

**Economic and Social Commission for Western Asia (ESCWA)**

Executive Committee  
Sixth meeting  
Marrakech, Morocco, 15-16 June 2019



Item 6 of the provisional agenda

**Assessing Arab economic integration: trade in services  
as a driver of growth and development****Summary**

Economic integration is an important means to generate income and employment, boost investment and spur structural transformation towards more diversified economic models. At the global level, the services sector accounts for large and growing shares of output, employment and foreign direct investment. In addition, trade in services is a main pillar of today's global trade and can be instrumental in achieving the Sustainable Development Goals. Liberalizing trade in services may be an avenue for extending the scope of regional economic integration.

Arab countries are diverse in terms of size, economic and social structures, and endowments. Comparisons of the output and employment shares of the services sector in individual countries reveal that their performance in services output and trade is also diverse. However, the share of the services sector in total output in the Arab region is significantly lower than in other regions and than expectations, given the level of income per capita. This may be due to the fact that most Arab countries exhibit a rather restrictive stance in services trade policies and regulations.

The present document proposes policy recommendations to promote trade in services and deepen relations among Arab countries and with the European Union. The Executive Committee is invited to discuss its contents.

## CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
Introduction .....	1-2	3
<i>Chapter</i>		
<b>I. THE ECONOMICS OF SERVICES TRADE .....</b>	<b>3-15</b>	<b>3</b>
A. Services are an integral part of economic activity .....	4-8	3
B. Services-based integration could offer opportunities for deeper regional integration.....	9-10	4
C. Services trade liberalization and potential benefits .....	11-12	4
D. Services and goods trade: evidence from the trade in value added database.....	13-15	4
<b>II. PERFORMANCE OF AND BARRIERS TO TRADE IN SERVICES IN THE ARAB REGION .....</b>	<b>16-24</b>	<b>6</b>
A. Services as a driver of economic activity and integration .....	18-19	6
B. Evaluation of services trade barriers .....	20-21	6
C. Overall services trade restrictiveness across different regions and in the Arab region .....	22-24	7
<b>III. IMPACT OF PROMOTING TRADE IN SERVICES IN THE ARAB REGION.....</b>	<b>25-36</b>	<b>8</b>
A. Priorities and challenges on trade in services negotiations .....	26-33	9
B. Services trade liberalization and Sustainable Development Goals.....	34-36	11
<b>IV. CONCLUSIONS AND POLICY RECOMMENDATIONS.....</b>	<b>37-41</b>	<b>11</b>

## Introduction

1. Economic integration is an important means to generate income and employment, boost investment, and spur structural transformation towards more diversified economic models. The Assessing Arab Economic Integration Report (AAEIR), a recurrent report published by the Economic and Social Commission for Western Asia (ESCWA), aims at assessing the performance of Arab countries in global and regional economic integration, with a view to identifying challenges, opportunities and strategies to foster intraregional and global economic linkages. The report also focuses on a distinct theme in each edition, offering a more in-depth analysis of a key issue the Arab region is faced with in the pursuit of closer regional economic integration. The 2017 edition, entitled “[Trade in Services as a Driver of Economic Growth and Development](#)”, reviews the status of the services sector in the Arab region and issues related to the liberalization of services trade.

2. Focus on services is motivated by the fact that services trade liberalization is a major avenue for extending the scope of regional economic integration. The services sector accounts for large and growing shares of output, employment and foreign direct investment (FDI). The present document reviews the main findings of the 2017 AAEIR. A specific document on the objectives, structure, estimation process and main results of the Arab Economic Integration System of Indices is submitted to the Executive Committee under agenda item 7 of the present meeting.

### I. THE ECONOMICS OF SERVICES TRADE

3. The term “services sector” encapsulates a wide range of economic activities, ranging from haircutting to engineering consulting, transportation, health care and education, to name a few. The services sector constitutes a fundamental component of an economy and accounts for significant shares of output, employment and FDI flows. In addition, it has strong linkages with non-service activities. Throughout the economy, a dynamic, efficient and competitive services sector is of great importance for employment and income generation, and ultimately for high and sustainable economic growth.

#### A. SERVICES ARE AN INTEGRAL PART OF ECONOMIC ACTIVITY

4. The services sector is important not only in its own right; it bears great importance for aggregate economic activity. Services are used as intermediate inputs by other sectors and facilitate transactions through space and time. For instance, business services play a large role in the production of most other goods and services. Services such as design, advertising, transportation, and retail trade play similarly indispensable roles.

5. Some services, notably education, research and development, and health services, directly contribute to the accumulation of human and physical capital and, thus, to productivity. Others, such as transport, information and communication technologies, and financial services, play a crucial role in the exchange of goods and other services. Technological progress in such services allows for greater possibilities for the disintegration of production processes and greater roles for intermediate services, bolstering the link between the services sector and integration into international production networks.

6. Manufacturing firms increasingly use and even produce, sell and export services. The services sector is showing growing reliance on domestic and imported manufactured outputs, and the ‘servicification’ of manufacturing is an important phenomenon. Restricting access to high-quality, competitively priced, imported intermediate goods not only undermines the downstream manufacturing sector but also the services sector that uses these inputs. Thus, manufacturing exporters have a stake in open and more competitive service markets, and service suppliers have a stake in trade liberalization, as they directly or indirectly bear part of the costs associated with barriers to goods trade.

