Assessing Arab Economic Integration Report
Volume II:

Transport services in international & Regional Trade negotiations:
Identification of regulations

Expert Group Meeting on Transport and Connectivity to GVCs
Tuesday 15th November 2016, ESCWA, Beirut, Lebanon

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Assessing Arab Economic Integration Report: Outline of the presentation

1. The contribution of RIS to fostering Arab economic integration
2. The work done in the first AAEIR
3. What we are planning to do in the second volume
Assessing Arab Economic Integration Report: RIS mission

A system of indexes and scoreboards and impact analyses are developed with a view to

• inform policymaking and the public debate regarding existing and future opportunities to integrate globally, regionally and bilaterally;

• encourage civil society involvement in the making of economic policies;

• improve the quality of the political debate and foster government-citizen interactions through a better understanding of the economic mechanisms at play and by highlighting governments’ difficulties and achievements;

• reinforce governments’ credibility by substantiating the strength of their vow to improve people’s economic prospects through a careful monitoring and evaluation of their policy commitments’ implementation and enforcement.
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 1: 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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Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

• World services trade growth rates higher than trade in goods
  market size / dynamism high although probably under-evaluated for Arab region as data based on TIVA approach not available yet

• 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
Assessing Arab Economic Integration Report:
Volume II: Services Liberalization in the ESCWA region

Context: Integration trend

- Integration is increasingly regional / international
- Trend reinforced by international crisis and difficulties to reach agreements at the WTO
- Mega-trade agreements
- Regional integration initiatives key to reach development goals

Push factors

- DCFTA with EU under negotiation (Tunisia, Morocco, etc..)
- Fear of behind left out / EU and in general
- Arab governments 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’ reservations on services liberalization
Assessing Arab Economic Integration Report: Background

Pull factors

- Political economy
- Reluctance of the population and need to build a social consensus
- Especially relevant to services liberalization:
  - Lobbies
  - Heavy involvement of the State (monopoly, oligopoly, regulations, etc…)

Lack of information

- 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

ESCWA’s contribution: 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
Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

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)
Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

Outline of the report

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
Approach

1- Identify regulatory barriers to services trade
   • As opposed to an evaluation of the restrictiveness of the barriers done by private firms

2- Develop a matrix of bilateral FDI flows and a matrix of regulatory barriers

3- Carry an econometric analysis to

4- Clarify the linkages between the regulation and countries economic performance through evaluation of their impact
   • Available empirical work performs poorly on that aspect key to effective policymaking

5- Work cooperatively with Member Countries to identify scenarios
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. 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
Trade and transport are inextricably linked,

- key to widen the range of available goods and services and push down their prices,
- effective transportation increases the size of the market available to domestic firms,
- affect production costs and fosters innovation by exposing firms to international competition
- drives countries’ competitiveness,
- in particular in a world dominated by value chains,
- and the ‘new normal’ low world GDP and trade growth.

Transportation is

- Key stepping stone to economic growth and job creation,
- But connecting towns to cities and regions to nations are crucial to inclusive development
- and maximizing gains from human, capital and natural resources.

The specific case of

Maritime transportation

Around 80 per cent of global trade by volume, and over 70 per cent of global trade by value are carried by sea and are handled by ports worldwide (WTO, 2015)
Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

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.
Liberalization of maritime sector: International efforts

GATT

- Freedom of Transit (GATT Articles V)
- Fees and Formalities connected with Importation and Exportation (GATT Article VIII)
- Publication and Administration of Trade Regulations (GATT Article X).

After negotiations resumed: offers made on several pillars covering maritime shipping, auxiliary and port services

- But the process is complex due to the involvement of various governmental entities,
- Transparency remains an obstacle.

GATS following Uruguay round

- Negotiations could not be completed
- Led to suspension of MFN obligation for the sector and other commitments
- Persisted on an unilateral basis

The WTO does not provide specific provisions on various issues from transparency, to domestic regulation or customs procedures.
## Trade facilitation:

### Trade Facilitation Agreement and Bali package: set of measures meant to expedite moving goods across borders:

- **Best practices used as benchmark**
- **Hong Kong and China were the first members,**
- **So far 8 Arab countries are members:** Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, The United Arab Emirates

### Liberalization of maritime sector: International efforts

Source: WTO website (accessed November 11th, 2016), author’s compilation

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Assessing Arab Economic Integration Report:
Volume II: Services Liberalization in the ESCWA region

Arab countries’ performances
Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

Maritime sector

Assessment: Liner shipping connectivity index

- The countries in red are ASEAN +3 countries, Poland, India. Those countries show very strong outward orientation compare to Arab countries (in blue).
- Show ASEAN’s aggressive strategy to improve their connectivity and strengthen their accessibility to global trade
Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

Maritime sector

Doing Business

- time and cost (tariffs excluded) required to export and import goods.
- three sets of procedures: documentary compliance, border compliance and domestic transport
- June 2016.
- A score of 100 means the country is at the frontier, which represents the best performance.
Methodology
Scoping:

- **Most prominent restrictions on market access.** Nationality requirements (e.g. for flag, crew, establishment), restrictions on access to and use of port services, compulsory pilotage (permits), restrictions on local representatives, joint venture requirements, licensing regimes, discriminatory measures, etc..

