Assessing Arab Economic Integration
the Missing Roles of Trade in Services
The status of Arab Regional and Global Economic Integration

- Arab intraregional trade failed to surge, mostly stagnant as a share of total trade
- Diversification of products remain limited
- Intraregional and extraregional exports less dynamic: existing products or markets tend make up a greater portion of the change in merchandise exports
- Limited engagement in international production networks
- Prominent factors weighing on Arab economic regional and global integration:
  - Limited scope of trade agreements, covering goods
  - Prevalence of non-tariff measures
  - Restrictive rules of origin
  - Overlapping trade agreements: a challenge for private firms
  - Capital account restrictions
The status of Arab Regional and Global Economic Integration
Intra-Arab trade remains limited...

The share of intraregional trade in total merchandise trade

Source: UNCTAD, 2019
Objectives of the presentation

To present the system of indices to monitor and evaluate Arab regional and global economic integration, developed by ESCWA

To provide some analysis on the missing role of trade in services in the Arab region

To present the demo version of the Arab Trade Integration Monitoring and Evaluation Platform
ESCWA Monitoring and Evaluating System
Nested Structure of the Composite Arab Economic Integration Index
### ESCWA Monitoring and Evaluating System
Structure: 3 Composite Indexes

<table>
<thead>
<tr>
<th>Global</th>
<th>Regional</th>
<th>Bilateral</th>
</tr>
</thead>
</table>
| **GLOBALIZATION Index**  
- Are Arab countries falling behind the top best performers?  
- What are the main channels of countries integration?  
- Is there regional patterns? | **FLOW INTENSITY Index**  
- What are the country(ies) that are engine of economic integration at the regional level?  
- What linkages between regional and global integration?  
- What is countries’ level of vulnerability to foreign shocks?  
- How integration can help as an engine of economic growth? | **Bilateral FLOW INTENSITY Index**  
- Is the framework in which countries are operating conducive? Are the obstacles structural or not?  
- What is the relative intensity of governments’ efforts?  
- What are the nature, channels, potential for further intraregional integration?  
- What is each country comparative advantage?  
- ... |
## ESCWA Monitoring and Evaluating System
### 3 Scoreboards

<table>
<thead>
<tr>
<th><strong>Enablers</strong></th>
<th><strong>Policies</strong></th>
<th><strong>Outcomes</strong></th>
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<tbody>
<tr>
<td><strong>Structure of the economy</strong></td>
<td><strong>Trade</strong></td>
<td><strong>Logistics</strong></td>
</tr>
<tr>
<td>Mining VA as % of GDP</td>
<td>Tariffs</td>
<td>Container port throughput (TEU)</td>
</tr>
<tr>
<td>Fossil fuel energy conso (% total)</td>
<td>Non-tariff measures</td>
<td>Liner shipping connectivity index</td>
</tr>
<tr>
<td>Gross national savings</td>
<td>Rules of Origins</td>
<td>Air transport, passengers carried</td>
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<tr>
<td>Lending rates</td>
<td><strong>Business climate</strong></td>
<td><strong>Trade</strong></td>
</tr>
<tr>
<td><strong>Labor Force quality</strong></td>
<td>Taxes on goods and services</td>
<td><strong>Investment</strong></td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>Corporate taxes</td>
<td>FDI stocks &amp; flows, in/outflows</td>
</tr>
<tr>
<td>Urban to rural pop</td>
<td>Chinn-Ito Openness index (0-1)</td>
<td>Portfolio stocks &amp; flows, in/outflows</td>
</tr>
<tr>
<td><strong>Infrastructure quality</strong></td>
<td><strong>Human capital</strong></td>
<td><strong>People</strong></td>
</tr>
<tr>
<td>Internet bandwidth</td>
<td>Gov exp in education (% total exp)</td>
<td>Emigrants and Immigrants, tourists, students</td>
</tr>
<tr>
<td>Electricity production</td>
<td>Gov exp in education (% GDP)</td>
<td></td>
</tr>
<tr>
<td><strong>Conflict</strong></td>
<td>Health exp Gov (% total exp)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Health exp Gov (% GDP)</td>
<td></td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td><strong>Infrastructure</strong></td>
<td><strong>Macro convergence</strong></td>
</tr>
<tr>
<td>Rail lines (total route km)</td>
<td>Length of total road</td>
<td>Net ODA</td>
</tr>
<tr>
<td>Air transport freight (million ton)</td>
<td>Length of paved road</td>
<td>Foreign Reserves</td>
</tr>
<tr>
<td></td>
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<td>Inflation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GDP per capita ........</td>
</tr>
</tbody>
</table>

