



Trading together: Reviving Middle East and North Africa Regional Integration in the Post-Covid Era

MENA ECONOMIC UPDATE

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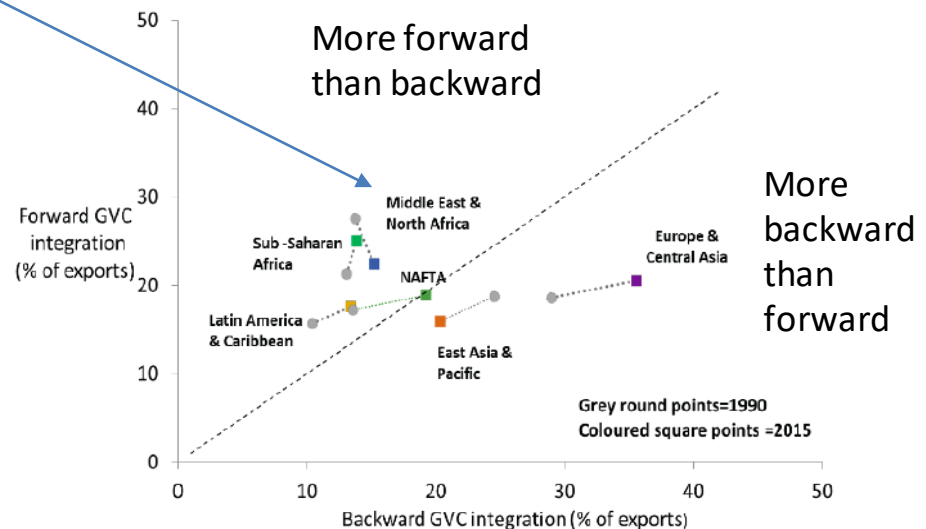
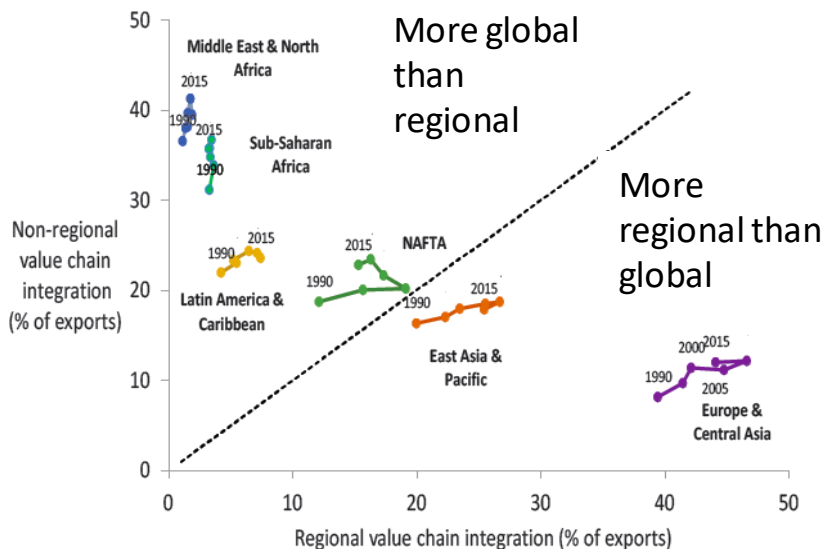
- ***Ways of “Reviving MENA Regional Trade Integration in the Post-Covid Era” are explored in Chapter 2.***

- **MENA** is one of the least integrated regions, intra-regionally and globally
- **New global trade trends**, emerging as a result of the pandemic, offer an opportunity to reset the clock
- **MENA** would benefit from intra-regional trade integration
 - *While opening the way towards global trade integration*
- Objective: Rethink economic policies and political economy factors to strengthen **trade integration**, while reducing oil dependency

Turning the
Crisis into
Opportunity

Regional and Global GVC Trade Growth by Region— 1995-2015 : MENA among least integrated

- **Intra-Regional Trade: Integration** is very limited in **MENA** (WDR 2020): **MENA** is one of the least regionally integrated regions, along with **SAR** and **SSA** (Annex 2): value of regionally traded goods/services is low.
- **Global trade: MENA** has mainly had “forward” participation in GVCs.



