ESCWA

United Nations Economic and Social Commission for Western Asia

Assessing Arab Economic Integration: Towards the Arab Customs Union

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Regional Integration Section/EDID
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Why is this report timely and relevant?

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- Integration is increasingly regional
  - Motivated by difficulties to reach agreements at the WTO
  - Global financial crisis underlined the contagion risk

- New priorities for Arab governments after 2011 upheavals
  - economic growth to absorb young population into labor force
  - human development

How?

1. Provide a novel quantitative assessment of efforts and successes in economic integration across the Arab region and with the rest of the world

2. Generate practical and implementable policy recommendations

Outline

- **Chapter 1** – Arab Economic Integration in the Context of an Evolving and Dynamic World
- **Chapter 2** – Regional Economic Integration – Monitoring System of Indexes
- **Chapter 3** – Productive Capacities and Integration
- **Chapter 4** - Facilitating Factors for Integration
- **Chapter 5** – From PAFTA to the Customs Union: a bumpy pathway for Arab economic prosperity
- **Chapter 6**– Recommendations

Approach

1. A system of monitoring and evaluation
2. Ex-post assessment
3. The thematic chapter

Chapter 1

Arab Economic Integration in the Context of an Evolving and Dynamic World

Benefits of regional integration

Economic benefits include:

- more efficient allocation of resources due to specialization
- larger product and factor markets lead to efficiency gains
- greater product variety
- large and regional investment projects feasible
- insurance against shocks

Political benefits include:

- increased visibility and power in multilateral negotiations
- greater levels of trust, interdependence, and opportunity cost of conflict
- a commitment mechanism to domestic policies and reforms

Regional integration versus multilateral liberalization

In a regional setting:

- complex and numerous trade barriers better dealt
- interests of developing countries better preserved
- market imperfections and distortions better addressed
- multinational corporations tend to operate

And

- proliferation of regional integration agreements leads to new blocs or expansion of existing ones
- regional integration helps counter the hub-and-spoke bilateral agreements between developing and developed countries

Arab Economic integration experience

full implementation of trade agreements Arab countries parties to entail

- addressing restrictive rules-of-origin practices
- mitigating unduly restrictive effects of non-tariff measures
- ensuring transparency through monitoring commitments
- extending FTAs to services trade

But also

- more comprehensive approach to investment, competition policy and the movement of capital and labor

Chapter 2

Assessment of Arab economic integration through a comprehensive system of indexes

Why a system of indexes for the Arab region?

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An attempt at understanding the changing (global, regional and bilateral) contexts, weaknesses, strengths, challenges and opportunities

So helps us answer:

- How to improve Arab countries connectivity to GVCs?
- Arab Regional economic integration as a building block to multilateralism?
- What are Arab countries' specific strengths and weaknesses in regional and global integration?
- What would be the impact of greater integration on economic growth, job creation, and human development?

Why now?

- The political context may bring new momentum to Arab Economic Regional integration

- International environment is changing and need to rethink Arab insertion in regional markets

Monitoring which regional integration?

A process

Agreements

Instrument, Policies

Results

Final Goal

3 Types

Functional: Integration in key regional markets such as

Energy
Agriculture
Gas and oil
Etc..

Economic integration

Trade
Finance
Labor
Etc.

Policy harmonization

Requirements

- Scalable: should allow evaluating the challenges, risks and opportunities at global, regional and bilateral levels
- Maximum possible coverage
- Versatile: Possibility to track progresses towards specific goal as needed
- Simple and transparent
- Allow an effective action-information-action loop

Structure

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But contrary to existing CI

Few indicators for clarity of integration channels and mechanisms and effective policymaking

COMPOSITE INDEXES+ SCOREBOARDS

Indicators: criteria for choice

- Clear and strong causality between economic integration, policies and outcomes
- Significant impact

EXPORTS, FDI, Workers' Remittances

Methodology

Simplicity for non-technical audience

Feasibility

SIMPLE AVERAGE

Regional integration index

Structure: **3 levels**

Global	Regional	Bilateral
GLOBALIZATION Index	**FLOW INTENSITY Index**	**Bilateral FLOW INTENSITY SCOREBOARDS**
Are Arab countries falling behind the top best performers? What are the main channels of countries integration? Is there regional patterns?	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?	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 intra-regional integration? What is each country comparative advantage? …

3 SCOREBOARDS

Enablers

Structure of the economy
Mining value-added (% of GDP)
Fossil fuel energy consumption (% of total)
Gross national savings
Lending rates

Labor Force quality
Life expectancy at birth
Urban to rural pop
Literacy rate
School enrolment rates (primary, secondary and tertiary)
Mean years of schooling
Ratio of female to male labor force participation rates
Apparent productivity of labor

Infrastructure quality
Internet bandwidth
Electricity production

Conflict

Policies

Trade
R&D expenditure (% GDP)

Investment
Taxes on goods and services
Corporate taxes
Chinn-Ito Openness index

Labor force
Gov exp in education (% total exp)
Gov exp in education (% GDP)
Health exp Gov (% total exp)
Health exp Gov (% GDP)

Infrastructure
General Government final consumption expend (% GDP)
Rail lines (total route km)
Air transport freight (million ton)
Length of total road
Length of paved road

Outcomes

Logistics
Container port throughput
Liner shipping connectivity index
Air transport, passengers carried

Trade
Merchandise and services exports and imports (% GDP)

Investment
FDI stocks & flows, in /outflows
Portfolio stocks & flows, in/outflows

People
Emigrants and Immigrants, tourists, students

Macro convergence
Net ODA
Foreign Reserves
Inflation
GDP per capita

Globalization ranking

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2013											
Singapore	1	Netherlands	26	Latvia	51	Agadir	76	Croatia	101	Uruguay	126
Lebanon	2	Ireland	27	Mali	52	Bangladesh	77	Egypt	102	Sudan	127
Republic of Moldova	3	Cambodia	28	Tunisia	53	Guinea-Bissau	78	Angola	103	Colombia	128
Mozambique	4	Czech Republic	29	Zambia	54	Costa Rica	79	Uganda	104	China	129
Oman	5	El Salvador	30	Somalia	55	Mauritius	80	Burkina Faso	105	Cameroon	130
Honduras	6	GCC	31	Côte d'Ivoire	56	Germany	81	Ecuador	106	France	131
Mauritania	7	Libya	32	Saudi Arabia	57	Kazakhstan	82	Norway	107	Tanzania	132
Vietnam	8	Albania	33	Botswana	58	Romania	83	Canada	108	Nigeria	133
Lithuania	9	Brunei	34	Yemen	59	Iraq	84	Spain	109	UK	134
Malta	10	Qatar	35	Guatemala	60	Afghanistan	85	South Africa	110	Burundi	135
Mongolia	11	Bulgaria	36	Sri Lanka	61	Ghana	86	Zimbabwe	111	Australia	136
Hungary	12	Senegal	37	Morocco	62	Iceland	87	Rwanda	112	New Zealand	137
Slovakia	13	Palestine	38	Bolivia	63	Chile	88	Laos	113	Venezuela	138
Bahrain	14	Fiji	39	Gabon	64	Dominica	89	Pakistan	114	Greece	139
Nicaragua	15	ASEAN	40	Namibia	65	Benin	90	Algeria	115	Japan	140
Kuwait	16	Comoros	41	Austria	66	Poland	91	India	116	Myanmar	141
Jordan	17	Thailand	42	Paraguay	67	Russian Fed	92	Peru	117	United States	142
Georgia	18	Belarus	43	Dominican Rep	68	Mexico	93	Cyprus	118	Iran	143
Congo	19	Belgium	44	Philippines	69	Denmark	94	Finland	119	Ethiopia	144
Jamaica	20	Macedonia	45	Korea	70	Sweden	95	Syria	120	Argentina	145
Estonia	21	Slovenia	46	Arab Mashreq	71	Portugal	96	Guinea	121	Brazil	146
UAE	22	Djibouti	47	Niger	72	EU28	97	Italy	122		
Malaysia	23	LAS	48	AMU	73	Israel	98	Indonesia	123		
Togo	24	Switzerland	49	Malawi	74	Arab LDCs	99	Kenya	124		
Bosnia-Herzeg.	25	Ukraine	50	Arab non GCC	75	Congo	100	Turkey	125		

GLOBALIZATION

These rankings driven in part by

- Scale effect
  - smaller countries depend more on their external partners and tend to be at the top of the rankings
- Natural resource abundance effect
  - This is typically the case for Mauritania, Mozambique or Mongolia. These countries' globalization is driven by investment inflows, and imports.
- Catching up effect
  - The European countries at the top of the ranking joined the European Union in 2003 only

