Assessing Arab Economic Integration Report: Volume II: The missing role of trade in services

Arab Regional Financial Integration

Expert Group Meeting Thursday 24th November 2016, ESCWA, Beirut, Lebanon

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Assessing Arab Economic Integration Report: Outline of the presentation

1. The work done in the first AAEIR
2. What we are planning to do in the second volume
3. What we are expecting out of this EGM
The first issue of the report explained the reasons why Intra-Arab integration through trade in goods remains disappointing.
Assessing Arab Economic Integration Report: Volume I: Towards the Arab Customs Union

Chapter 1 – Introduction

Chapter 2 – Arab Economic Integration in the Context of an Evolving and Dynamic World

Chapter 3 – The Arab economic integration system of indices: a monitoring and evaluation toolkit

Chapter 4 - Productive capacities and integration

Chapter 5 – Facilitating factors and structural elements for integration

Chapter 6 – From a FTA to the Customs Union: a bumpy pathway for Arab economic prosperity

Chapter 7 – Summary and recommendations

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Services are the new frontier of globalization and economic growth
Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

- World services trade growth rates higher than trade in goods
- Services resilient in times of crisis
- In future, services expected to grow fast (digital economy, insertion of new countries in GVC)
- Large positive outcomes expected from services trade liberalization, including for developing countries

**Push factors**

Fear of behind left out
- Mega-trade agreements
- DCFTA with EU under negotiation (Tunisia, Morocco, etc.)
- Fear of behind left out / EU and in general

Strong economic incentives:
- need for economic growth and human development

**Options**

- Work on WTO commitments
- Become member of the WTO
- TISA membership
- DCFTA with the EU
- Intra-regional agreements
- Unilateral
- Etc…
Arab countries have been reluctant to liberalize services
### Achievements so far

- Services not included in Arab intra-regional RTAs, no strategic plan or vision for Arab countries as a region
- GAFTA:

  Executive Program Of the Agreement on Facilitating and Developing Inter-Arab Trade for Establishing Pan-Arab Free Trade Area under article 8 that ‘In view of the fact that trade liberalization is linked to and affected by a number of other economic activities, the party-states shall consult over services particularly those associated with trade’

### Beirut round

- In September 2003, in Beirut, opening of bilateral and multilateral negotiations.
- During the 26th Arab summit in Sharm el-Sheikh, in March 2015, a resolution was issued requesting the Secretariat General of LAS to invite Arab countries to prioritize sectors that could eventually be liberalized, using the GATS classification.
- Arab countries’ final offers are under discussion.
### Assessing Arab Economic Integration Report:
Volume II: Services Liberalization in the ESCWA region

<table>
<thead>
<tr>
<th>Arab Countries</th>
<th>Number of commitment</th>
<th>ASEAN+3 countries</th>
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<tr>
<td>Bahrain</td>
<td>22</td>
<td>Brunei</td>
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<td>Egypt</td>
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<td>China</td>
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<td>Yemen</td>
<td>84</td>
<td>Korea, Republic of Japan</td>
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<td><strong>Average</strong></td>
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<td><strong>Average without Saudi Arabia and Jordan</strong></td>
<td><strong>46</strong></td>
<td><strong>Average without Japan</strong></td>
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<td>South Africa</td>
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Source: WTO and World Bank i-TIP Services database accessed on the 4th, September 2016 available at: http://i-tip.wto.org/services/ChartResults.aspx

GATS: Arab and benchmarks’ countries commitments before the WTO for services liberalization
Working assumption:

1. Narrowsness of Arab RTAs (services not included)
2. Prevent unlocking sought structural transformation and integration through goods and services
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Scoping

Services as inputs or catalyst for economic integration and strengthening trade in goods in the Arab region

Services: WTO definition

1. Business
2. Communication
3. Construction
4. Distribution
5. Educational
6. Environmental
7. Financial
8. Health-related and social
9. Tourism and travel-related
10. Recreational, cultural, and sporting
11. Transport
12. Other

Scope of our study: banking and transportation

1. As impact on trade in goods proved crucial
2. Inclusiveness of economic growth
3. Relatively more vulnerable to foreign competition as supplying those services does not require commercial presence abroad, FDI, hire local staff, etc…

As a consequence, liberalizing those services could increase competition significantly in very short run
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Outline of the AAEIR report volume II

Chapter 1: Introduction

Chapter 2: Recent developments in the Intra-regional and global economic integration of Arab countries

- Update of AEISI rankings and scoreboards
- Snapshot of Economic integration progresses since last volume was released

Chapter 3: The missing role of trade in services in Arab countries’ economic transformation agendas

- Snapshot Arab countries’ performances in services trade
- Review, analysis of existing indicators of services trade restrictiveness
- Shows that narrow scope of Arab’s RTAS explains poor economic transformation and integration
- Focus on 2 sectors (finance, transportation)
Chapter 4: The economics of services trade

- Highlights role of services in boosting regional integration, economic transformation and economic growth (theoretical and international experiences)
- Demonstrates relevant to Arab countries’ development agenda
- Argues that services trade merits special attention as factor facilitating insertion in GVC, anchor to domestic regulatory reforms

Chapter 5: How best can Arab economies benefit from RIAs by extending their scope to services trade?

- The thematic chapter
- Analyses (CGE) economic impact of various scenarios pertaining to the alleviation of a set of barriers to services (transportation/maritime and banking/insurance) trade in the context of specific RIAs under negotiation in the Arab region (DCFTA) for selected countries.

Chapter 6: Conclusion

With policy recommendations for an Arab services trade promotion strategy
Assessing Arab Economic Integration Report: Objective of the EGM

Your Contribution

Better understand the pull factors

- Political economy
- Functioning of the market:
  - Lobbies
  - Heavy involvement of the State (monopoly, oligopoly, regulations, etc…)

Produce information with a view to

- Arab countries must make credible commitments
- Need tool for monitoring, evaluation and substantiate progresses made
- Scenario and diagnosis capacities
- Negotiation capacities
- Improve policymaking quality and transparency

Help operationalize the work on services barriers: Provide innovative tools for

- quantitative monitoring, evaluation and assessment of efforts and successes in regional integration across the Arab region
- Impact analysis
- generate practical and implementable policy recommendations

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