Why is MENA not more Integrated ?

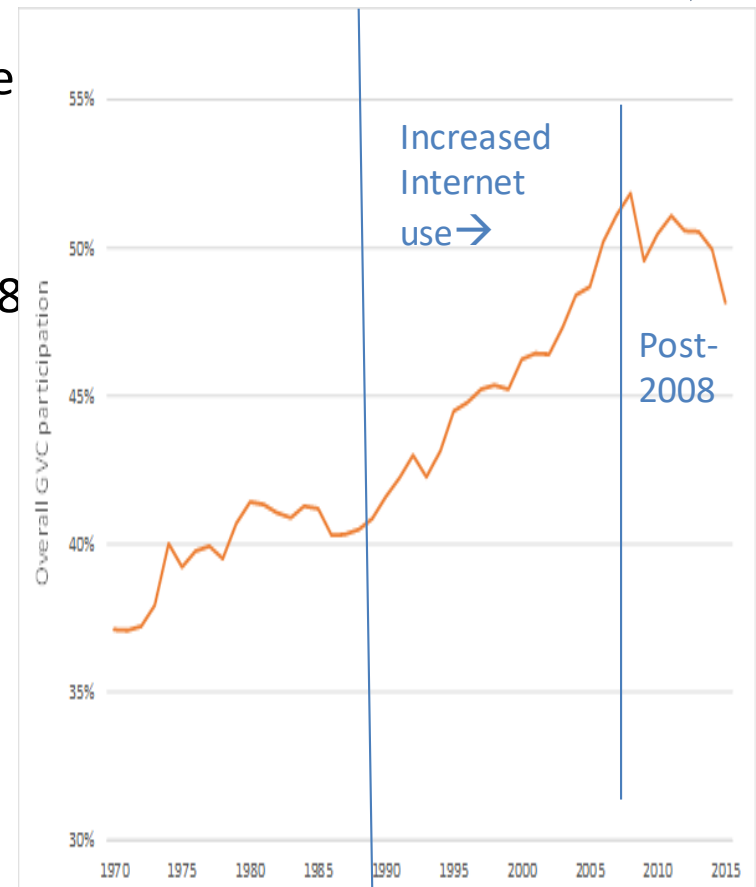
- **Four types of GVCs (WDR 2020), from low complexity to high complexity: Commodities, Limited Manufacturing, Advanced Manufacturing and Services, and Innovative Activities.**
 - More diversified production profile and more backward linkages → the greater the prospects for trade flows and integration.
 - Countries that transition from lower to higher complexity GVC categories, move up the production value chain: **reaping larger gains from having more diversified production and trade structures**
- **As a region, MENA participates in GVCs mainly as a commodity exporter – all MENA countries except Lebanon, Morocco, and Tunisia for Limited Manufacturing (Jordan transitioned down in 2015).**

What type of Trade Integration?

- Liberalizing trade by lowering tariffs, alone, would create winners and losers, further aggravating disparities in the region.
- Trade openness can be significant in achieving inclusiveness, **provided trade reforms move in tandem with sector reforms**, within inclusive growth strategies.
- A comprehensive trade reform at the **MENA** regional level could lower poverty, and benefit poor and marginalized groups, the youth and women.
- **What trade integration strategy should MENA follow?**

Pre-Covid Global Trade: GVC Participation

- **Rapid GVC trade growth** in the 1990s and early 2000s, due to falling average tariffs and increased internet use.
- **Stagnation and decline**, after the 2008 global crisis, due to absence of major trade liberalizations, as well as lower global economic growth and investments.