Globalization ranking

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Ranking Change 2000-2013

Bahrain	-7	Yemen	-21	Romania	15	Benin	9	Guatemala	34	Pakistan	23
Kuwait	37	Arab LD	-28	Slovakia	3	Bolivia	29	Guinea	3	Paraguay	-5
Oman	19	League of A	18	Slovenia	13	Bosnia-Her	-21	Guinea-Biss	29	Peru	10
Qatar	-7	Agadir	21	Spain	-45	Botswana	-2	Honduras	12	Moldova	3
SA	-22	Austria	-5	Sweden	-61	Brazil	-10	Iceland	3	Russian Fe	8
UAE	67	Belgium	-43	UK	-79	Burkina Fas	4	India	17	Rwanda	23
GCC	14	Bulgaria	13	EU28	-45	Burundi	4	Iran	-15	Senegal	35
Arab non G	5	Croatia	-28	Brunei	6	Cameroon	-4	Israel	-35	South Afric	8
Algeria	-9	Cyprus	-42	Cambodia	-3	Canada	-65	Jamaica	7	Sri Lanka	-14
Libya	84	Czech Repu	1	Indonesia	9	Chile	-3	Japan	5	Switzerlan	-26
Morocco	17	Denmark	-79	Laos	-5	China	-7	Kazakhstan	-51	Macedonia	-6
Tunisia	12	Estonia	-2	Malaysia	-13	Colombia	3	Kenya	-10	Togo	46
Mauritania	74	Finland	-86	Myanmar	-38	Congo	25	Korea, Rep	16	Turkey	5
AMU	22	France	-60	Philippines	-48	Costa Rica	-10	Malawi	64	Uganda	-29
Egypt	27	Germany	-13	Singapore	1	Côte d'Ivoi	1	Mali	35	Ukraine	10
Iraq	-71	Greece	-18	Thailand	0	Congo	11	Mauritius	-34	Tanzania	11
Jordan	-12	Hungary	8	Vietnam	28	Dominica	-38	Mexico	12	United Stat	-8
Lebanon	1	Ireland	-18	ASEAN	-14	Dominican	-27	Mongolia	26	Uruguay	14
Syria	-5	Italy	1	Afghanistan	19	Ecuador	-29	Mozambiq	87	Venezuela	-25
Palestine	-30	Latvia	45	Albania	-4	El Salvador	2	Namibia	13	Zambia	30
Arab M	17	Lithuania	58	Angola	-89	Ethiopia	-3	New Zealan	-35	Zimbabwe	1
Somalia	89	Malta	2	Argentina	-3	Fiji	15	Nicaragua	43		
Sudan	19	Netherlanc	-15	Australia	-17	Gabon	19	Niger	53		
Comoros	41	Poland	2	Bangladesh	43	Georgia	32	Nigeria	-16		
Djibouti	63	Portugal	-48	Belarus	-21	Ghana	15	Norway	-33		

Note: Arab countries in yellow, EU-28 in orange, ASEAN countries in green.
Arrows tracks ranking improvement: red < average bad performers, yellow down between 0 and the average of bad performers, yellow up between 0 and average good performers, green > average good performers
Sources: authors' calculations

Arab intra-regional integration: Overview

Relevance: The analyze covers a large % flows

The GCC and oil exporting foster intra-regional integration

The UAE, Saudi Arabia and Iraq
Through FDI and also
WR which is key to poverty but impact on economic growth is not straightforward

No impact of the various RTAs, meager for the GCC

Few Arab countries very successful

Global and regional integration, no clear intra-regional preference

Non-Arab partners.

The EU generally speaking, the US and Eastward shift

Libya-EU 28	10.00	UAE-GCC	1.30	Lebanon-Japan	0.35
Tunisia-EU 28	7.03	Yemen-ASEAN	1.22	Iraq-Japan	0.35
Mauritania-China	5.79	Egypt-GCC	1.14	Oman-US	0.33
Oman-China	5.69	SA-EU 28	1.10	UAE-Turkey	0.33
Algeria-EU 28	5.05	Iraq-Korea	1.08	Algeria-AMU	0.33
Bahrain-GCC	4.69	Qatar-China	1.06	Comoros-Japan	0.32
Qatar-Japan	4.66	SA-Korea	1.06	Jordan-ASEAN	0.31
Somalia-GCC	4.40	Syria-Mashrek	1.02	Bahrain-Mashrek	0.31
Morocco-EU 28	4.29	Kuwait-ASEAN	1.00	Algeria-Turkey	0.30
Lebanon-EU 28	3.30	Lebanon-GCC	1.00	Libya-India	0.30
Qatar-Korea	3.26	SA-India	0.99	SA-Mashrek	0.30
UAE-Japan	3.20	Yemen-Korea	0.97	Somalia-EU 28	0.27
UAE-ASEAN	2.93	Sudan-GCC	0.96	Algeria-China	0.25
Comoros-EU 28	2.86	SA-ASEAN	0.96	Sudan-Japan	0.24
UAE-India	2.79	Syria-EU 28	0.94	Egypt-US	0.24
Oman-GCC	2.59	Kuwait-EU 28	0.94	Kuwait-GCC	0.24
Kuwait-Korea	2.56	Oman-India	0.93	UAE-LDC	0.24
Kuwait-India	2.40	Djibouti-EU 28	0.92	Comoros-Turkey	0.22
Egypt-EU 28	2.39	Comoros-US	0.90	Libya-AMU	0.22
Jordan-Mashrek	2.36	UAE-EU 28	0.90	Qatar-GCC	0.21
Iraq-India	2.26	Bahrain-India	0.88	Iraq-Mashrek	0.21
Mauritania-EU 28	2.22	UAE-China	0.86	Libya-ASEAN	0.21
Jordan-US	2.11	Libya-China	0.82	Bahrain-AMU	0.20
Yemen-GCC	2.08	Bahrain-US	0.82	Mauritania-GCC	0.19
Iraq-US	2.06	Yemen-EU 28	0.80	Libya-Mashrek	0.19
Qatar-ASEAN	1.99	Libya-US	0.80	Bahrain-Turkey	0.19
Iraq-EU 28	1.96	Morocco-US	0.79	Morocco-India	0.19
Lebanon-US	1.90	UAE-Mashrek	0.79	Oman-Mashrek	0.19
Jordan-GCC	1.89	Bahrain-Korea	0.79	UAE-US	0.18
Kuwait-Japan	1.84	Syria-GCC	0.69	Sudan-EU 28	0.18
Iraq-China	1.84	Lebanon-Mashrek	0.69	Egypt-India	0.18
Qatar-India	1.83	Algeria-US	0.67	Djibouti-Mashrek	0.18
Yemen-China	1.79	Bahrain-Japan	0.66	Comoros-GCC	0.17
Somalia-LDC	1.76	Somalia-China	0.64	Tunisia-GCC	0.17
Bahrain-EU 28	1.76	Djibouti-GCC	0.59	Jordan-AMU	0.17
Kuwait-US	1.73	Egypt-Mashrek	0.59	Qatar-US	0.17
Jordan-EU 28	1.71	Kuwait-Mashrek	0.55	Djibouti-US	0.17
Oman-Japan	1.69	Yemen-India	0.52	Iraq-AMU	0.16
Sudan-China	1.60	Mauritania-Japan	0.49	Yemen-US	0.15
Somalia-India	1.59	Tunisia-US	0.48	Palestine-Mashrek	0.15
Oman-Korea	1.51	Syria-US	0.44	Yemen-LDC	0.14
Qatar-EU 28	1.50	Bahrain-China	0.44	Morocco-AMU	0.14
SA-China	1.48	SA-GCC	0.44	Egypt-Turkey	0.13
SA-US	1.47	Mauritania-US	0.43	Oman-LDC	0.13
SA-Japan	1.41	Jordan-India	0.40	Libya-Korea	0.13
Bahrain-ASEAN	1.38	Oman-EU 28	0.39	Algeria-Japan	0.13
Tunisia-AMU	1.38	Egypt-AMU	0.38	Comoros-ASEAN	0.12
Kuwait-China	1.31	Iraq-ASEAN	0.38	Libya-GCC	0.12

Negative effect : Exposure to exogenous shocks
Positive effect: Partners Diversification
Import high standards

Globalization ranking breakdown

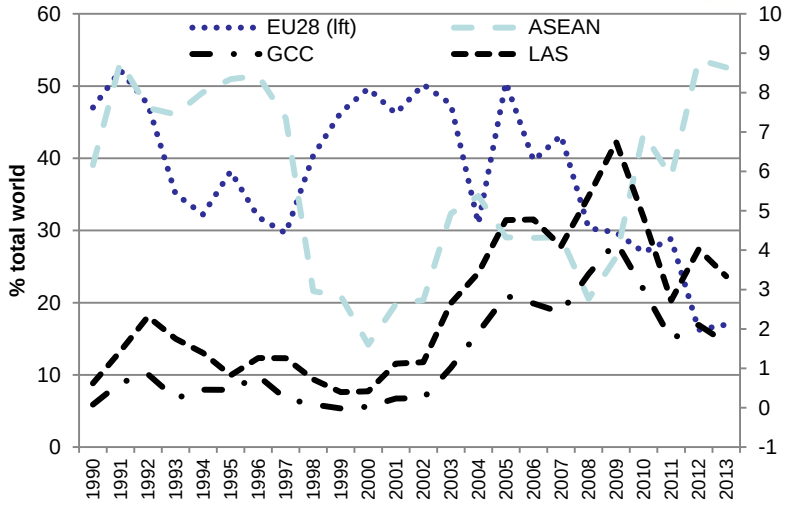
2013								
	Globalization ranking	Exports	Imports	FDI outflows	FDI inflows	WR outflows	WR inflows	Flow intensity
Algeria	115	61	87	132	123	132	82	33%
Libya	32	20	43	77	121	10	136	59%
Mauritania	7	31	25	99	3	8	140	69%
Morocco	62	95	48	72	49	121	24	31%
Tunisia	53	51	34	107	70	127	31	44%
AMU	**73**	**54**	**59**	**104**	**90**	**54**	**47**	**38%**
Bahrain	14	17	45	14	54	5	140	67%
Kuwait	16	13	141	5	109	4	137	67%
Oman	5	6	50	23	82	2	131	73%
Qatar	35	11	138	9	140	6	106	68%
SA	57	30	124	56	113	7	134	52%
UAE	22	2	14	53	65	139	140	97%
GCC	**31**	**12**	**75**	**28**	**99**	**9**	**130**	**68%**
Egypt	102	131	127	90	78	113	22	21%
Iraq	84	27	79	75	96	89	119	54%
Jordan	17	87	22	106	25	30	9	40%
Lebanon	2	125	41	35	19	3	4	37%
Syria	120	144	133	117	94	49	33	12%
Palestine	38	137	39	129	101	117	7	26%
Mashreq	**71**	**76**	**93**	**76**	**73**	**48**	**27**	**34%**
Comoros	41	146	58	141	75	107	2	24%
Djibouti	47	142	38	141	4	50	52	30%
Somalia	55	66	3	141	12	139	140	36%
Sudan	127	128	137	27	22	111	86	19%
Yemen	59	91	70	83	138	44	14	32%
LDCs	**45**	**118**	**118**	**46**	**44**	**76**	**36**	**24%**
LAS		**29**	**74**	**45**	**92**	**15**	**65**	**54%**
Poland		44	55	139	143	84	72	40%
Vietnam		5	6	41	27	139	26	89%
ASEAN		26	37	18	28	77	55	60%
China		**82**	**125**	**44**	**108**	**124**	**90**	**26%**
India		**117**	**113**	**96**	**98**	**82**	**39**	**21%**
Japan		**126**	**136**	**15**	**137**	**122**	**132**	**14%**
United States		**138**	**142**	**21**	**115**	**86**	**133**	**11%**