**Policies**
- Tariffs
- Non-tariff measures
- Rules of Origins
- Chinn-Ito Openness index (0-1)
- Taxes on goods and services
- Corporate taxes
- Gov exp in education (% total exp)
- Gov exp in education (% GDP)
- Health exp Gov (% total exp)
- Health exp Gov (% GDP)
- Rail lines (total route km)
- Air transport freight (million ton)
- Length of total road
- Length of paved road
Services Trade Liberalization in the Region

Why?

Financial sector restrictiveness index across selected regions and blocs

- AMU
- GCC
- Rest Arab
- ASEAN
- COMESA
- EU20
- MERCOSUR
- NAFTA
Services Trade Liberalization in the Region

Why?

Transportation services restrictiveness index across selected regions and blocs
Telecommunications services restrictiveness index across selected regions and blocs

- **AMU**
- **GCC**
- **Rest Arab**
- **ASEAN**
- **COMESA**
- **EU20**
- **MERCOSUR**
- **NAFTA**
Services Trade Liberalization in the Region
Could yield large dividends

- Countries with fully competitive and open telecom and financial services sectors grow up to 1.5 percentage points faster (estimates 2006)
- Using a simulation model, if Tunisia liberalizes services trade with EU; expected impact on GDP may reach 6% per year, FDI inflows will grow by additional 15 p.p. (estimates 2000)
  - The model has been extended to simulate liberalization scenarios in transport and financial services for Egypt, Morocco, and Tunisia with the EU and the Arab countries
  - Relatively strong positive effect on the GDP
  - Strong poverty mitigation effects. Deepening PAFTA by extending into services, across the region 8 million could be lifted out of poverty!
Services Trade Liberalization in the Region
Impact of scenarios on poverty

Chart Title

- Services trade liberalization within PAFTA
- Services Trade Liberalisation with the EU

Egypt  Morocco  Tunisia
FDI is major channel for foreign services operators
  o important to gaining access to services-related know-how, technology and sectoral best practices
  o greater competition in services markets & access to a broader range of differentiated services
  o domestic firms become competitive after gaining access to high quality & cost-efficient services

Using our estimates, halving the overall STRI score would lead to around 30% increase in FDI inflows into the services sector
Liberalization of key business services (ICT, e-trade, supply chain management services, financial services, & improved logistic services) is a priority for the region.

Deepening PAFTA through extending it services offers opportunities. Follow through with the agreement on the liberalization of trade in services among Arab States and ensure that commitments are fulfilled.

Concerned Arab countries should proceed with DCFTA, which represents another chance through which the involved Arab countries could tap into financial resources and technical expertise of their partners to liberalize services.

Extending trade integration with other regions should be based on the comprehensive development strategy.
Way Forward

- Updating the system of indexes using the latest data (2018). Results will be published in the third edition of AAEIR (2019-2020)

- Integrate the system of indexes in the ESCWA’s platform for monitoring and evaluating Arab regional and global economic Integration

- Assist MSs in their ongoing negotiations among themselves at regional level (LAS) and sub-regional level (GCC, AMU, and Agadir) as well as with the rest of the world: South-South: (Africa, MERCOSUR, and ASEAN) and North-South (EU and USA)
Thank you