TRANSPORT AND CONNECTIVITY TO GVCS, FOCUS ON THE ARAB REGION

Expert group Meeting on transport and connectivity to GVCs
15th November 2016
Background

- ESCWA is working on a publication on Transport & connectivity to GVCs.
- It is still a work in progress.
- This meeting aims to contribute to the publication.
The Purpose of the Publication

➢ This publication aims to review recent developments related to GVC engagement and connectivity in the context of the Arab region.

➢ It will provide an assessment of the role of transport services in the participation of Arab countries in GVCs, with a view to formulating some key recommendations on how to improve the role of transport services for greater GVC participation.
Outline of the publication

Introduction
GVC Engagement and Its Impact on Trade Patterns
Transport Connectivity in the Arab Region
Cases of Arab Countries of Transport and GVCs Participation
Conclusions and Recommendations
Introduction

➢ Transport is crucial for GVCs as intermediate goods and components need to cross borders multiple times between multiple locations efficiently to enable the production of the final product.

➢ Thus the ability of countries to participate in GVCs is very closely linked to their ability to deliver intermediate products on timely and consistent manner in order to allow for uninterrupted production of final products.
➢ The potential of the Arab region to benefit from increased participation in GVCs, taking advantage of its geographical and demographical endowment, is high.

➢ Yet, the level of transport development and connectivity to world shipping routes can be a stumbling block facing the integration of the region into GVCs.
Status quo the Arab Region

- The Arab region participation in international trade in general is still very weak and below its potential.
- Low efficiency of logistics.
- Some reform in trade channels/policies but not enough.
- Implementation of trade facilitation measures.
- Transport systems and regimes are progressing slowly.
Factors Affecting Trade Performance in the Arab Region

Weak/limited productive capacities.

High transport costs.

High NTB.

High trade cost.

Low level of competitiveness.

High concentration of exports and markets.
### Trade Performance by Region

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<tbody>
<tr>
<td>Developed Countries</td>
<td>11.2%</td>
<td>0.7%</td>
<td>1.6</td>
<td>0.9</td>
</tr>
<tr>
<td>East Asia</td>
<td>15.4%</td>
<td>3.1%</td>
<td>1.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Latin America</td>
<td>14.7%</td>
<td>1.0%</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>South Asia</td>
<td>20.4%</td>
<td>0.5%</td>
<td>1.6</td>
<td>0.7</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>17.9%</td>
<td>0.1%</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Transition Economies</td>
<td>21.1%</td>
<td>-0.5%</td>
<td>1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>West Asia/North Africa</td>
<td>18.9%</td>
<td>2.8%</td>
<td>1.4</td>
<td>0.8</td>
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*Source: UNCTAD calculation based on UNCTADSTAT and COMTRADE data.*
Growth of GVCs Participation

Source: UNCTAD calculations based on Comtrade data
Status of GVCs Growth

Slow Growth

- GVCs is believed to have stabilized in recent years.
- Benefits of technological and communication development have been reaped.
Low Growth of Intermediates

Table 2: Trade Performance, by Product Groups

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<tbody>
<tr>
<td>Consumers</td>
<td>9.8%</td>
<td>2.8%</td>
<td>1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Intermediates</td>
<td>12.7%</td>
<td>1.3%</td>
<td>1.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Primary</td>
<td>20.7%</td>
<td>0.7%</td>
<td>2.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Investment</td>
<td>12.2%</td>
<td>1.6%</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Services</td>
<td>15.7%</td>
<td>4.0%</td>
<td>1.9</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: UNCTAD calculation based on UNCTADSTAT and COMTRADE data.
Share of GVCs Trade

• Intermediate goods and services accounts for 60 percent of global trade nowadays.

• The share of developing countries in global value added has been on the raise and improved from:

  - 1990: 20%
  - 2000: 30%
  - Today: 40%
Drivers of GVCs Development

- Proximity to markets
- Transport cost
- ICT
- Labor cost
- Technology innovation
- Telecom. infrastructure

GVCs
Value Added in Services

- The contribution of value added in services to the global GDP is steadily increasing and has risen from 61 percent in 1995 to 70 percent in 2013.