7. The availability of diverse and efficient business services is a key determinant of economic growth performance. Producer services, such as managerial and engineering consulting, may help domestic firms to lower their costs. In particular, intermediate services, which tend to be non-traded or traded at prohibitive costs,

are a potential driving force behind the agglomeration of economic activity and differences in economic performance across regions.

8. The services sector is an important determinant of FDI flows. Considering the fact that the cross-border tradability of certain services is limited, access to best practices and new services crucially depends on FDI inflows. In fact, FDI is identified as the most important channel through which services can become traded. In this regard, liberalizing barriers to FDI in service sectors represents the main channel through which foreign services, including business services, are made available to a domestic economy.

#### B. SERVICES-BASED INTEGRATION COULD OFFER OPPORTUNITIES FOR DEEPER REGIONAL INTEGRATION

9. Some services facilitate networking. Prominent examples are telecommunications, energy and transport (maritime, rail, air and road). An important aspect of network services is that they lend themselves to network externalities and economies of scale. A key implication of this feature is that investing in and managing network industries in a regional setting may yield substantial gains. For example, issuing licenses that are region-wide rather than country-specific could pool markets and the resulting large markets could attract global players.

10. Nevertheless, a regional approach to services and investment is often complicated. The providers of most services, which are amenable to a more regionally integrated approach, are either public monopolies or firms with concessions. In this regard, intraregional services liberalization initiatives may require major privatizations and regulatory reforms of services.

#### C. SERVICES TRADE LIBERALIZATION AND POTENTIAL BENEFITS

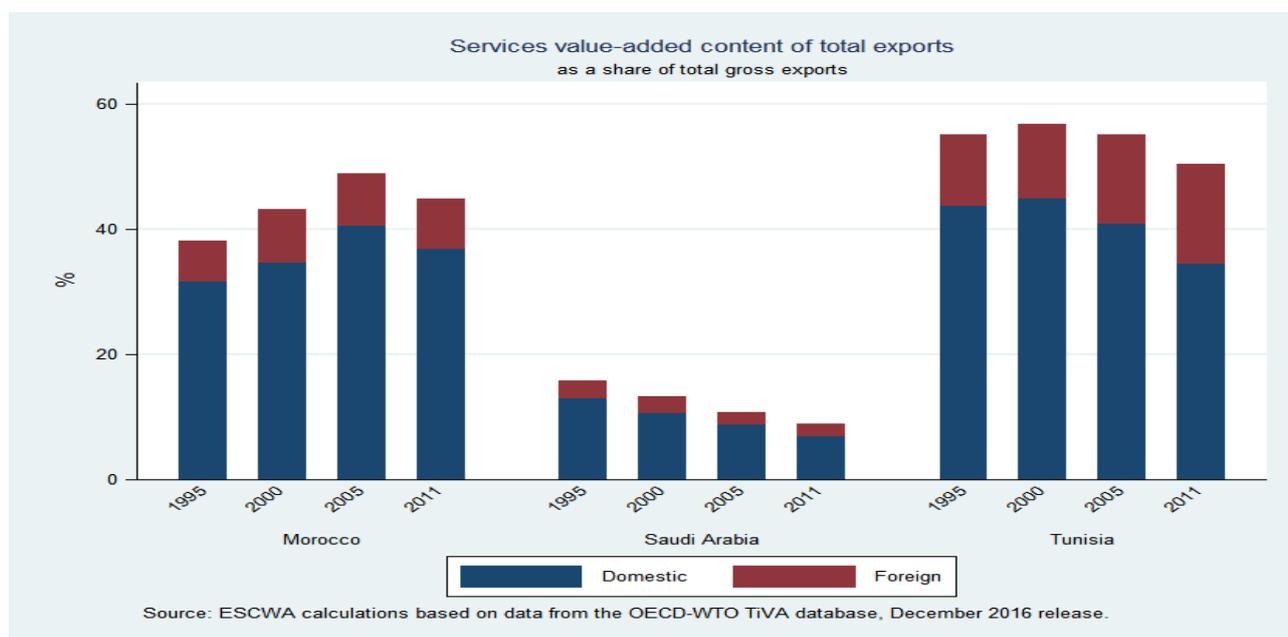
11. The contribution of the services sector to economic activity and its share in international trade are disproportionate in spite of recent relatively rapid growth for services trade compared with goods. The fact that some services are traded internationally only in small quantities does not reflect that they are non-tradable but rather they can be traded profitably in few cases. The full range of costs that firms face when trading services mainly relate to distortionary regulatory measures that create entry barriers or that increase the costs of firms, as well as costs associated with institutional, cultural and geographical differences.

12. Barriers to services trade, whether in the form of restrictions on cross-border flows of services or the entry of foreign service providers, are likely to weigh on efficiency gains in domestic service markets by limiting contestability and competitive pressures. In addition, downstream sectors that use services as inputs are adversely affected by higher input costs if domestic service providers are insulated from competition. Lifting unduly restrictive barriers to services trade could help to ensure access of firms all throughout an economy to cost-effective, high-quality and reliable services, improving their competitiveness.