Post-Covid Global Trade: new GVC trends

- **Covid-19 pandemic is amplifying post-2008 declines in GVC share of trade, toward re-shoring and near-shoring** of some production activities in advanced economies, due to:
 - Increased **uncertainty in supply chains**: inducing companies in advanced countries to use local suppliers
 - Persisting **low interest rates**: making investments in industrial robotics cost-effective, mitigating against higher labor costs in their countries.

*→Result: GVC trade is becoming more regional than **global** in each of the three main trading blocs (ECA, EAP, and North America).*

- How will regionalization trends and avoidance of global supply chain risks (EU re-shoring from Asia) affect **MENA**?
 - *Could activities and jobs lost in China move to lower-wage markets in **MENA**?*
 - *Will substitution of lower-wage labor with robots affect **MENA**?*
 - *How can **MENA** position itself in the new scenario?*

MENA can Integrate better Regionally and Globally: Time to Reset the Clock!

- **Potential exists for MENA to integrate:** geographical position at the cross-roads between three continents; human capital richness (youth); abundant natural resources; and the possibility to access large markets.
- For countries in **MENA** (some in fragile and conflict situations), low political stability appears as the severest obstacle: ***The ability to move up the Global Value Chain would depend on substantial improvements in several policy areas in tandem*** (Annex 1)
 - **Reduce tariffs and non-tariff barriers** (Annex 3),
 - **Improve customs efficiency**
 - **Increase logistics quality**
 - **Remove FDI obstacles and improve business climate**
 - **Improve transparency and eliminate clientelism**
 - **Political stability and cooperation**
- **Scenario post-Covid: an opportunity to deepen trade integration with near-by markets, notably within MENA, and towards Africa and Europe**
 - Expand markets: **regionally-traded goods and services** —electricity/gas, ICT and finance products;
 - Lock-in the implementation of market-oriented domestic reforms to **regional trade agreements**; and
 - Advance the **digital technologies** to achieve cost reductions in intraregional and global trade (Annex 5).

Towards a Renewed Regional Trade Integration Agenda

- A new **MENA** regional trade integration approach is needed: to go beyond tariff reductions and link trade with sectoral reforms and public goods provision (Annex 4).
- This agenda should:
 - Favor **cross-sectoral/horizontal approaches first**.
 - Proceed with sector integration in a coordinated manner; and
 - Focus post-Covid trade on key sectors, most sustainable and resilient to economic shocks: **renewable energies, food security, health systems, and the knowledge economy** (Annex 5 on digital trade potential: **e-commerce** which can apply to all sectors).
- A **coordinated** integration agenda would facilitate RVCs and attract quality FDI, opening the way to GVCs.
 - ***MENA countries should cooperate on trade within the region and on the broader rules-based multilateral systems.***
 - The effectiveness of policies will depend on the involvement of SMEs and civil society in decision-making: ***emphasis on advancing the private sector***, building on complementarities between trade promotion and private sector development.
 - ***Technical assistance*** in the context of North-South and South-South exchanges should be explored in the existing trade agreements, to (re)build relations of trust.

The time is right to revise regional mechanisms for strategic cooperation

Considerable Potential of Integration with Africa : Tariffs and NTMs convergence, Mobility and Connectivity

- **AfCFTA implementation could trigger a significant increase in trade between SSA and North Africa:**
 - manufacturing, chemicals, rubber, and plastics, and processed food products.
- The positive impact of AfCFTA will greatly depend on how non-tariff barriers are removed and how trade facilitation measures are implemented.
 - ***AfCFTA offers a great opportunity for MENA and SSA to simplify/converge NTMs, especially export related measures and technical barriers.***
- Large expansion to regional partners could happen in health and education, and transport.
 - ***MENA should have provisions for the movement of natural persons providing services to and from Africa.***
- **MENA** can improve its ***regional connectivity with broader markets in Africa,***
 - ***Morocco: introduced a digital strategy to become a digital hub for Africa.***