Arab intra-regional integration: Channels

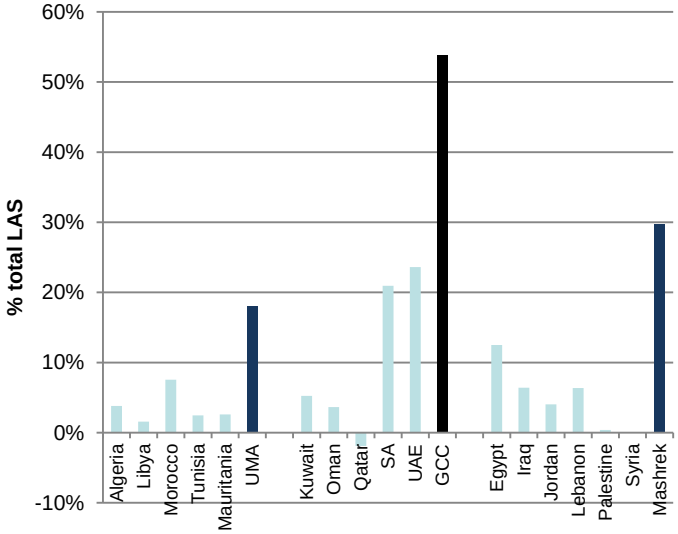
FDI

Increased in the 90s
LAS share of total world is 3.3 in 2013 versus 6.7 percent in 2009
Mainly the GCC (53.8 percent), Egypt, Morocco, Iraq, Lebanon increased their share between 2000 and 2013

FDI share of total world, 1990-2013 by region



FDI inflows to LAS, share by country, 2013



For these countries 17.9 percent in Jordan, 29 percent in Lebanon, 9 percent in Morocco, 17 percent in Egypt in percent of GDP

Reforms needed: financial development, human capital and infrastructure quality as well as an inappropriate distribution across sectors

But poor data quality, flow largely informal, relationships are certainly closer

Arab intra-regional integration: Channels

Labor

Traditionally effective integration channel
Flow stable, provide hard currency
Countercyclical

Main Recipients: In 2013, in percentage of GDP, remittances =

- 20 percent in Palestine, 19 percent in Lebanon.
- 10 percent, Yemen, Jordan and the Comoros
- 7 percent in Egypt and Morocco
- 4.7 percent in Syria, Tunisia

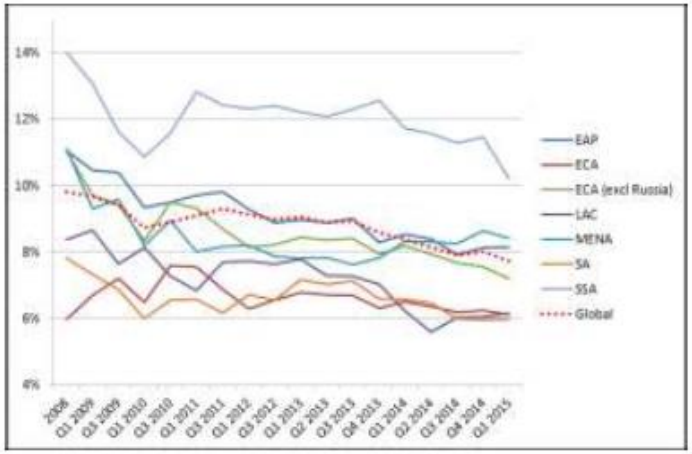
Reforms needed:

- highest cost of sending money in the world
- Linkages with economic growth not straightforward
- promote access to savings, loans and health care tied to remittances
- affected by exchange controls, capital controls or exchange rates and interest rates differentials
- Common labor market

Main contributors

- Saudi Arabia for Yemen, Jordan, Egypt, Lebanon
- Libya for Tunisia
- Jordan

Cost of sending money



Source The World Bank,2015, Remittances prices worldwide, issue no.13, March

But poor data quality, no data for GCC countries except SA, flow largely informal

Arab intra-regional integration: Channels

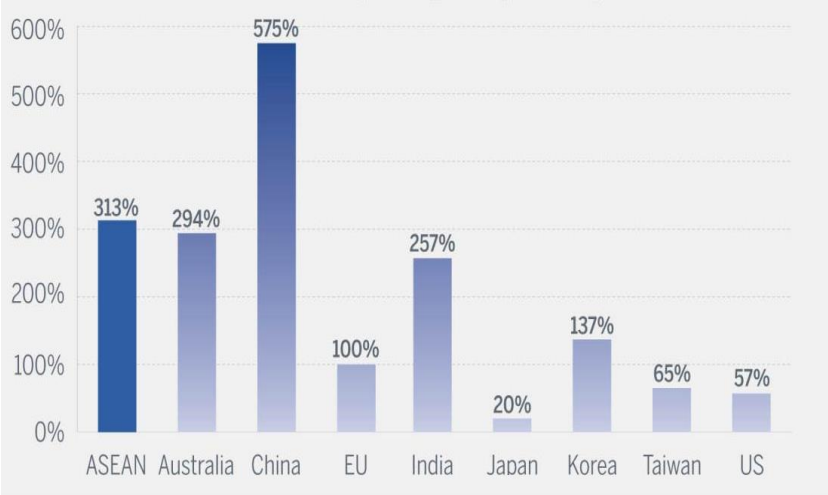
Trade

Arab countries are falling behind
ASEAN share of world GDP = 3.2% but share in world trade = 13.2% = LAS share of world GDP = 3.6% (2.2% for GCC alone)
RTAs non efficient
No strong intra-regional preference at the difference of the EU and the ASEAN, except for the GCC

Success of the ASEAN due to

Large intra-regional and foreign investment flows
Outsourcing strategy and regional value chains
Cheap labor force
Financial system quality
Vulnerability to foreign crisis

GDP growth comparison, 2001-2013



Similar bottlenecks

- Difficulty to reach consensus
- Meager political support
- Attachment to national sovereignty
- Low complementarity originally

GLOBALIZATION: risks and opportunities

The AEISI highlights the 2008 and European crisis domino effect.

Intensity of flow index ranking

Calculated using exports, FDI and Workers' remittances inflows

the 'positive' side of globalization and the crisis exposure

Lebanon, Palestine, Comoros highly vulnerable

Egypt, Morocco, Jordan, Tunisia insertion rather balanced

Globalization as an engine of growth for: The UAE (re-export),

The GCC, Libya, Iraq fuel the world growth

Lebanon, Libya and Syria and LDCs strengthened

No discernible improvement (trade creation) from the Agadir agreement

Questions:

Does globalization contribute to improve Arab countries economic prospects?

What is the contribution of intra-Arab integration?

What are the risks of such a strategy?

Possible improvements to the system of indexes

- The shift of focus from gross trade to trade in value added using OECD-WTO TiVA database

- Broadening of the indicator set
  - more indicators capturing policy stance
  - new or richer indicators reflecting priority areas
  - more systematic and explicit inclusion of SDGs