- **Public policy measures beyond the border.** Impediments such as national security measures, complex environmental regulations, discriminatory and/or non discriminatory

- **Other measures.** Competition policy, taxes, and transparency issues.
Maritime sector: Identifying the barriers

OECD
- Arab countries not covered
- All delivery modes
- Establishment and operations

World Bank
- focuses on mode 3
- discriminatory barriers
- Arab countries covered

Both
- Information collected through questionnaires administered by law firms
- Policy information subjected to government review

OECD coverage
- Freight transportation (no internal, no passengers)
- Rental of vessel with crew
- Maintenance and repair of vessels
- Pushing and towing services
- Supporting services for maritime transport (when multimodal, logistic services not included)

OECD: Five areas of policy measures
- Restrictions on foreign ownership and other market entry conditions
- Regulatory transparency and administrative requirements
- Restrictions on the movement of people
- Barriers to competition and public ownership
- Other discriminatory measures and international standards
Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

Maritime sector: Identifying the barriers

Experts views

• The discrepancy between a de facto rather liberalized sector and the de jure set of regulations and laws that are often dormant. If not taken into account, the sector’s restrictiveness could be overestimated.

• The influence of the collusive practices in the sector (cooperation and potentially anti-competition agreements among carriers, well documented). Restrictiveness could be underestimated if not introduced in the analysis.

Project with ICT

• Understand the regulations’ degree of burdensomeness by complementing surveys carried by law firms with surveys of firms might then be a relevant methodology to evaluate restrictiveness.

• Cooperation project ICT that works with WTO on identifying services barriers and an evaluation of the involvement of the private sector

• Better understanding of the most deterrent barriers, in particular regulatory which hasn't been done for Arab countries
Which relevant aspects of the sectors’ functioning and other barriers to introduce in the analysis?

- What is the extend of multi modality of maritime services supply?
- Impact of digital economy on capacity to switch across modes of services supply?
- Which other dramatic changes in the future?
  - What is the role of FDI in the delivery of maritime services?
  - Collateral trade effects of innocent regulations (environmental, etc..)
  - Unhealthy race to the bottom (taxes cut, etc..)
- ‘too little’ restrictions: most methodologies measure ‘too much’ restrictions but for developing countries sometimes problem is ‘too little’ (environment, quality of institutional prudential framework, etc..)
- OECD and World Bank use standardized scenarios and hypotheses but are they suitable for developing countries? an Arab countries?
Which other relevant aspects of the sectors’ functioning and other barriers to introduce in the analysis?
THANK YOU
Questions for discussion: Readability

Table 2.1 Globalization rankings in 2013 and change compared to 2000

Table 2.2 Ranking of drivers of globalization by country and region, 2013
Identifying & classifying services trade barriers in the Arab region
Technical paper: content and questions for discussion:

Questions for discussion: Readability

Table 2.3 Contribution to economic situation by key partner regions and countries, 2013
Questions for discussion: Readability

**Indicator:** intensity of flows (exports, workers’ remittances and FDI inflows)

**Data:** bilateral level

**Ranking:** z-score are used as a measure of the intensity of countries economic relationships above the average
Questions for discussion: Readability

EGYPT:
Summary rankings for profile
Questions for discussion: Indicators Selection

Monitoring and Evaluation: Goals

- **identify patterns** in services trade,
- **evaluate and monitor** the role of the service sectors and its contribution to countries’ performance integrating **regionally and globally**, 
- assess the **effectiveness** of **services trade promotion strategies** that impact the quantity and number of services traded and the number of trading partners,
- **benchmarking analysis**, in particular with ASEAN and East European countries
- provide insights into the **challenges and opportunities** for services liberalization in Arab countries under various agreements, such as the DCFTA with the EU, the WTO, or the Arab Customs Union.