#### D. SERVICES AND GOODS TRADE: EVIDENCE FROM THE TRADE IN VALUE ADDED DATABASE

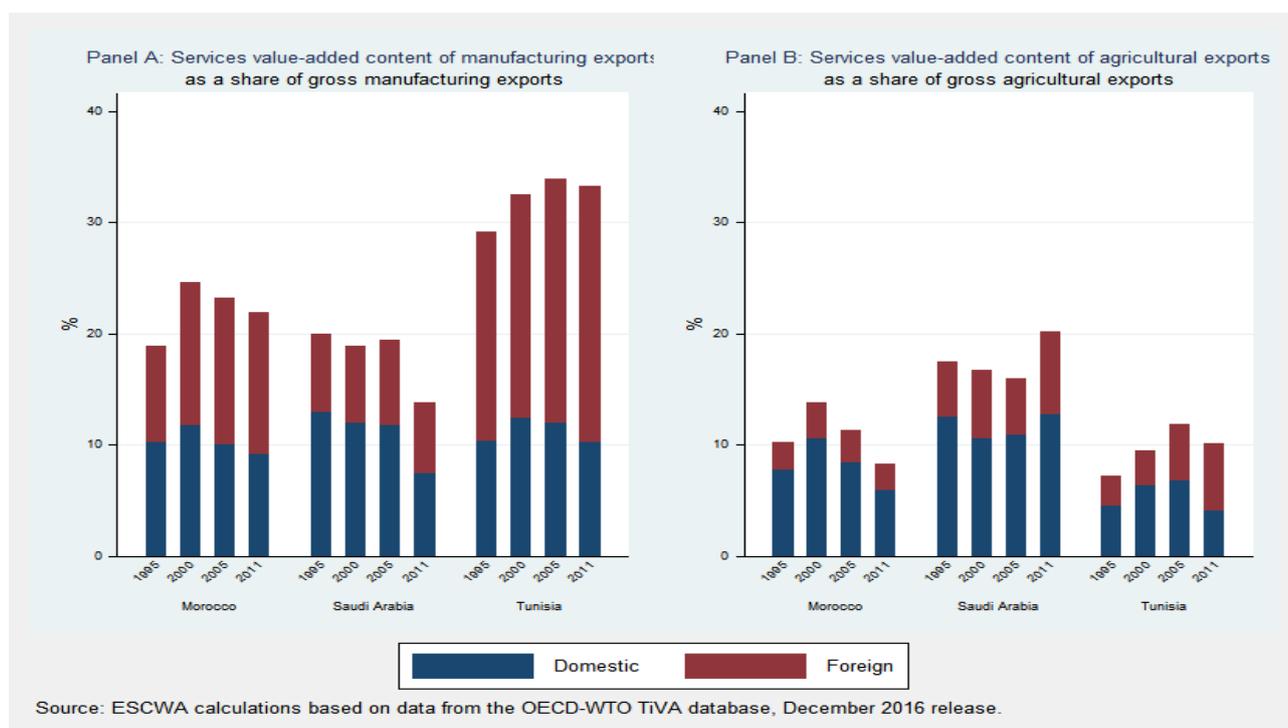
13. It is of interest to see how services have contributed to exports in gross and value-added terms. The [Trade in Value Added \(TiVA\) database](#) of the Organisation for Economic Co-operation and Development (OECD)-World Trade Organization (WTO) provides statistics in value added. It includes only three Arab countries: Morocco, Saudi Arabia and Tunisia. Regardless of the level of development and geographical location, merchandise and services trade in value terms had surged until the onset of the global financial crisis in the three countries, and appear to have recovered in the aftermath of the crisis.

**Figure 1. Services value added in gross exports in the three Arab countries included in the Trade in Value Added database**



14. Figure 1 presents the services value-added content of total exports as a share of total gross exports by domestic and foreign service providers. It reveals different trends in the three Arab countries: for Saudi Arabia, the share has been steadily declining, starting from a very low base. The share is rather high in Tunisia by international standards but, after having been quite steady, it declined between 2005 and 2011. Morocco also registered a decline over the same period, after a steady increase between 1995 and 2005. In both countries, the drop in the share of domestic services was important.

**Figure 2. Services value-added content of gross manufacturing and agricultural exports, selected Arab countries**



15. The services value-added content in the manufacturing and agricultural exports of the Arab countries exhibits a different pattern compared with that of total exports (figure 2). For Saudi Arabia, the services value-added content of manufacturing exports has been rather low (compared with both developing and developed economies). For Tunisia, the share has been relatively high. Morocco registered a sharp increase between 1995 and 2000 which, since then, has been partially eliminated. The contribution of foreign services appears to be rather high in Tunisia and, to a lesser extent, in Morocco, suggesting that these two countries are specialized in downstream manufacturing activities. The low value-added content of services and relatively high share of domestic services in services value-added content in Saudi Arabia reflect its production structure, including the dominance of natural resources.