Chapter 3

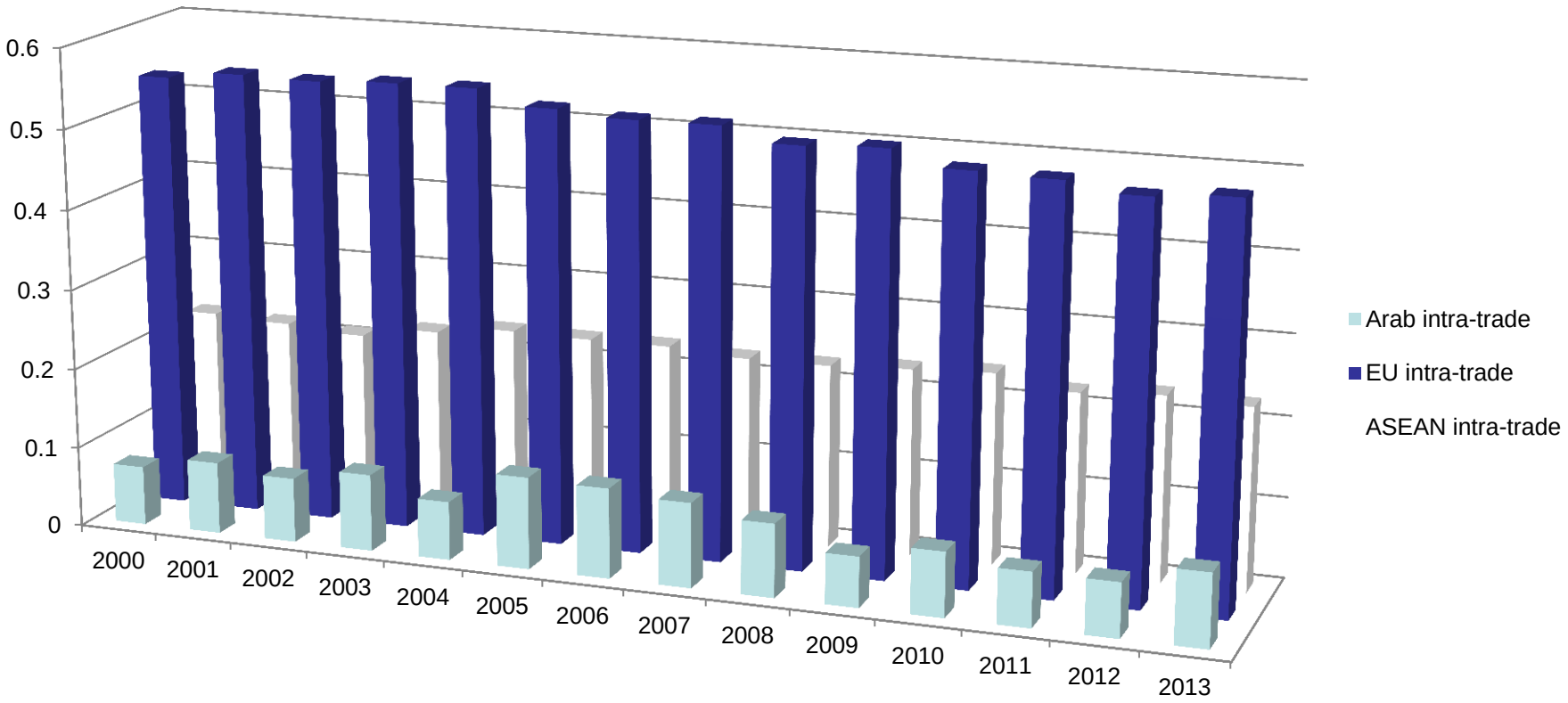
Productive capacities and integration

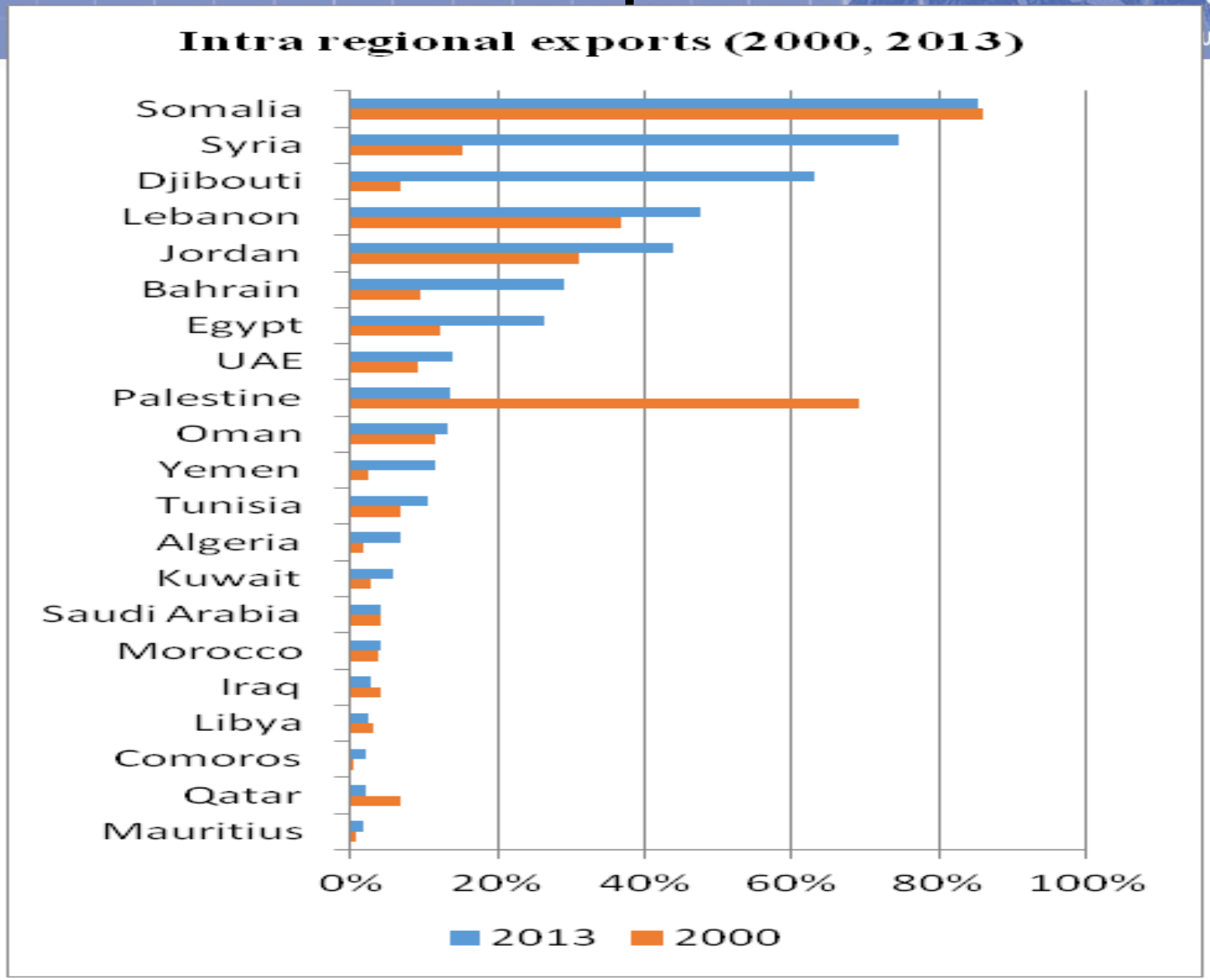
Chapter 3 – Productive Capacities and Integration

This chapter addresses the progresses made and the challenges faced in the pursuit of regional economic integration within the following sectors:

- Trade
- Manufacturing
- Agricultural
- Tourism
- Services

Intra-Regional Trade as a Ratio of Total Trade




Intra regional exports (2000, 2013)
Somalia
Syria
Djibouti
Lebanon
Jordan
Bahrain
Egypt
UAE
Palestine
Oman
Yemen
Tunisia
Algeria
Kuwait
Saudi Arabia
Morocco
Iraq
Libya
Comoros
Qatar
Mauritius
0%
20%
40%
60%
80%
100%
2013
2000

Regional Value Chains: Boost Latent Arab Manufacturing

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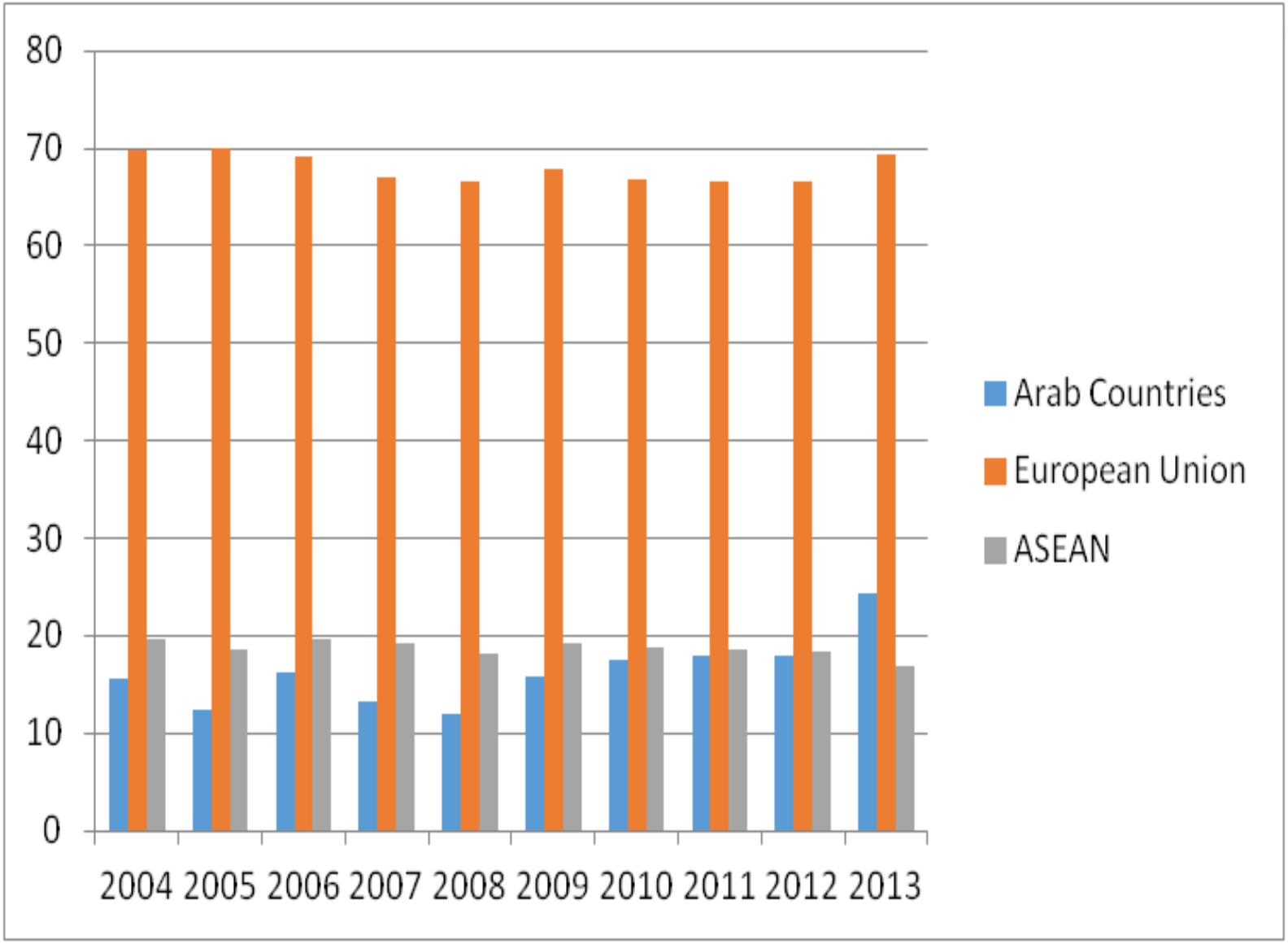
- industrial sector in the Arab region generally underdeveloped
- dominance of the state in industry is an issue
- exclusive reliance of many Arab states on the energy and natural resources sectors
- Arab states with excess capital stand much to gain from cross-border industrial partnerships with Arab states that enjoy surpluses of cheap labor, and vice-versa
- industrialization and regional integration are not mutually exclusive, but mutually reinforcing

