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Economic and Social Commission for Western Asia

# Towards Modernization of the Pan-Arab Trade Free Trade Area Agreement (PAFTA)

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# PAFTA underperformance

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## Many reasons

- Conflicts
- Similar structure of production
- Insufficient production capacities
- Etc...

## Here focus on

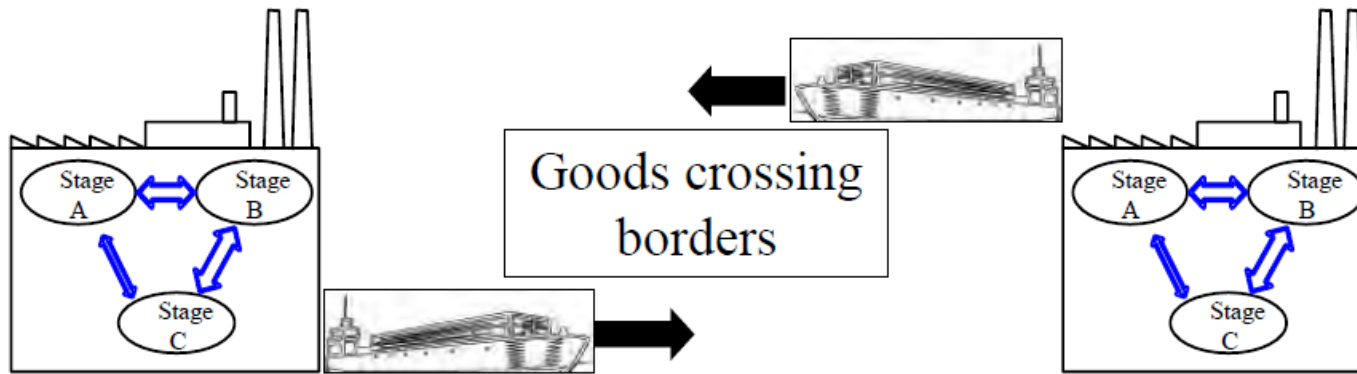
- Hindrance to PAFTA **full implementation**
- Internal limitations due to its limited **coverage**

## Line of argumentation

PAFTA needs to be modernized to reflect the challenges of the current integration process

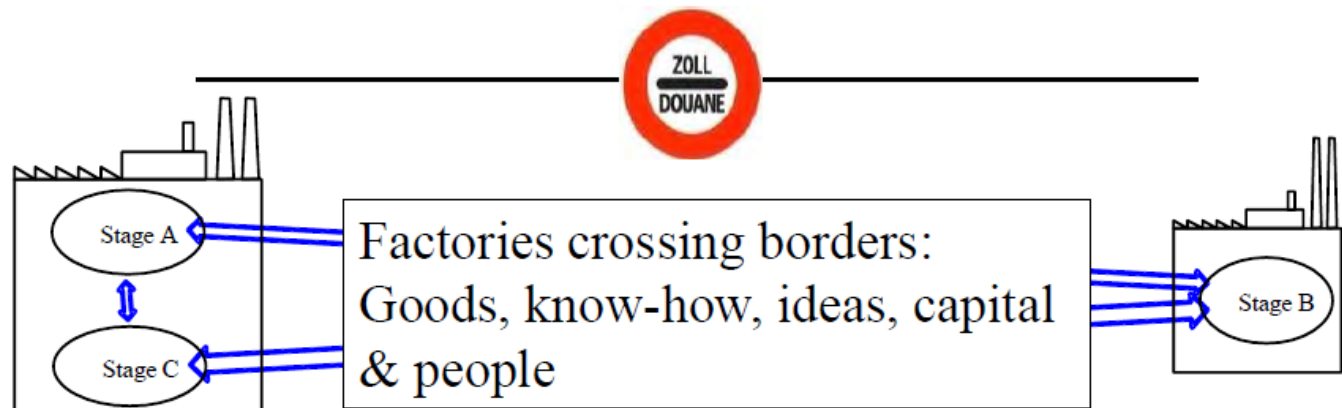
# Impediments to the full implementation of PAFTA