## **II. PERFORMANCE OF AND BARRIERS TO TRADE IN SERVICES IN THE ARAB REGION**

16. Arab countries are diverse in terms of size, economic and social structures, and endowments. Comparisons of the output and employment shares of the services sector in individual countries reveal that the performance of Arab countries in services output and trade is also diverse, ranging from countries that rely on oil and in which services play a relatively marginal role (like the Gulf Cooperation Council (GCC) countries) to diversified Arab economies (such as Lebanon) in which services are central as in more advanced economies.

17. This section attempts to evaluate the relative magnitude (restrictiveness) of barriers to services trade at the country level. For three key service sectors, a comparison is made with other major regions and trading blocs, using information on policies and regulatory frameworks for trade in services and FDI. The restrictiveness of policy regimes is illustrated for the transport, financial and telecommunications sectors given that the linkages of these sectors to the rest of the economy tend to be strong, with potentially large gains from liberalization. In addition, the focus on these sectors is justified by their relevance to regional integration.

### **A. SERVICES AS A DRIVER OF ECONOMIC ACTIVITY AND INTEGRATION**

18. A simple measure of the importance of services in economic activity is the share of gross domestic product (GDP) originating in services. In conjunction with data on how services value added evolved in recent years, this simple measure gives a broad sense of the performance of the sector in the Arab region in relation to the rest of the world.

19. The share of the services sector in total output in the Arab region is significantly lower than in other regions and than expectations, given the level of income per capita. The average for the Arab region, however, masks subregional differences. For the GCC countries, the economies of which are dominated by natural resources, the service share in total output is rather low, even though it has increased significantly since 2000. Arab Maghreb Union (AMU) countries and Arab least developed countries (LDCs) also have rather low shares of services in GDP, even after controlling for their income levels. The prominence of the services sector in more diversified Arab countries is in line with countries at similar income levels in other regions. Apart from diversified Arab economies, the services sector has steadily gained ground in the Arab region since 1990, albeit to differing extents in different subregions and over different periods of time.

### **B. EVALUATION OF SERVICES TRADE BARRIERS**

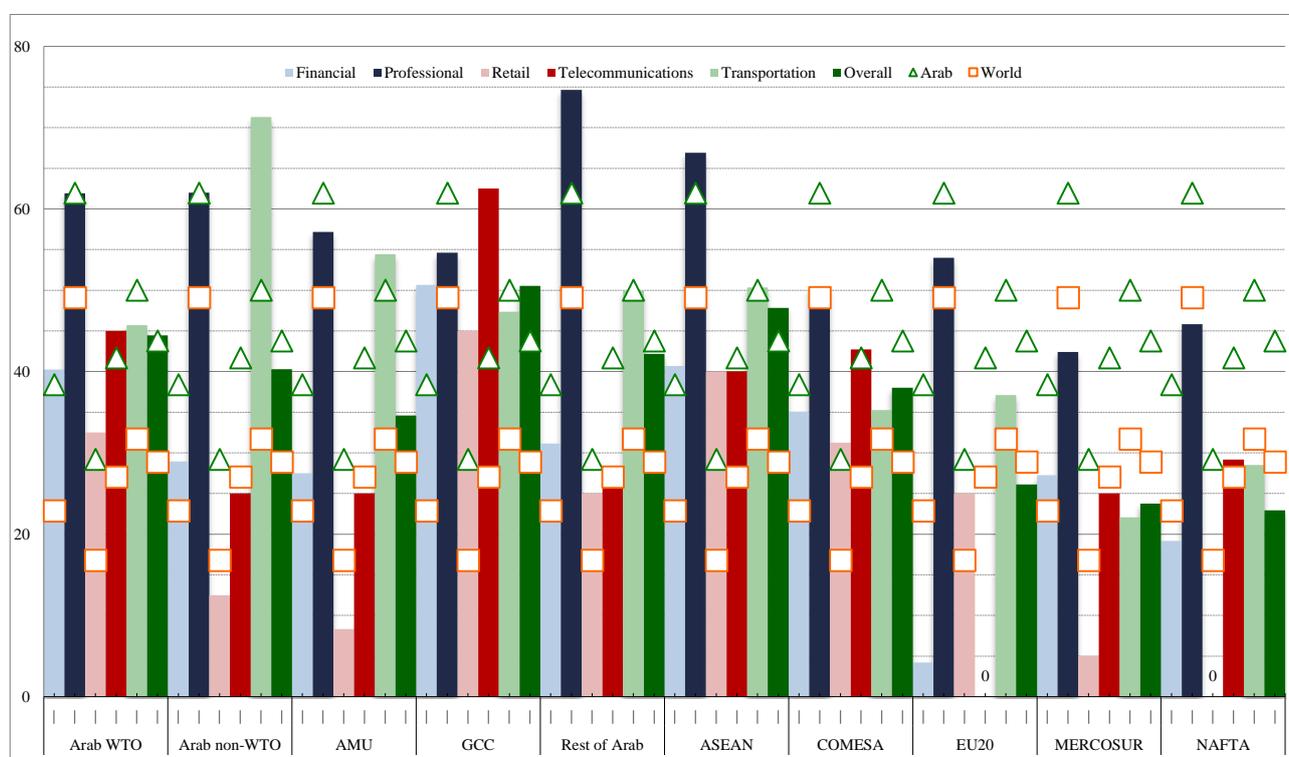
20. Barriers that may hinder services trade are quite different from the ones that limit goods trade. Services trade restrictions are primarily behind-the-border measures and could take a variety of different forms, including requirements for additional diplomas, certificates or licenses, requirements on input use, marketing, local professional insurance, membership of professional association, juridical form, etc. Regulatory measures could be in place to serve different legitimated and justified purposes, such as ensuring consumer protection and macroeconomic stability, without creating an additional burden or discouraging trade and investment.