Intra-regional imports of intermediate goods

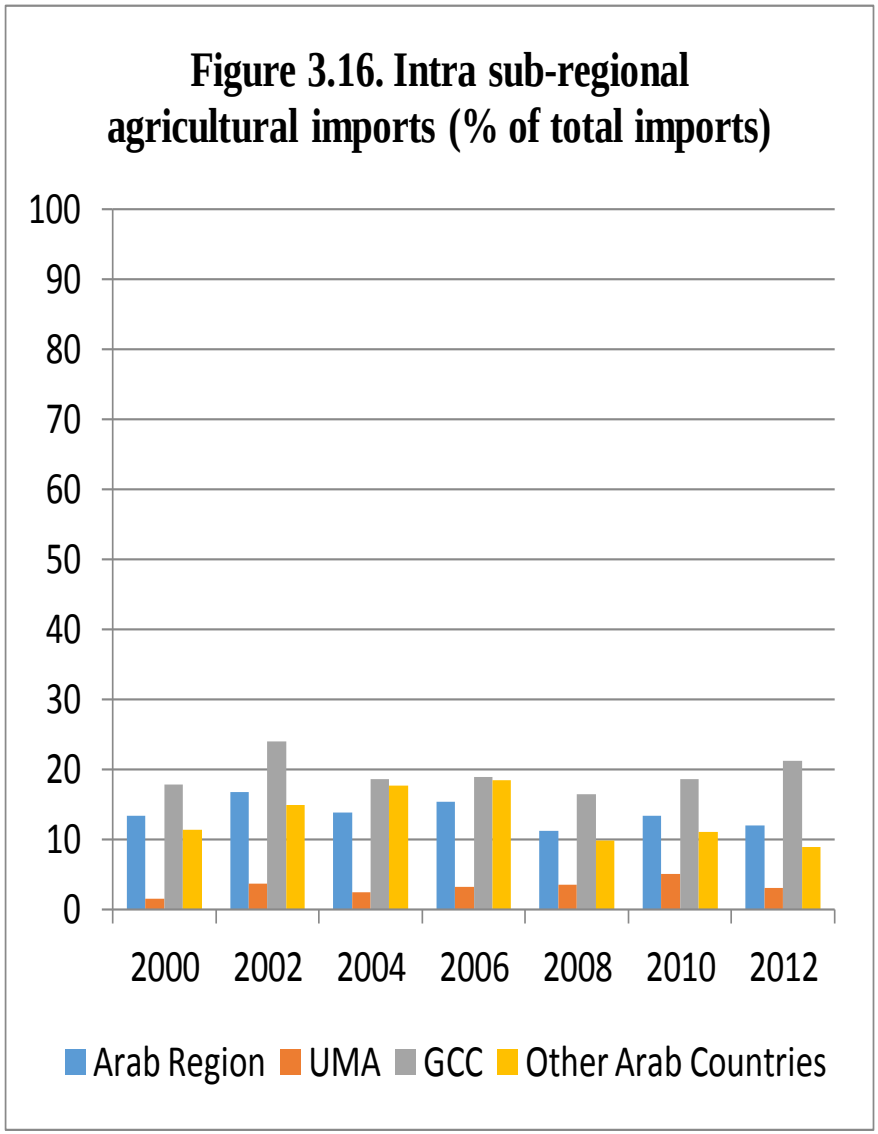
as % of total intermediate imports

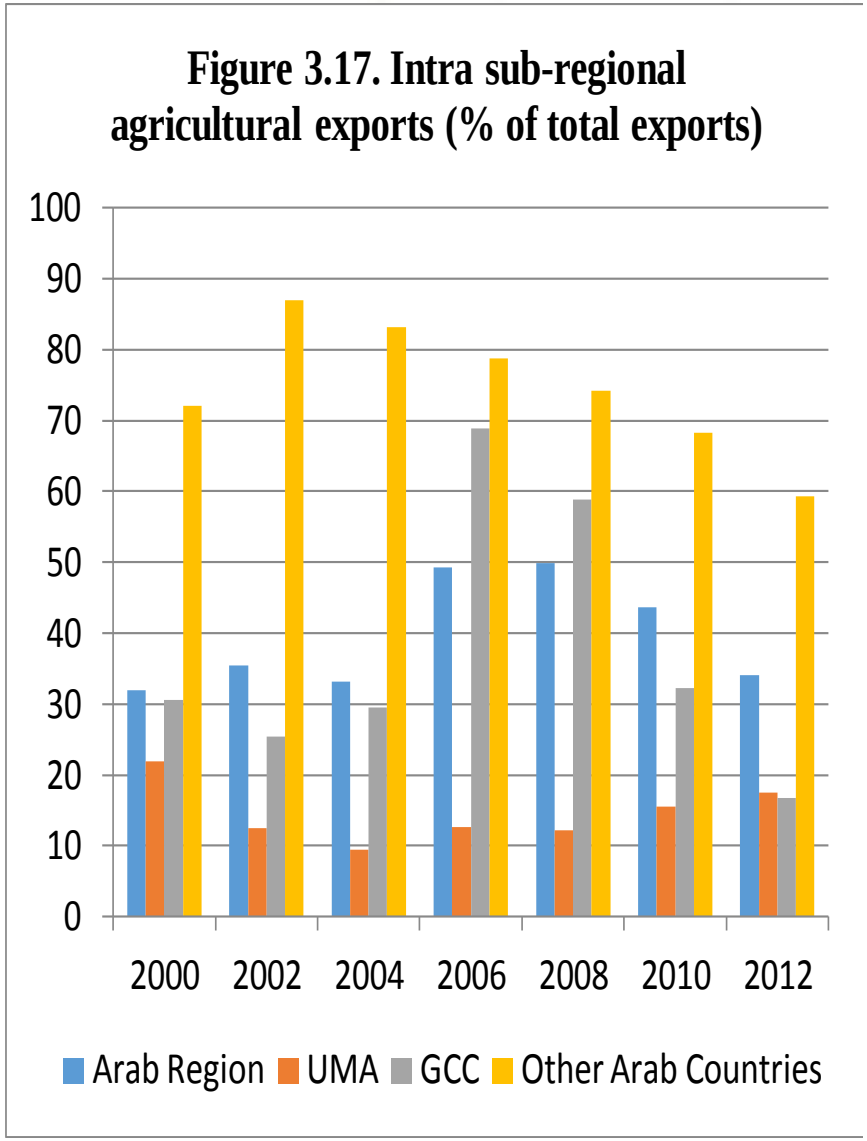


Agriculture

- many countries have agricultural support programs that are incompatible with free trade.
- Arab states export most of their total agricultural exports to other Arab states
- agricultural imports into Arab states from other Arab states only make up a very small portion their total agricultural imports
- intra-Arab agricultural trade is of unprocessed or raw commodities
- agricultural investment falls short of required levels

