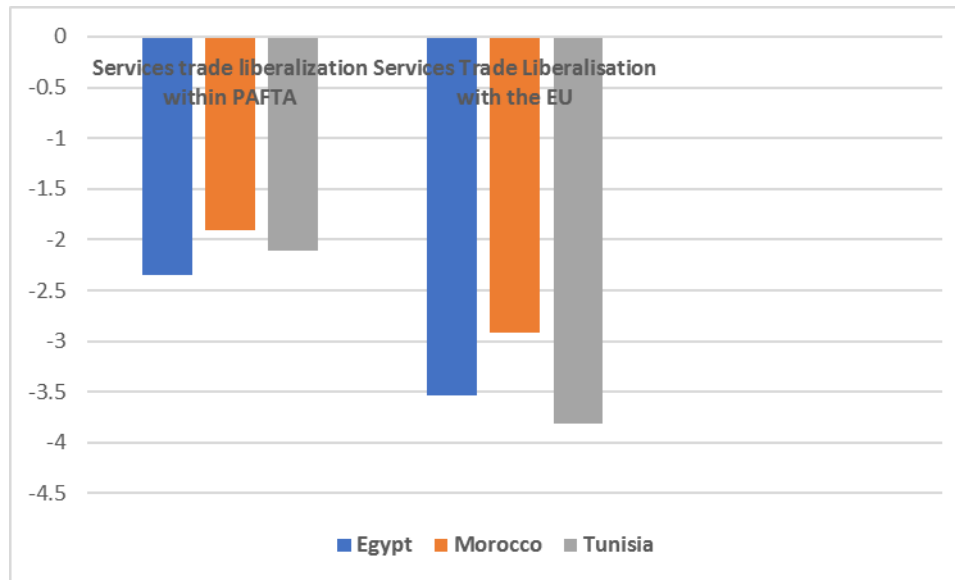
# Impact of Service liberalization on FDI

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- 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

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- 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

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- 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

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- 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

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