21. Evaluating barriers to trade in services is a challenging task. Systematic efforts to collect data in this area remain limited and, if collected, such data are often not updated on a regular basis. A relatively broad coverage of Arab countries is another key constraint. Thus, the [Services Trade Restrictions Database \(STRD\)](#), which provides a detailed account of barriers to trade in key service sectors in 12 Arab countries, is the only adequate source of analysis.

### C. OVERALL SERVICES TRADE RESTRICTIVENESS ACROSS DIFFERENT REGIONS AND IN THE ARAB REGION

22. According to the [Services Trade Restrictions Index \(STRI\)](#), services trade tends to be more restricted in the Arab region compared with the other major regions and trading blocs across the world, with the notable exception of the Association of Southeast Asian Nations (ASEAN) countries (figure 3). In particular, financial, telecommunication, and, to some extent, transport services in the Arab region are more restricted vis-à-vis developed-economy regions and blocs. Professional services tend to be restricted across all regions and blocs; the Arab region is no exception. Retail services are not particularly closed in the Arab region.

**Figure 3. Service trade restrictiveness by industry across selected regions and blocs**



*Abbreviations:* COMESA, Common Market for Eastern and Southern Africa; EU20, European Union-20 members; MERCOSUR, South American Common Market; NAFTA, North American Free Trade Area.

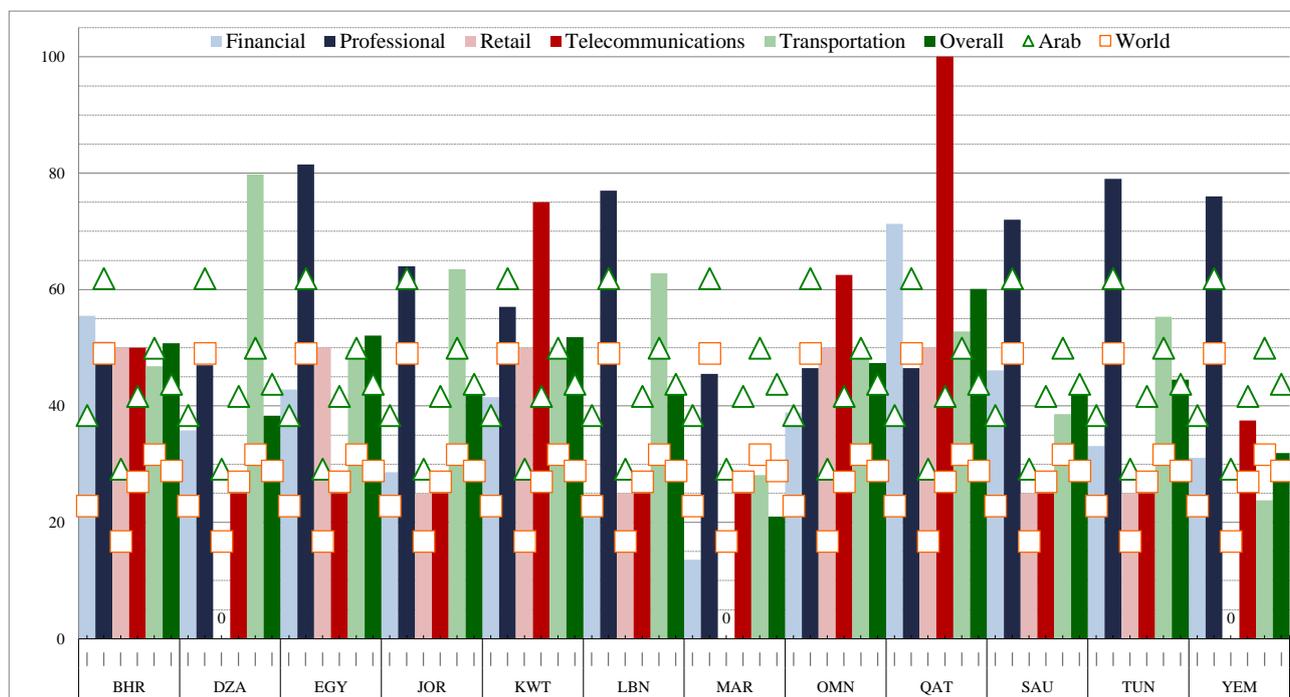
*Source:* Ingo Borchert, Batshur Gootiiz and Aaditya Mattoo, “[Policy barriers to international trade in services: evidence from a new database](#)”, World Bank Policy Research Working Paper, No. 6109 (June 2012).

*Notes:* Data go back to about 2010. Higher index values indicate a more restrictive stance of policies and regulations, discriminating against foreign services or foreign service providers in the respective sector. The indices for the regions and blocs are simple averages of the countries constituting the region/bloc.