Intra Sub-regional trade of agricultural products

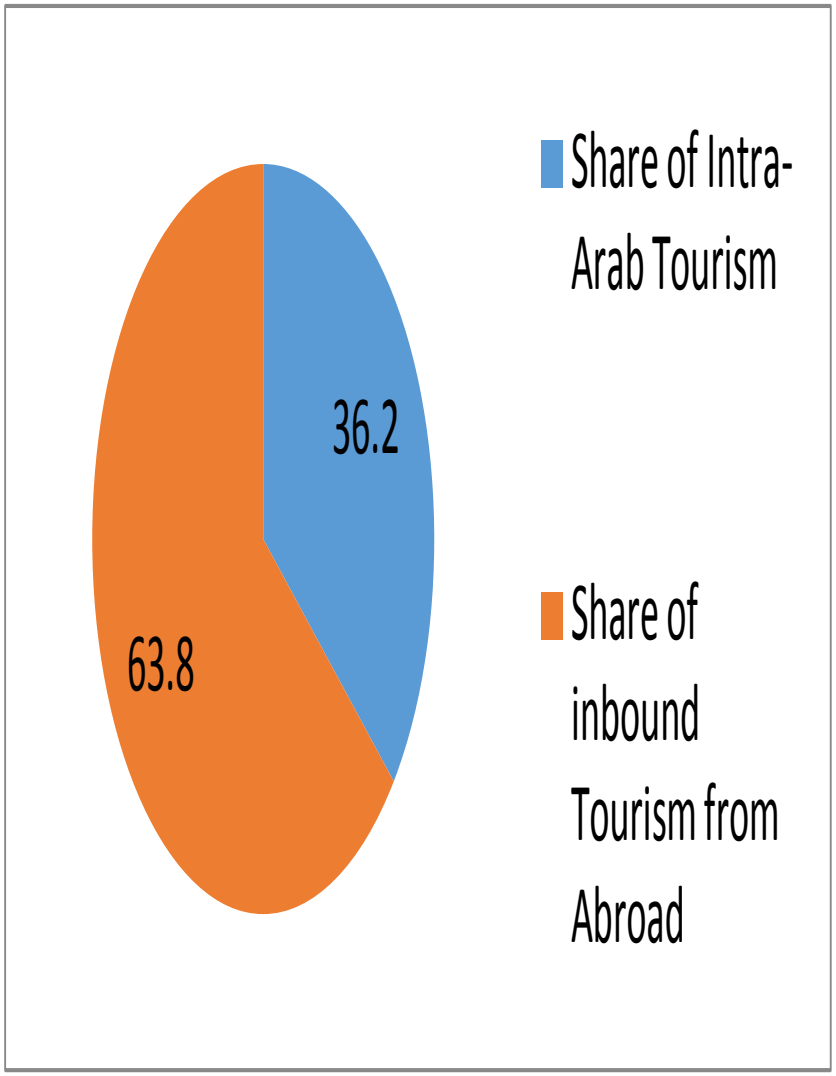


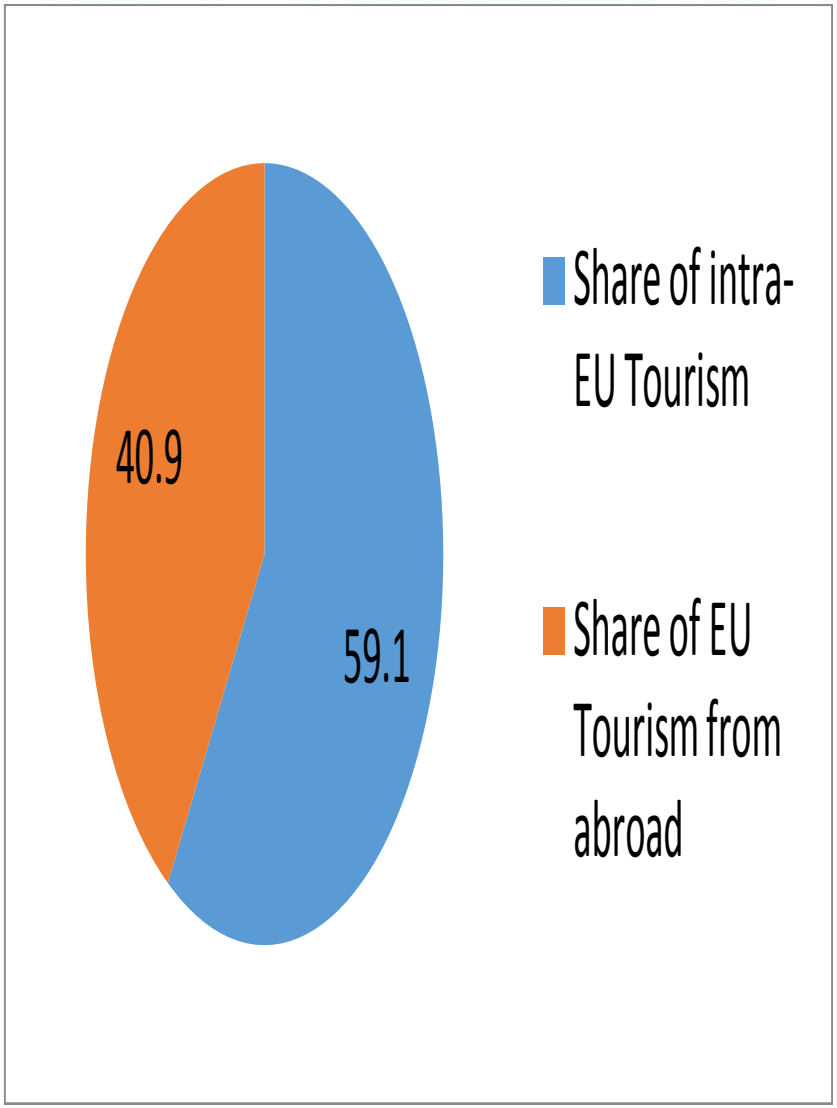


Tourism

- Tourism in he Arab region has been growing rapidly
- a total of $4 trillion committed to travel and tourism projects across the region
- Conflict and instability has taken a toll on traditionally strong tourist performers, most notably Egypt and Syria
- Income from tourism counts for only 3% of GDP region-wide, but many Arab states significantly depend on the tourism sector

Intra-Regional Tourism, select regions, 2012

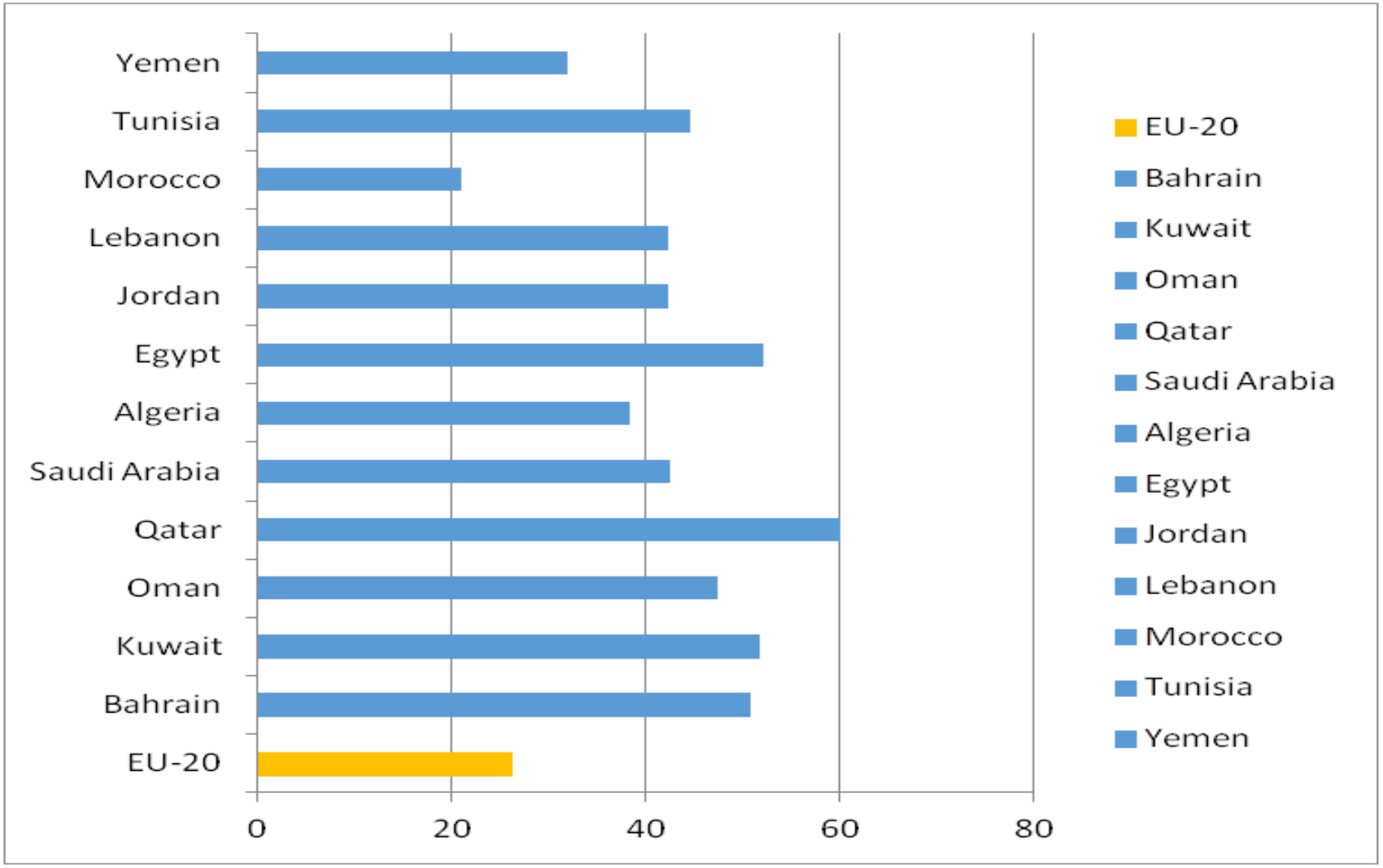




Services Trade Liberalization

- The service sector is a major determinant of the economic and trade performance
- The liberalization of trade in services is necessary for enhancing intra-Arab trade and diversification
- Egypt, the UAE, and Jordan are among the top 20 locations that are most accessible to offshore service providers
- Efforts to liberalize trade in services in Arab states are underway but further progress is needed

Overall Services Trade Restrictiveness (score)