- Diversification and upscaling will also require additional Euro-Med liberalization in sectors previously excluded: agriculture and services.
 - ***Agriculture plays a key role in food security and employment, it needs to be included in the post-Covid EU-MENA agenda.***
- Enhancing the Euro-Mediterranean electricity market integration would connect MENA countries (rich in carbon-free energy resources), to Europeans (demand for carbon-free electricity).
 - ***Regional market integration throughout Europe would expand access to low-carbon supply sources (hydro reserves from the North) and plentiful solar power from MENA.***
- A return to talks on ***mobility partnerships***, to facilitate legal migration for MENA businesspeople, students and young workers would significantly stimulate trade.
- Transform the Free Trade Agreements (FTAs) EU-MENA into ***Deep Comprehensive*** Free Trade Agreements (DCFTAs), provided negotiations lead to symmetric, fair and inclusive solutions.

Biggest Gains : triangular cooperation in an integrated EU-MENA-Africa axis

Further
Potential of
Integration
with the EU
must be
Leveraged:
Enhancing
Mediterranean
Integration

Implementation Framework

In order to succeed, this agenda should be supported by the following pillars:

- **A balance between political and economic objectives** to ensure trade agreements do not become inactive.
- **A trade liberalization that benefits all sectors**, including agriculture and services, and with a larger scope covering *all regulatory areas of mutual interest, including trade facilitation, standards and conformity assessment, investment protection, government procurement, and competition policy*.
- **Clear rules and effective implementation mechanisms**: this may require creating supranational mechanisms to regulate, monitor and implement trade integration provisions.
- **Complementary behind-the-border reforms** should be envisaged as part of the regional strategy.

Annex 1. In MENA Regional Trade Integration remains below expectations, due to economic and political economy reasons

The contribution of trade integration to engender important socio-economic gains, has been below expectations in MENA. This can be explained by a mix of **economic and political economy reasons**, such as:

- Limited gains of integration with the EU through Association Agreements due to, among other things, **the exclusion of agricultural goods and services** from the agreements, as well as the persistence of **non-tariff** trade costs.
- Low levels of integration among MENA countries (ex. Arab Maghreb Union) due to **insufficient reforms of the legal frameworks for the investment environment, lack of harmonization of rules of origin, lack of convergence of NTM regulations and the lack of trade facilitation.**
- **Political cooperation has proven to be problematic.** The Arab-Israeli conflict, the Morocco and Algeria relations, the conflict in Syria, among others, are all barriers that impede on having a more united front among MENA countries.
- **Lack of transparency** in MENA countries obstructs policymaking
- **Clientelism** preventing the region from capturing the gains from trade integration
- **Conflicts and violence** that affect trade and investment

Annex 2. Intra-Regional Trade Integration is limited

- The value of overall trade across MENA countries is low (fig1).
- Most are somehow “linked” within the region. However, as they do not have large trade flows, this reduces their importance in the production chain (fig2)