23. Arab subregions are rather heterogenous in terms of the degree of services restrictiveness. GCC countries have rather restrictive regimes, regardless of the services subsector. The GCC in fact has the highest overall STRI score among the comparator regions and blocs. The AMU exhibits a relatively liberal stance in retail, financial and telecommunication services while transport services are among the most restricted in the world. Arab countries that are neither in the GCC or AMU fall in between these two subregions in terms

of the restrictiveness of overall services. In these countries, professional and transportation services are among the most restrictive in the world while financial, telecommunication and retail services are closer to other regions.

**Figure 4. Service trade restrictiveness by industry in the Arab region**



Source: Ingo Borchert, Batshur Gootiiz and Aaditya Mattoo, “Policy barriers to international trade in services: evidence from a new database” (see figure 2).

Notes: Higher index values indicate a more restrictive stance of policies and regulations, discriminating against foreign services or foreign service providers in the respective sector. Countries are designated by their ISO codes.

24. Individual Arab countries differ widely in terms of the degree of restrictiveness, both for services trade as a whole and for the different subsectors (figure 4). Consistent with the regional comparison, individual GCC countries have a more restrictive stance on most services. Morocco, on the other hand, has the least restricted services sector in the region, followed by Yemen and Algeria. Professional services tend to be the most restricted services subsector in the majority of Arab countries, including Egypt, Jordan, Lebanon, Morocco, Saudi Arabia, Tunisia and Yemen. In Kuwait, Oman and Qatar, telecommunications face the largest barriers to trade. Transportation services are the most restricted in Algeria and financial services in Bahrain.

### III. IMPACT OF PROMOTING TRADE IN SERVICES IN THE ARAB REGION

25. This section presents the results of an analysis of the impact of alternative paths for services trade liberalization in selected Arab countries. It considers the benefits and costs that would accrue to different countries in the Arab region if they were to integrate services in their preferential trade agreements, either unilaterally or in the context of the Pan-Arab Free Trade Area (PAFTA) or with the European Union in the context of Deep and Comprehensive Free Trade Agreements (DCFTAs) under negotiation between the Union and several Arab countries. Various techniques and tools have been developed and used for the first time in the 2017 AAEIR to assess potential scenarios for integrating trade in services. The set of simulations is designed to assess the approximate impacts of services trade liberalization under PAFTA and DCFTAs on FDI inflows, employment by gender, poverty and income distribution, and greenhouse gas (GHG) emissions.

## A. PRIORITIES AND CHALLENGES ON TRADE IN SERVICES NEGOTIATIONS

26. Independently of their configuration (bilateral, regional, plurilateral or multilateral), trade agreements are critical to the participation in global value chains (GVCs). They are also a means for transforming autonomous unilateral reforms into irreversible, enforceable and legally binding commitments. The importance of this anchoring was demonstrated by what did not happen during the financial crisis of 2008-2009, when commitments made in WTO prevented countries from backsliding into protectionism.

27. Thirteen Arab States are WTO members.<sup>1</sup> All of them made commitments under the General Agreement on Trade in Services (GATS), under which services are divided into 12 aggregate sectors: business, communication, construction and engineering, distribution, education, environment, financial, health, tourism and travel, recreation and cultural, transport and other.

28. Arab States' commitments under GATS reveal that they have exhibited caution in moving forward with services trade liberalization. The level and degree of their commitments are less than those of developing countries in general. An investigation of Arab countries' service restrictions within regional trade agreements leads to a similar conclusion. There is a significant number of market opening measures that Arab countries could undertake. Both PAFTA and the DCFTAs may provide complementary paths to reform service policies and unlock cross-border trade and investment, both regionally and extraregionally.

29. As for negotiations under the auspices of the League of Arab States on integrating trade in services into PAFTA, concrete negotiations started in March 2001 with the decision to launch a first study on the integration of trade in services. In 2002, the fourteenth Arab Summit ratified a draft agreement in a resolution that referred to the Lebanese initiative on integrating trade in services in PAFTA. The draft agreement was agreed upon and ratified by the Economic and Social Council of the Arab League in 2004; it called on Arab States to launch the negotiations related to the schedules of commitment as part of a round of negotiations entitled "The Beirut Round of negotiations on the liberalization of trade in services among the Arab States". Negotiations lasted 12 years and ended in early 2017. During the last meeting, the schedules of commitments were agreed for nine countries: Egypt, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, the Sudan, the United Arab Emirates and Yemen. With the exception of Lebanon and the Sudan, the signing countries are WTO members and have already committed to significant liberalization in services trade. The case of Lebanon is somewhat special in that it has a rather open policy regime compared with other Arab countries, even though it is not yet a WTO member.

30. Impact assessments for DCFTAs between the European Union and each of Egypt, Jordan, Libya, Morocco and Tunisia have been carried out by the Union and other organizations.<sup>2</sup> However, the integration of trade in services into the PAFTA, which may have far-reaching effects on both macroeconomic and sectoral performance, has so far not been evaluated for any country. All five country assessments were based on multi-sector, multi-country dynamic computable general equilibrium models that focus on measures to increase the contestability of service markets and liberalization of the cross-border flows of investment, in addition to the

---

<sup>1</sup> Bahrain, Djibouti, Egypt, Jordan, Kuwait, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates and Yemen.