Chapter 4

Facilitating factors and structural elements for integration

Chapter 4 – Facilitating Factors For Integration

UN-ESCWA

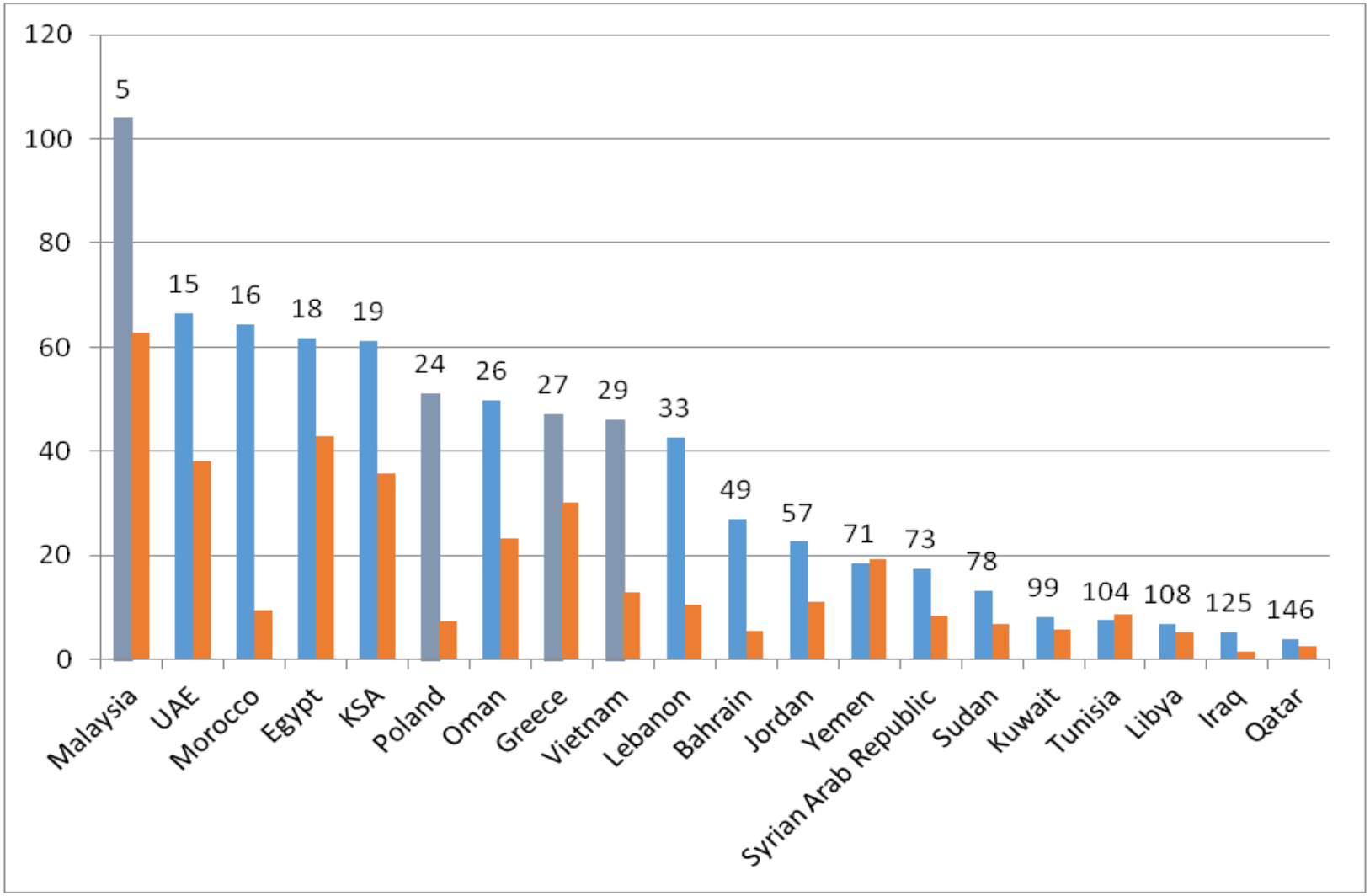
- An assessment of the factors that facilitate integration, with an analysis of progress made on a number of fronts, the challenges faced, and potential for future integration

- These factors are :
  - Transportation
  - Energy cooperation
  - Water resources
  - Regional migration for employment and livelihoods
  - The growing role of regional remittances
  - Arab financial integration

Transportation

- Transportation facilitate the movement of production factors, products
- Road transport is the prevalent mode of regional transport in the Arab region
- The Arab region has one of the lowest rail network densities in the world
- Arab maritime transport fares better, with container port throughput having grown by more than 75% between 2008 and 2013
- Arab air transport is also vibrant: grew at an annual average of 7.2% between 2003 and 2013

Linear Shipping Connectivity Index,
score (2004 and 2014) and global ranking (2014)



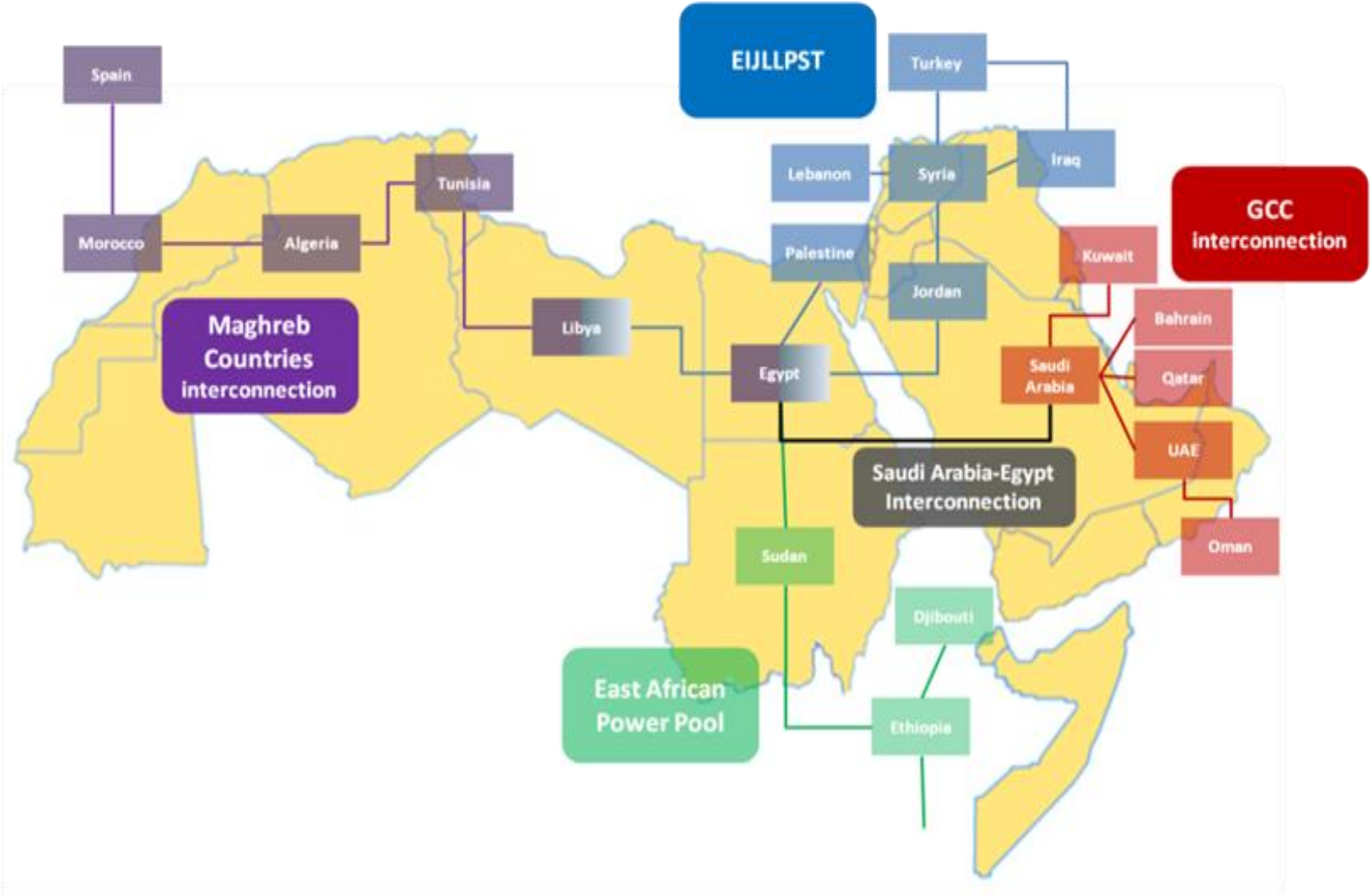
Energy Cooperation

- Arab countries have aimed to connect major oil fields to consumer markers in Europe through pipelines, but sub-regions are still greatly disconnected.

- The interconnection of Arab electric grids is in progress

- Regional energy governance is still weak

Interconnection of electricity networks in the Arab region



Water Cooperation

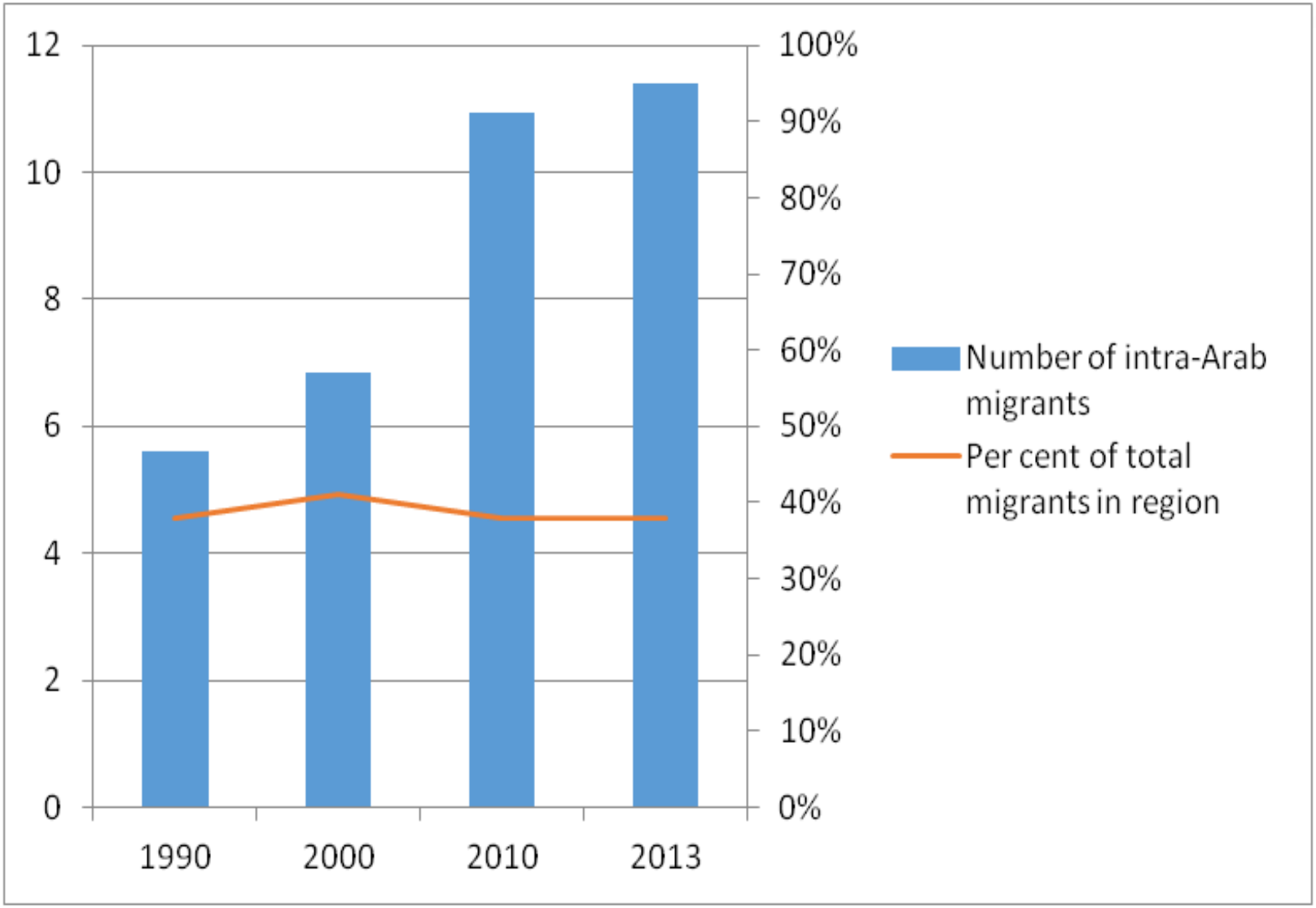
- Most Arab countries are classified as ‘water poor’
- There has been some progress on Arab regional water cooperation
- The establishment of shared water resources yet to be implemented