Fig 1. Intraregional trade, imports from MENA, by trading partner

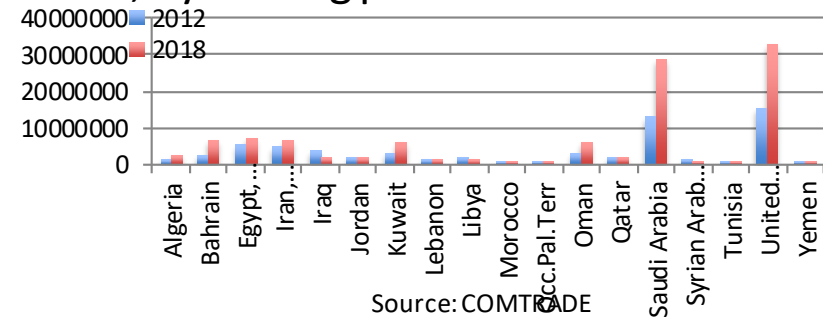
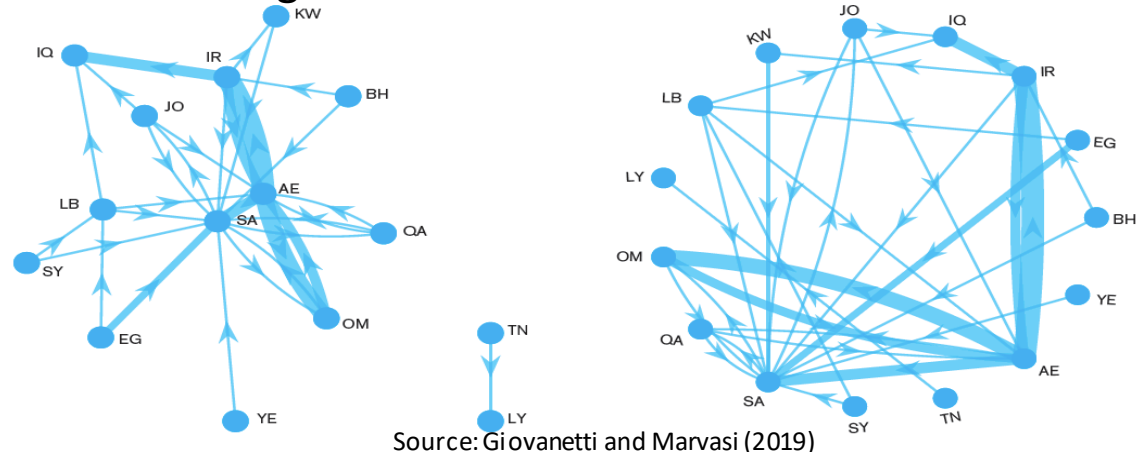


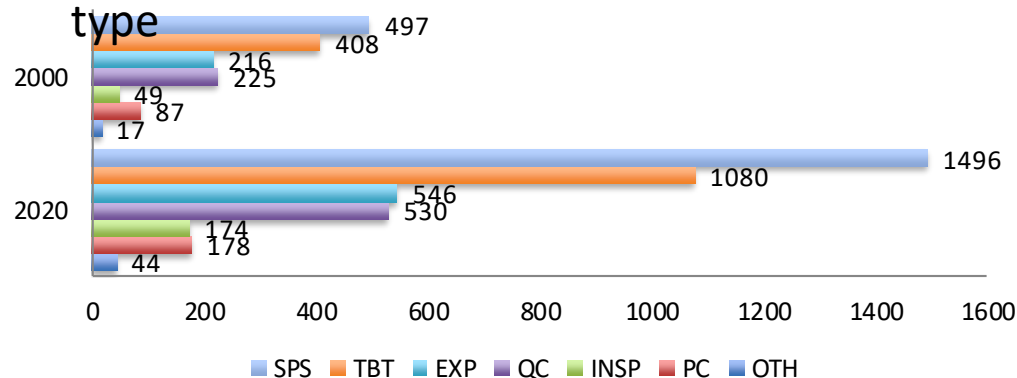
Fig 2. Intra-MENA network of intermediates



Annex 3. Obstacles to Trade Integration

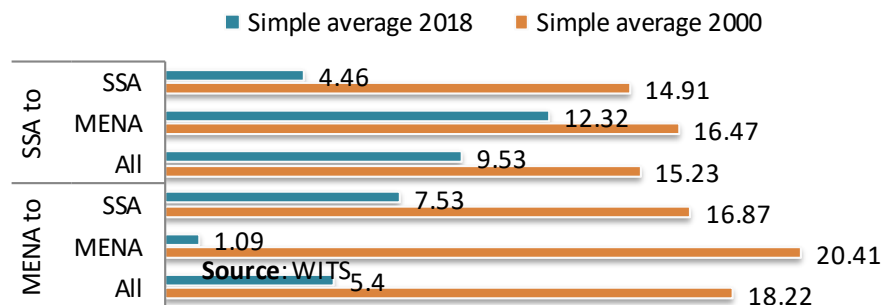
- MENA countries apply many Non-Tariff Measures (**NTMs**), more than Sub-Saharan Africa. For all categories of measures, their number has, at least, doubled between 2000 and 2020
- Some **tariffs** still persist especially towards Sub-Saharan Africa (SSA)