## 20<sup>th</sup> century trade versus GVC



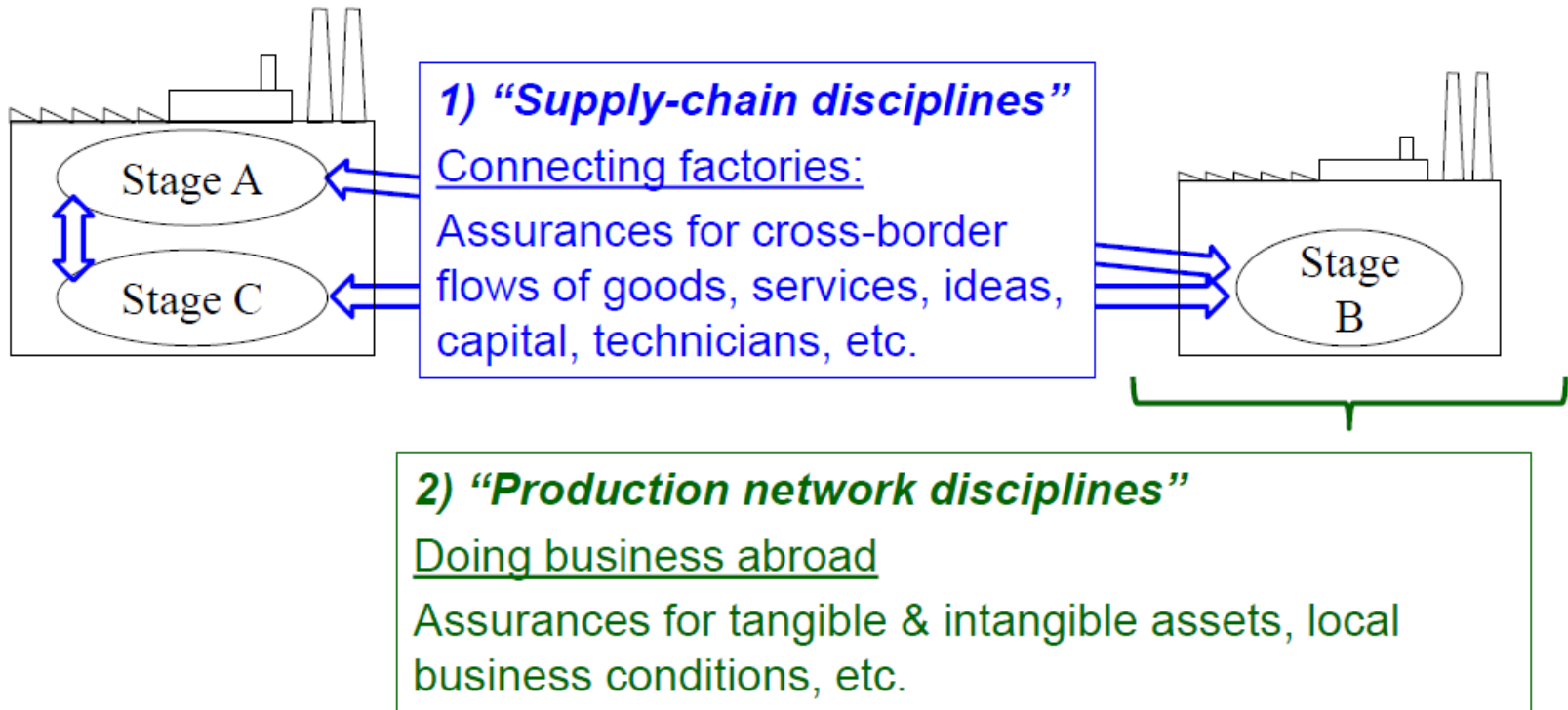
PAFTA was fine when globalization was about moving goods

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



# Impediments to the full implementation of PAFTA

## Consequences when designing RTAs





# **PAFTA underperformance: Implementation**

# Impediments to the full implementation of PAFTA

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## **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

**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)

# PAFTA full implementation: RoOs

## Way Forward

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### **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: NTM