<table>
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<tr>
<th>The value added services associated with and supporting manufacturing activities can be classified into</th>
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<tbody>
<tr>
<td>Research and development and advertising at the beginning and end of the GVCs.</td>
</tr>
<tr>
<td>Transport and warehousing services used to complement production.</td>
</tr>
<tr>
<td>Insurance and banking at multiple stages.</td>
</tr>
</tbody>
</table>
The Role of TNCs/ MNEs

- TNCs are dominating GVCs where trade in inputs and outputs takes place between the firms’ affiliates and partners.

- It is estimated that currently 70 percent of global trade is attributed to GVCs coordinated through Trans National Corporations.
Transport & GVCs

• Transport and logistics are essential for international trade.

• Trade in parts and components is more sensitive to improvements in logistics performance than trade in final goods.
Transport Cost

- Transport cost determines the countries that will participate in GVCs giving preference to countries with lower transport cost.
- The general quality of transport infrastructure can account for half of the variation in transport costs.

Source: (the geography of transport systems, Jean- Paul Rodrigue and Theo Notteboom)

Raising transport costs by 10%

Reduces trade volumes by more than 20%.
 Freight costs have about halved since the mid-1970s driven by investment in transport infrastructure, better capacity use, and technological progress.
Air transport costs have decreased sharply compared to maritime which led to increased use of air for various types of goods over maritime especially across the Atlantic which takes hours to cross by air instead of weeks by maritime transport.
Communication and Transport Cost

- Falling communication costs, interacting with falling transport costs, have been instrumental in fragmenting production processes and outsourcing intermediate goods production.
Transport Cost

- For each day in ocean travel that a country is distant from the importer reduces the probability of sourcing manufactured goods from that country by one percent.

- Exporting firms are willing to pay one percent of the value of the good per day to avoid time losses associated with maritime transport.
Air Transport Cost

- The open sky policy for instance has played a big role in lowering air cargo costs in countries that adopted it.

More competitive air transport market through Open Sky Agreements

- Share of imports arriving by air by 7%
- Air transport costs by about 9%
- Within 3 years (after an OSA is signed)
• According to *(Richard Pomfret and Patricia Sourdin)*

• There is a significant body of literature that addresses the issue of trade costs and GVCs however, attempts at quantification or even establishing statistical significance, are undermined by data deficiencies.
Strong relation between ACI and P & C exports
Transport Infrastructure

• Transport infrastructure is a major determinant of transport efficiency.

Developing countries agricultural exports

Improvement in transport and trade-related infrastructure

30%

10%

Recent OECD research

• Poor infrastructure accounts for 40% of predicted transport costs for coastal countries and 60% for landlocked countries (OECD 2013).
Transport in the Arab Region
High Level of Restrictions on Transport Sectors (STRI, WB)
Low Level of transport Services Commitments of the Arab Countries
Connectivity to Maritime Networks LSCI 2015
Connectivity to Air Transport Networks

• The regions’ performance in ACI was poor in 2007.

• Yet, lots of development has taken place ever since.

• No data on the ACI is available.
Trade Facilitation
Days to Import and Export Arab Countries (DBR 2015)
Trade Facilitation and GVCs

- The importance of trade facilitation in international trade increases with the GVCs business model.
LPI the Arab Region

[Bar chart showing performance metrics for Customs, Infrastructures, International shipments, Logistics competence, Tracking & tracing, and Timeliness for the world and Arab countries.]
Trade facilitation and GVCs

Trade costs (tariffs) 10%

Trade costs (non-tariff policy measures)
- Indirect costs of trade procedures,
- Maritime connectivity and services,
- Business (regulatory) environment,
- Currency fluctuations,
- Availability and use of ICT services

Trade costs (natural costs)
- Geographical factors
- Cultural factors

(UNESCAP, 2014)
The TFA contains provisions that cover number of areas of customs clearance aiming at increasing:

- Predictability
- Transparency
- Speed

Of clearing goods through customs.

- The anticipated global gain from the full implementation of the agreement is expected to reach around 2% of global GDP.

- The benefits for the region from implementing the TFA are enormous.
Trade Facilitation in the Arab Region (OECD)
Conclusion

Transport policies across the region need to be revisited.

Investment in transport infrastructure is crucial.

Liberalization of certain transport modes at least at the regional level for now may lead to positive results i.e. OS.

Trade facilitation must be a key element of any broader strategy to increase integration into GVCs.
THANK YOU