Fig3. Number of NTMs applied by MENA, by type



Source: UNCTAD NTMs TRAINS Database

Fig4. Effectively Applied Tariffs, by trading blocs

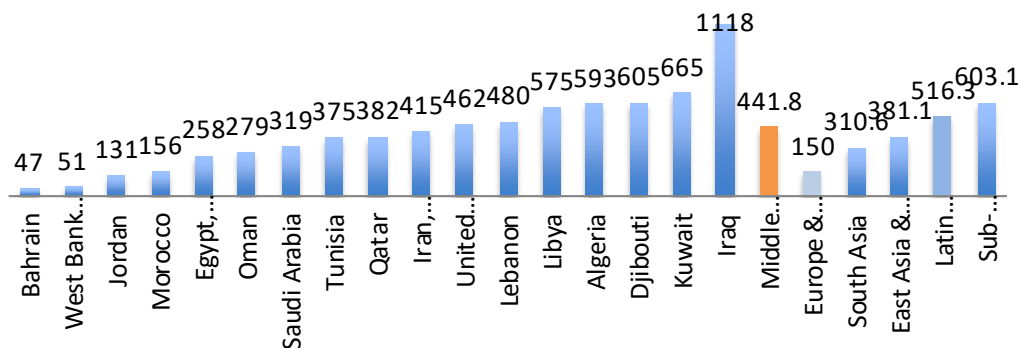


Source: WITS

Annex 3. Obstacles to Trade integration (continued)

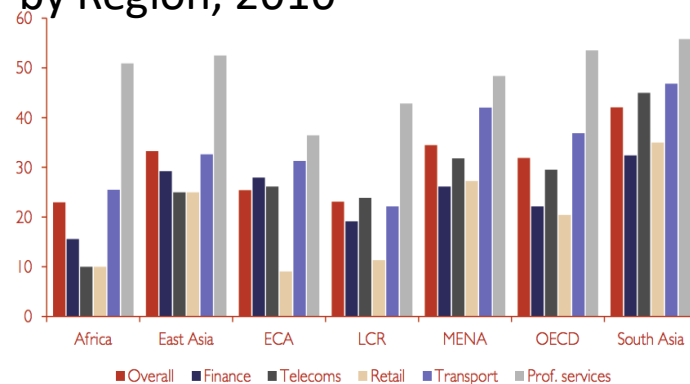
- **Getting credit** remains harder than anywhere else in the world, as the MENA region ranks 118th (Doing Business).
- The cost of **complying with border requirements** for exporting averages \$442 (fig 5) and takes 53 hours, which is three and four times more than the averages among OECD high-income economies.
- With regards to **logistics**, a key enabler of trade facilitation, performance of MENA is much lower than the average score of ASEAN economies. In low ranked MENA countries, logistics quality and competence, infrastructure and customs seem to be the main obstacles to be addressed.
- The region is one of the most restrictive ones regarding trade in **services** (fig6) and **labor mobility challenges** remain

Fig5. Cost to export: Border compliance (USD)



Source: DoingBusiness 2020

Fig 6. Services Trade Restrictiveness, by Region, 2010



Source: Hoekman 2016, compiled from World Bank

Annex 4. Invest in regional public goods: contain the negative externalities of shocks (in line with the WB's MENA enlarged strategy) and prevent further disparities

Integrate Regional Environmental Responses: Energy-Water-Food Nexus:

- A larger renewable **energy** regional market (through enhancing the Euro-Mediterranean and SSA electricity markets) should help improve management and distribution of scarce **water** resources (with a strong emphasis on vulnerable communities and population groups such as women and youth) which in turn would open a trade potential for **food security**: now vital for the region's resilience to shocks

Improve Digital Connectivity Regional Infrastructure

- Support regional connectivity, developing sub-regional digital infrastructure, and regional value chains entail the adoption of new technologies and the provision of “**digital public goods**,” including fast and reliable broadband internet, free movement of data, and digital payment solutions.