## 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:

- Additional cost 22 to 50%
- Sizable impact of potential GDP growth

# PAFTA full implementation: NTM

## Way Forward

Replace NTMs by tariff (import license)

Target NTMs not based on science, unjustified TBT

**Transparency**

Priority on sectors supplying inputs

Target 'behind-the-border' barriers

**Insertion/creation  
supply/value chains**

### 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**

Ensure convergence towards international standards and best practices

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

# PAFTA full implementation: Dispute Settlement

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

	Coverage	Coverage	Arbitration panel				Time frame	Suspension of benefits
	Number of paragraphs		Code of conduct	Rules on procedures	Fixed set of panelists	Amicus briefs		
PAFTA	1	1		X				
Euro-Med	4	X						
ASEAN	30 (12 articles)		X	X	X		X	
EU-Japan	44		X	X	X	X	X	
EU-Chile	47		X	X	X	X	X	
NAFTA	3 chapters		X	X	X	X	X	
EU-SADC			X	X	X	X	X	
AANZFTA				X		X	X	
CPTPP	21 pages		X	X	X	X	X	

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

# PAFTA full implementation: 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

## Credibility:

- Transparent enforcement mechanisms
- Obligation to clarify modalities to comply
- Possibility to negotiate compensation
- Provisions on 'suspension of benefits'

## 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

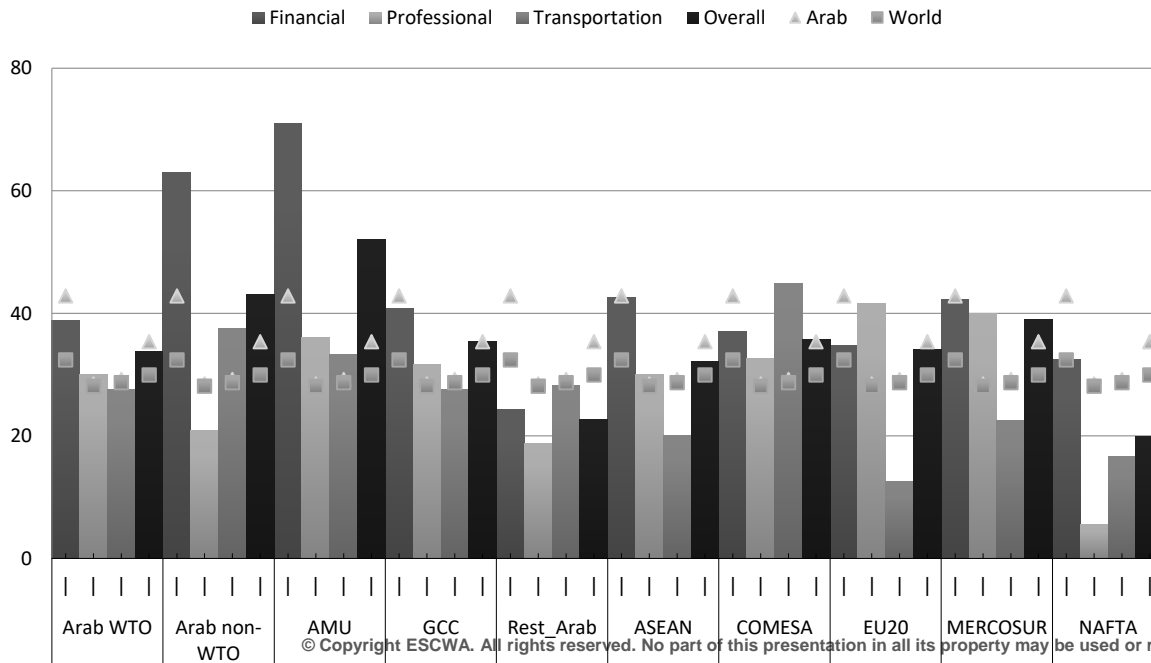


# **PAFTA underperformance: Coverage**

# 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.

# PAFTA coverage: Services

## Way Forward

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### 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: Investment

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## **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



# PAFTA coverage: 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

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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**

**Digitization and automation of the economy**

# Thank you



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