Impediments to full implementation of PAFTA

ESCWA High-level meeting
1-2 July 2019-Tunis
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PAFTA underperformance

Many reasons
• Conflicts
• Similar structure of production
• Insufficient production capacities
• Etc...

Here focus on
• Hindrance to PAFTA full implementation
• Internal limitations due to its limited coverage

Line of argumentation
PAFTA needs to be modernized to reflect the challenges of the current integration process
Impediments to the full implementation of PAFTA

20th century trade versus GVC

PAFTA was fine when globalization was about moving goods.

GVC trade is about goods, services, knowledge, capital, people, etc..

Factories crossing borders: Goods, know-how, ideas, capital & people

Source: Baldwin, R. (2016). GVC Revolution and Trade Policy
Consequences when designing RTAs

1) "Supply-chain disciplines"
Connecting factories:
Assurances for cross-border flows of goods, services, ideas, capital, technicians, etc.

2) "Production network disciplines"
Doing business abroad
Assurances for tangible & intangible assets, local business conditions, etc.

Trade-investment-services-Intellectual property rights ‘nexus’

Source: Baldwin, R. (2016). GVC Revolution and Trade Policy
PAFTA underperformance: Implementation
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PAFTA full implementation

**Stated goal:**
 elimination of tariff and non-tariff barriers on intra-Arab trade

**By 2005** most tariff had been removed

**But Rules of origins** haven’t served their purpose

**Non tariff barriers** have become pervasive

**Sanitary and Phyto-sanitary measures** hinder agriculture trade

**Dispute settlement mechanisms** remain ineffective
PAFTA full implementation: RoOs

Goal:
create trade while limiting trade diversion and deflation

ESCWA work shows that PAFTA RoOs

Do not facilitate accessing and using intra-PAFTA produced inputs free of duty
- especially deterrent in a world dominated by value chains
- does not facilitate development of Arab productive capacities

Negotiation: poor adaptability to changing reality of integration

Overlapping RTAs:
- non-preferential partners’ market shares have increased
- complex, heterogeneous and diverging so little use by SMEs
- non-preferential access sometimes easier (5% tariff in GCC)
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Rules of Origin: way forward

RoOs:
• Pan-PAFTA cumulation of origin
• Specific provisions /non available inputs
• Simplification: full cumulation but costly for SMEs, at product level use single transformation rule, de minimus foreign content rules for large set of products

Additional benefits:
• establish a level-playing field for PAFTA countries (reduce discrimination based on economic structure)
• ensure coherence and synergy and cumulation with other FTAs
PAFTA full implementation: NTMs

NTMs are:
- policy instruments, some meant to address legitimate concerns: protect consumers, environment, etc. But may add extra layers of regulatory and procedural requirements that’s is pointless barriers to trade. Always imply additional economic costs.

ESCWA work shows that within PAFTA NTMs:

- Coverage: 40% of all imported products (50% of imports in value)
- Intra-PAFTA more restrictive than trade with Europe (97 versus 57)
- No evidence of substitution effect between tariffs and NTMs
- Economically vital and politically sensitive sectors covered but no deliberate and systematic targeting

Trade environment not very friendly:
- 4 to 12 different NTMs per product
- Additional cost 22 to 50%
- Sizable impact of potential GDP growth
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NTMs: way forward

Replace NTMs by tariff (import license)

Target NTMs not based on science, unjustified TBT

Priority on sectors supplying inputs

Target ‘behind-the-border’ barriers

Insertion/creation supply/value chains

Transparency

NTMs

Very different in nature across Arab countries

=> negotiation/harmonization may be complex

Clearance efficiency

The problem is not only related to NTMs per se but also with clearance processes and verification

Harmonization coordination

Set regional NTMs for environmental and health-related standards, for instance

Ensure convergence towards international standards and best practices
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**PAFTA full implementation: SPS**

Focus on SPS

SPS measures are a sub-category of technical regulations which intended goal relates to the protection of human, animal or plant health, the environment and the integrity of a given country ecosystem. *May be disguised protectionism.*

For Arab countries WTO members: need to comply with international standards, provides a base for higher transparency and exchange of information, effective enforceability of SPS measures and standards convergence.