<sup>2</sup> See reports published by Ecorys on trade sustainability impact assessment in support of negotiations of a DCFTA between the European Union and Egypt (available at [https://www.researchgate.net/publication/303299021\\_Trade\\_Sustainability\\_Impact\\_Assessment\\_in\\_support\\_of\\_negotiations\\_of\\_a\\_DCFTA\\_between\\_the\\_EU\\_and\\_Egypt](https://www.researchgate.net/publication/303299021_Trade_Sustainability_Impact_Assessment_in_support_of_negotiations_of_a_DCFTA_between_the_EU_and_Egypt), 2014) Jordan (available at [https://www.researchgate.net/publication/303298905\\_Trade\\_Sustainability\\_Impact\\_Assessment\\_in\\_support\\_of\\_negotiations\\_of\\_a\\_DCFTA\\_between\\_the\\_EU\\_and\\_Jordan](https://www.researchgate.net/publication/303298905_Trade_Sustainability_Impact_Assessment_in_support_of_negotiations_of_a_DCFTA_between_the_EU_and_Jordan), 2014), Morocco (available at [https://www.researchgate.net/publication/303298910\\_Trade\\_Sustainability\\_Impact\\_Assessment\\_in\\_support\\_of\\_negotiations\\_of\\_a\\_DCFTA\\_between\\_the\\_EU\\_and\\_Morocco](https://www.researchgate.net/publication/303298910_Trade_Sustainability_Impact_Assessment_in_support_of_negotiations_of_a_DCFTA_between_the_EU_and_Morocco), 2013) and Tunisia (available at [https://www.researchgate.net/publication/303299002\\_Trade\\_Sustainability\\_Impact\\_Assessment\\_in\\_support\\_of\\_negotiations\\_of\\_a\\_DCFTA\\_between\\_the\\_EU\\_and\\_Tunisia](https://www.researchgate.net/publication/303299002_Trade_Sustainability_Impact_Assessment_in_support_of_negotiations_of_a_DCFTA_between_the_EU_and_Tunisia), 2013). For Libya, see European Commission, *Trade Sustainability Impact Assessment (SIA) of the EU-Libya Free Trade Agreement* (2009).

adoption of the *acquis*<sup>3</sup> in certain areas. In addition, the existing country-level studies of DCFTAs have been undertaken separately, i.e. with status quo in partner countries as a baseline and without considering plans to deepen PAFTA or any other agreement. This is a major shortcoming since it neglects additional reforms and reactions by other countries, which may increase competition between non-European countries on the European Union market. DCFTA benefits to partner countries were consequently over-estimated.

31. The above-mentioned impact studies project that the largest GDP gains among the five countries would accrue to Tunisia, which could see its GDP increase by 7.4 per cent in the long term thanks to reductions in non-tariff trade restrictive measures and tariff reductions for agricultural trade. The biggest estimated change in Tunisia's services output is expected to take place in the air transport sector (+42 per cent), which has a high concentration of high- and medium-skilled labour. The large projected gains to Tunisia at the macro level are related to two assumptions: that the agricultural market of the European Union will become more welcoming of Tunisian exports and that those workers who lose their jobs in contracting sectors will be absorbed into the expanding sectors. The table below summarizes impact study results for the five countries.

### Findings of impact studies on Arab countries' DCFTA with the European Union

Country	GDP gains	Projected sectoral changes	Reasons for change
Egypt	+1.8%	Decline in agriculture and food sectors Marginal increase in the production of industrial products Value added (VA) of air transport services will increase Business and information and communications technology VA will decrease.	Reductions in non-tariff measures in goods trade
Jordan	+2.1%	Agriculture, food, beverages and tobacco sectors will decline Other manufacturing and chemicals, rubber and plastics will see a significant increase in output	Reductions in non-tariff measures and some tariff decreases
Libya	+6%	Enhancing investment and innovation, faster pace of capital accumulation	Reductions in trade barriers
Morocco	+1.5%	Significant increases in industrial sectors: +50% in "motor vehicles" sector; +71% in "other machineries" Decreases in services exports; import increases across sectors (except primary energy)	Regulatory convergence in good markets
Tunisia	+7.4%	Air transport: +42%	Agricultural European Union market will be open and expanding sectors will absorb job losses in others

*Source:* Compiled from reports published by Ecorys on trade sustainability impact assessment in support of negotiations of a DCFTA between the European Union and Egypt (2014), Jordan (2014), Morocco (2013) and Tunisia (2013) (see footnote 2 p. 9 of the present document); and European Commission, *Trade Sustainability Impact Assessment (SIA) of the EU-Libya Free Trade Agreement* (2009).