Enhance Regional Human Capital:

- Labor **mobility**, especially student and trade-related mobility, is needed to underpin human capital formation across borders.
- Improved **skills and statistical capacity building** are vital for the ability to sustain job creation.
- Advance pandemic preparedness and coordination of responses: Facilitate **data flows and digital services delivery**, across borders, play a critical role in response to the Covid-19 crisis and future shocks.

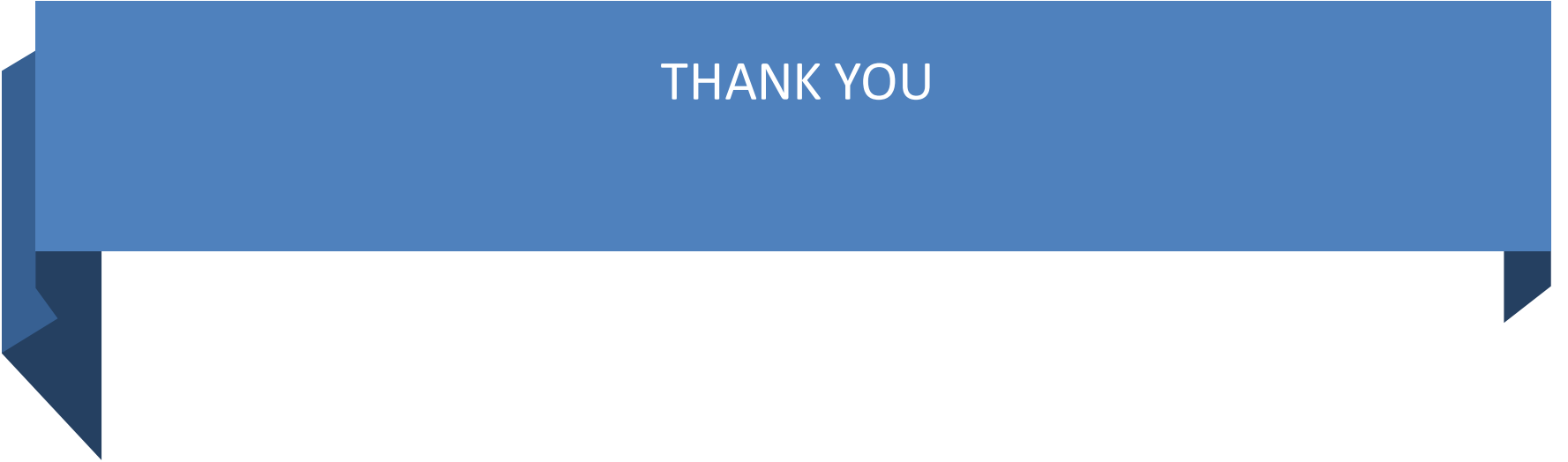
Annex 5. MENA needs to: Expand Regional Digital Trade for a rapid post-Covid Recovery

Gains

- Leveraging the digital economy for commerce has the potential to expand intraregional MENA trade prospects. According to OECD, a 10% increase in “bilateral digital connectivity” raises goods trade by nearly 2% and trade in services by over 3%.
- Expanding e-commerce could be a job accelerator for youth and educated women.
- Increases in intra-regional flows of goods and services would open new channels for e-trade exchanges with other trade partners such as the EU and SSA.

Approach

- Adopting policies that would allow greater cooperation among MENA partners to implement simultaneously digital trade facilitation should be envisaged. Digitizing the trade process could include the creation of a single electronic window, registration of information online, and the implementation of a cross-border paperless trading system.
- Adopting policies to advance forward-looking regional trade agreements that include relevant measures for digital trade facilitation, which are essential to reducing trade costs.
- Adopting policies to ensure actions are taken on both policy and skill improvement to ensure women’s digital access, mentoring, training, and access to financing.
- Removing barriers to trade in services as it plays a fundamental role in enabling digital trade transactions.



THANK YOU