SPS usually get a special treatment in RTAs but do not appear in the PAFTA
SPS: way forward

Benchmark and harmonization:
- Arab countries not WTO members have signed trade agreements with the EU that aim at fostering the application of WTO SPS provisions through harmonization and consistency with WTO standards and mutual recognition
- Importing Arab WTO members’ practices may benefit non-Arab WTO members
- Will to comply with WTO rules and procedures should be included in the PAFTA
- Would enhance transparency and credibility

Transparency
- Quantitative restrictions could be converted into tariffs or tariff rate quotas that are more transparent and easier to manage for exporters

Enforcement and coordination:
- Harmonization of domestic standards and convergence towards international standards and systematic notification of each other of SPS measures would help coordination of agriculture policies
- Work on workability of SPS provisions: institutionalize the communication, consultation and cooperation processes
## Modernizing PAFTA: Dispute Settlement

**Goal:** effective enforcement of PAFTA and credibility of commitments

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<th>Time frame</th>
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Note: Euro-Mediterranean agreement (Euro-MED), Association of Southeast Asian Nations (ASEAN), South African Development Community (SADC), North American Free Trade Agreement (NAFTA), ASEAN (Association of Southeast Asian Nations)-Australia-New Zealand Free Trade Agreement (AANZFTA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Source: Authors compilation.

**Coverage:**
- disputes among its members
- Very limited as not included Investment, standards, market access for agricultural products and other issues
Dispute settlement: way forward

Transparency and effectiveness:
- clear code of conduct
- list of pre-approved arbitrators
- specific guidelines referring to the qualification of and terms of references and operational procedures for the arbitrators
- specific and adjustable timeframe

Investment promotion and protection agreement
- a standard guarantee package ensuring protection against unjustified expropriation or unfair treatment
- provisions on admission of investments
- guarantees of fair and equitable treatment
- free transfer of payments
- guarantees against arbitrary and discriminatory treatment
- national treatment and most-favored-nation treatment

Credibility:
- Transparent enforcement mechanisms
- Obligation to clarify modalities to comply
- Possibility to negotiate compensation
- Provisions on ‘suspension of benefits’
PAFTA underperformance: Coverage
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PAFTA coverage: Services

Services:
- are the fastest-growing sector of the global economy
- play an important role in the growth and development of countries
- Growing contribution to Arab countries’ GDP
- Potential sizeable gains in output, productivity, trade and employment

Services trade restrictiveness index by sector and region/bloc
- Cross-border supply of services: supplier and consumer remain in their respective country.
- The service is produced in one country but consumed in another one.

Source: E/ESCWA/EDID/2017/6
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Services: way forward

Identify and assess options:
- Identify services for early regional liberalization
- Initiate dialogue

Roadmap and benchmarks
- Re-examine addendum to PAFTA with view to broaden coverage and improve applicability
- Clarify steps towards coverage expansion
- Reflect on lessons to be learnt from RTAs with Europe or the US, and WTO membership
- Ensure convergence towards international standards and best practices

Challenges:
- Political economy of services liberalization key
- Heterogeneity of the region
- Evaluate the costs and benefits of the liberalization schemes envisioned at the sectoral level
- Identify losers and winners
- Develop a clear, transparent, consistent communication strategy
- Design policies to weather distributional consequences
## PAFTA coverage: Investments

**Investments:**

Labor and investments intra-PAFTA flows may have greater potential than trade. Investment vital for exchange of knowledge, wages increase and economic growth. Investment and trade often complement each other.
Investment: way forward

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Business environment:
Need to enhance the business environment, and investors’ perceptions of its quality
- lack of stability and security
- foreign ownership restrictions
- dominance of the public sector in business and economic activity
- lack of transparency and weaknesses in implementing the rule of law
- dispute settlement mechanisms

Cooperation:
- regional legal framework for private investment
- foster harmonization, cooperation and consolidation of national investment frameworks.

Flanking policies:
- Fiscal policies (avoid tax competition)
- Movement of persons starting with visas restrictions and right to employ professionally skilled labour (delivery of services along the four modes)
- Protection of intellectual property rights
Conclusion

A comprehensive mapping of available options is beyond the scope of this paper but the paper offers insight on issues pertaining to rules-of-origins, non-tariff barriers, agriculture and sanitary and phytosanitary standards, dispute settlement mechanism, services, investment, labor movements and competition policies.

Moving forward take into account:

- Network of trade agreements, Mega-trade agreements
- Emergence of new players: China Road and Belt
- Needs for monitoring and evaluation
THANK YOU!