32. All studies find a negative impact on third countries, including countries that are parties to PAFTA. This is mainly due to trade and investment diversion. In addition, the studies show that the generation of aggregate welfare gains would require policy convergence with the European Union. However, adopting European Union technical barriers to trade (TBTs) and sanitary and phytosanitary (SPS) regulations would necessarily increase production costs, forcing less efficient producers to exit the market while more efficient ones would assimilate

<sup>3</sup> The *acquis* refers to the body of common rights and obligations binding for all European Union members.

the costs but would then be forced to translate higher costs into higher prices, both in domestic and export markets. The net gain (or loss) will be determined by the willingness of consumers to pay higher prices for higher standard products.

33. However, it is important to highlight that the findings of these studies on the economic impacts of the implementation of the DCFTA reflect specific scenarios formulated by the authors themselves that do not reflect the outcomes of any negotiation. Today, as technical negotiations are progressing for some countries, detailed and updated offers are being formulated by both the European Union and the involved Arab States. These offers could be used to undertake new and more policy-oriented economy-wide assessments.

#### B. SERVICES TRADE LIBERALIZATION AND SUSTAINABLE DEVELOPMENT GOALS

34. Trade in services is a main pillar of today's global trade and can be instrumental in achieving the Sustainable Development Goals (SDGs). The GATS applies in principle to all service sectors, with two exceptions: services supplied in the exercise of governmental authority, such as social security schemes and any other public service, like health or education, provided at non-market conditions; and measures affecting air traffic rights and services directly related to the exercise of such rights.<sup>4</sup>

35. There is evidence that liberalizing trade in services has a stronger impact on economic growth and the achievement of SDG 8 than goods trade liberalization, which already is relatively achieved.<sup>5</sup> This is due, among other reasons, to the mobility of factors of production (capital/labour) employed in services trade, which is unique to the sector. In addition, trade in education services may play a key role in accomplishing SDG 4 (quality education) by ensuring wider accessibility of better-quality education (and/or less costly education services). According to the [2017 SDG Index and Dashboards](#) report,<sup>6</sup> Arab countries rank in the middle spectrum on the overall SDG Index, with Algeria ranking highest at 64 out of 157 countries included in the sample. Mauritania, the Sudan and Yemen were ranked in the bottom spectrum. Given known vulnerabilities and challenges, the report found that the region should prioritize SDGs 2 and 6, addressing issues including food security and sustainable agriculture; and sustainable water management.

36. Gender equality, job creation and climate change mitigation are also among the many areas in which progress is urgent. Trade in services can alleviate some of the pressures in those areas, promoting labour mobility and the transfer of environment friendly technologies, for example. The empowerment of women may also be promoted, as trade may expand services which, in many Arab countries (and elsewhere), are dominated by women. Trade in services can also help to improve health outcomes. The delivery of health-care services is being globalized, as reflected in the growing cross-border movement of health-sector workers and consumers. Liberalized trade in services means that people in developing countries with a weak health-care industry can benefit from innovative products and services offered in other countries. This also depends on a favourable and just regulatory environment.

#### IV. CONCLUSIONS AND POLICY RECOMMENDATIONS

37. Most Arab countries exhibit a rather restrictive stance in services trade policies and regulations. This section proposes policy recommendations to promote trade in services and deepen relations among Arab countries and with the European Union, highlighting the roles of Governments, civil society and the private sector, as well as those of international and regional organizations.

---

<sup>4</sup> See [https://www.wto.org/english/tratop\\_e/serv\\_e/gatsqa\\_e.htm#3](https://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm#3).

<sup>5</sup> Aaditya Mattoo, Robert M. Stern and Gianni Zanini, eds., *A Handbook of International Trade in Services* (Oxford, Oxford University Press, 2008).

<sup>6</sup> Bertelsmann Stiftung and Sustainable Development Solutions Network, *SDG Index and Dashboards Report 2017: Global Responsibilities - International Spillovers in Achieving the Goals* (New York, 2017).

38. Regional trade agreements (RTAs) are an important vehicle to push forward deep integration agendas. Recent RTAs contain provisions and commitments on government procurement procedures, aimed at improving the business climate for domestic and international investors, and protecting intellectual property rights. Nevertheless, trade and investment-related measures to foster participation in the global economy, particularly in GVCs, are often of a domestic nature, which underscores the importance of unilateral action through domestic reforms. PAFTA and DCFTAs should serve as a means to achieve deeper integration while continuing to move forward at the multilateral level.

39. Falling trade and investment barriers and advances in technology have reduced costs for service delivery across borders and led to a much prominent role for services in trade and production, including in manufacturing. However, substantial barriers remain in some of the Arab countries' service sectors. Some key services that would allow domestic firms to compete against global players and connect to GVCs include information and communications technology, supply chain management, financial, transport and logistical services. PAFTA should provide impetus to liberalize such services.

40. Furthermore, the mutual recognition or convergence of both public and private voluntary standards, through national or international guidelines, could help Arab countries to deepen their trade relations within the region, but also with their main partners such as the European Union. The Euro-Mediterranean Partnership could be an opportunity for converging Arab countries' standards with those of developed countries. DCFTAs also represent a chance through which involved Arab countries could seek financial support to undertake upgrading processes.

41. Services trade liberalization entails active involvement of many actors. ESCWA can support further regional integration and assist States in choosing between services trade liberalization options. It can offer a platform for dialogue among stakeholders to develop and implement strategies for services trade liberalization in a way that advances SDG realization.

-----