**Selection Criteria**

- **comprehensiveness**: different types of barriers identified, all 4 modes
- **data at sectoral level** when possible. Extra effort for the sectors of most importance for Arab economic integration
- Preferably readily available indicators
- STRI modal and sectoral, discriminating/non discriminating. De facto/de jure
Identifying & classifying services trade barriers in the Arab region

Technical paper: content and questions for discussion:

Questions for discussion: Indicators Policies Scoreboard

- Number of days for visa delivery (mode 4, doing business; policy scoreboard)
- Size of the public sector (policy),
  - ESCWA quality of competition law indicators
  - Illustrate differences using value-added approach (Tunisia, Saudi Arabia)

- Global competition report 2015: Market access (policy scoreboard)
  - Intensity of local competition,
  - Extent of market dominance,
  - Effectiveness of anti-monopoly policy,

- Global Competitiveness report 2015: FDI, (policy scoreboard)
  - Prevalence of foreign ownership
  - Business impact of rules on FDI

- From the Global Trade enabling report, (policy scoreboard)
  - Government Online Service Index
  - Ease of compliance with government regulation
  - Openness to multilateral trade rules

- AVEs and STRI (from the World Bank, policy scoreboard)
  - Ad valorem equivalents to services barriers at the national and regional levels
  - national and regional Services trade restrictiveness indexes
  - modal and sectoral
Questions for discussion: Indicators Outcomes Scoreboard

**Outcomes, Macro**
- Services trade level, balance and growth (UNCTAD, BACI),
- Services share of industry value added (UNCTAD, BACI),
- Service share of employment (ILO, KILM),
- Trade in services contribution to GDP (UN statistics Division, UNCTAD or BACI),
- Services share of exports (UNCTAD, BACI),
- Services export and import composition when possible (UNCTAD),
- Tourism (aggregated and bilateral data for Arab countries)

**Outcomes, Sectoral**
- Contribution of services to VA of exports in goods (TiVA, UNESCWA)
- Imported versus domestic services into VA of exports in goods (TiVA, UNESCWA)
- Trade costs (World Bank, UNESCAP, and UNESCWA)
- Services in intermediate consumption of production sectors (IO tables, ESCWA)
- FDIs inflows in services (TiVA, UNESCWA and other sources)
Questions for discussion

- What are the highest quality indicators of services trade barriers among the ones readily available? What is the value-added of the most often used indicators? What are the most promising initiatives in this regard?
- Which indexes worth being calculated? And what are the best methodologies?
- How to use available info on barriers in an innovative way?
- What would be the most relevant indicators/indexes to include in scoreboards?
  - A narrow set for effective policy-making
  - that could eventually be monitored on a quarterly basis,
  - A larger set for a more in depth understanding of the challenges and opportunities
- Which indexes to use or compute for further impact assessment research through modeling exercises using gravity models? and CGEs? Is there any other modeling approach that worth being explored?... (Please notice that the most appropriate modelling approach of this issue will be discussed later during the EGM).
Intra- and Inter-Regional Merchandise trade
2014, billion dollars and percentage
WTO, International Trade Statistics 2015

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<tr>
<th>Origin</th>
<th>North America</th>
<th>South and Central America</th>
<th>Europe</th>
<th>CIS</th>
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Contribution of Services to GDP
(2014, % GDP, source: WTO)
high but provided mainly by public sector
Employment by sector
in % of total employment, latest year available, source: WDI
no data for Lebanon, Libya, Yemen, Tunisia

Figure 1: World Development Indicator on "Employment by sector (in % of total employment, latest year available)"
(Note please: No data available for Lebanon, Libya, Yemen and Tunisia)

Source: (World Bank, 2012)
Assessing Arab Economic Integration Report: Services Liberalization in the ESCWA region

Achievements so far: commitments before the WTO

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<th>Arab Countries</th>
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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](http://i-tip.wto.org/services/ChartResults.aspx)
Trade and transport are inextricably linked,

- key to widen the range of available goods and services and push down their prices,
- effective transportation increases the size of the market available to domestic firms,
- affect production costs and fosters innovation by exposing firms to international competition
- drives countries’ competitiveness,
- in particular in a world dominated by value chains,
- and the ‘new normal’ low world GDP and trade growth.

Transportation is

- Key stepping stone to economic growth and job creation,
- But connecting towns to cities and regions to nations are crucial to inclusive development
- and maximizing gains from human, capital and natural resources.

Each dollar spent on strategic economic infrastructure is estimated to increase GDP by 0.05 to 0.25 US

Assessing Arab Economic Integration Report: Volume II: Services Liberalization in the ESCWA region

Maritime sector

Assessment: Practitioners’ views (quality)

- Rank 1 to 40, 6 countries out of 9 are ASEAN countries. Among Arab countries, except Morocco, all are high income GCC countries (The UAE, Qatar, Bahrain).
- Most Arab countries are falling behind in the rankings (Bahrain, Saudi Arabia, Oman, Kuwait, Lebanon and Tunisia).
- Among ASEAN countries, only Malaysia, Thailand and Brunei Darussalam didn’t improved. Substantial improvement for Qatar, Morocco, China, India, Egypt, Poland, Indonesia, Viet Nam.