Regional Migration for Employment and Livelihoods

- As of 2010, there were nearly 9 immigrants for every 100 people in the Arab world, which is three times the global average
- As of 2013, there was an estimated 11 million Arab migrants in other Arab states, which represents about 37% of total immigrants in the Arab world
- Easing restrictions between Arab states would help home and host countries, foster regional integration

Intra-Arab migrant

stock (millions), and % of total migrants within the region



The Growing Role of Regional Remittances

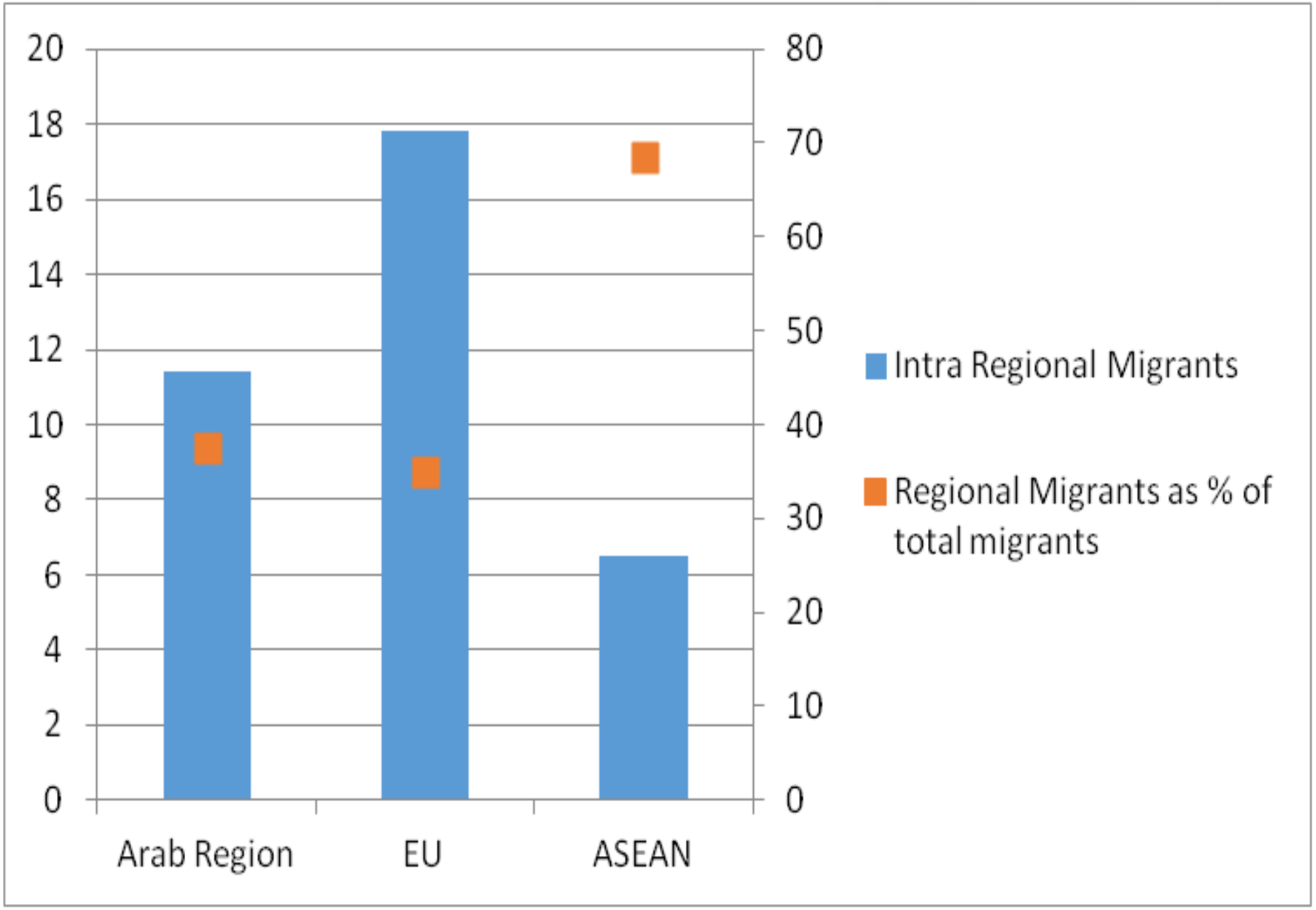
UN-ESCWA

- Remittances in the Arab region: In 2012, over $520 billion in remittances were sent worldwide, $49 billion of which were sent into the Arab region. Workers in the Arab region sent $82 billion back to their countries of origin in 2012, the majority of which ($69 billion) were sent from the GCC.

- Intra-Arab remittances: Remittances sent from Arab states to other Arab states have been growing rapidly, from $5 billion in 2000 to $17 billion in 2010 and $24 billion in 2012. However, of the total value of remittances that are sent from the Arab region, only 29% are sent to other Arab states.

- There is a great deal to be gained from channeling remittances sent from the Arab world to other Arab states rather than to countries outside of the region.

Intra-regional migration comparisons (in millions and as % of total migrants), by region



Arab Financial Integration

- Financial markets in the Arab region: The Arab banking sector is the most important sector in the Arab financial system. The region's total bank assets are concentrated in the UAE, Saudi Arabia, Qatar, and Egypt.
- Financial integration in the Arab region: Of foreign banks in Arab countries, the greatest proportion come from other Arab countries.

Table 4.1: Number and Share of Foreign Banks in the Arab region, by home region, 2000 and 2009

Number and Share of Foreign Banks in Arab region, by home region, 2000		
Home Region		
America	3	6%
Asia	5	10%
Europe	20	41%
Arab	21	43%
Total	49	100%

Number and Share of Foreign Banks in Arab region, by home region, 2009		
Home Region		
Americas	2	3%
Asia	4	5%
Europe	23	31%
Arab	46	61%
Total	75	100%

Chapter 5

From an FTA to a Customs Union

Why an Arab Customs Union?

- A customs union is an advanced level of economic integration, more so than an FTA.

- A customs union effectively creates a common market, which allows for member states to increase their market size and combine their market power.

- Going from an FTA to a CU requires an agreement on a variety of challenging issues, such as a CET, or the mechanism of tariff revenue distribution

Major challenges

- Addressing overlapping trade agreements
- Agreeing on a common external tariff
- Harmonization of national customs codes and procedures
- Harmonization of fiscal policies
- Harmonization of competition laws and antitrust policies

6.2. Illustrative scenarios for implementing the ACU

- Three illustrative trade reform scenarios are analyzed in this chapter: two ‘pure’ tariff reforms scenarios; and one tariff reform that is complemented by a reduction of trade costs on intra-Arab trade.
- Each scenario is composed of two major components: one of them is common to all scenarios while the second is more specific.
- The common assumption to all the three scenarios is that the CET is selected based on four lists of products.
- The first list of products covers those where applied tariffs are below 5% while the second list contains all products where applied tariffs are between 5% and the lowest rates of bound tariffs at HS6 level in all member countries.
- Finally, the third list includes all commodities for which applied tariff in the Arab countries are above the lowest bound rates at hs6 level, excluding 5% of tariff lines as negative lists for all member countries.

6.2. Illustrative scenarios for implementing the ACU (Cont.)

- The three scenarios assume the following:
- Tariffs on commodities in the first list will be fixed at 5 per cent in 2017, the first year of the tariff implementation scheme;
- Tariffs on commodities in the second list will be increased progressively to be aligned with the minimum bound rate levels over a period of three years: 2018, 2019, and 2020;
- Tariffs on commodities in the third list will be reduced to be aligned with the minimum bound rate levels over a period of 5 years: 2021-2025.
- Finally, 5% of tariff lines for each member countries will be excluded from the new tariff rates. These lists cover the products with the highest tariff rates in each member country.
- Sim1: CET + no changes in FTAs with ROW
- Sim 2: CET + generalisation of FTAs + cut in trade costs on intra-Arab Trade
- Sim3: CET + MFN rates on imports from ROW

Impacts

- No significant changes on GDP
- Important changes in trade patterns and mostly increase of intra-Arab trade
- Fiscal implications will be positive on GCC (except Oman), Libya, and Iraq.
- Negative impacts on the Arab countries without a diversified fiscal instruments.
- Economic gains will not depend only on the CET but on a package of policies to ensure a competitive Arab market.
- --- more harmonized sectoral policies
- --- competition policies
- --- lower trade costs: better transport connectivity, lower transport cost, more efficient custom procedures…
- --- common trade policy: no more negotiations of FTAs with ROW

Thank you!