PANDEMIC IMPACT ON ARAB ECONOMIC INTEGRATION

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Agenda

- **Economic Importance of Integration**
- **Arab Economic Integration pre-Covid**
- **Main effects of Covid19**
- **Reforms to foster integration; areas for policy research**

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Economic Integration

- **Divisions & barriers between countries** created by geography, politics, poor infrastructure & inefficient policies are an **impediment to economic growth & development**
- **Regional Economic Integration (REI) is a process in which two or more countries agree to eliminate economic barriers**, with the end goal of enhancing productivity & achieving greater economic interdependence
- **REI allows countries to integrate goods, services & factor markets** => facilitate flow of trade, capital, resources, people, technology & knowledge
- **REI requires cooperation & agreement** between countries on:
  - Trade, investment and domestic barriers, laws & regulations;
  - Competition policy, investor rights, product standards, public procurement and intellectual property rights
  - Transport, ICT, water, resources, infrastructure
  - Macroeconomic, fiscal and financial policies;
  - Provision of common public goods (e.g., shared natural resources, security, education)

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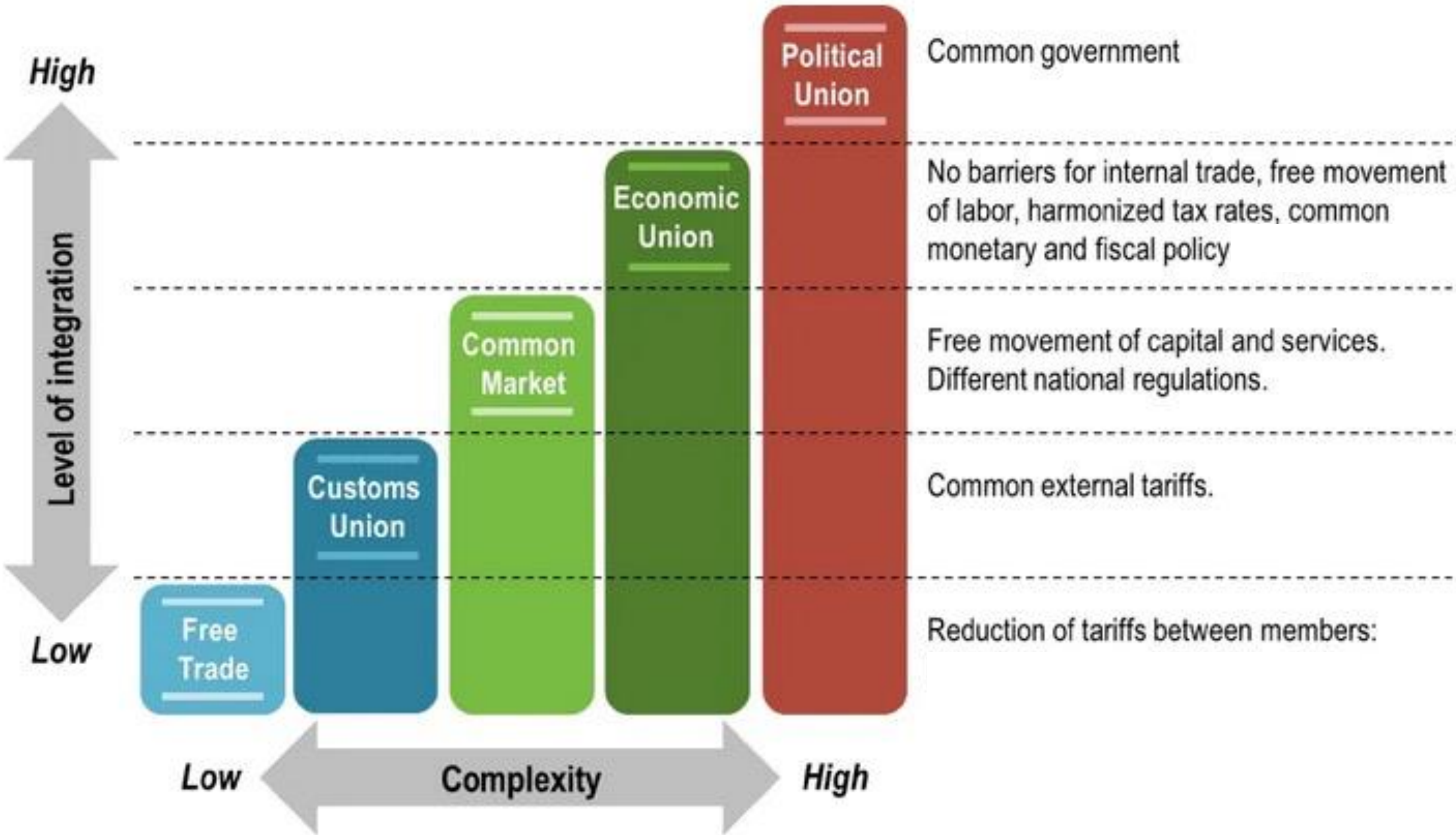
Economic Integration can take different forms: from the simplest Preferential Trade Area to deep trade integration, to advanced monetary, fiscal or political union



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Pros & Cons of Economic Integration

Benefits from regional connectivity & integration	**Trade creation gains:** free movement of goods, services, capital, info & people
	Efficiency gains from competitive advantage
	Share the costs of public goods or large infrastructure projects
	Gains from economies of scale & **network externalities**
	Building block for global integration & participation in global value chains
Costs of regional integration	**Costs of adjustment** (transitional unemployment)
	Negative spillovers & externalities. Trade diversion losses
	Uneven distribution of benefits. Lack of adequate adjustment and complementary policies & institutions may lead to inefficient outcomes
	Countries may have **different preferences on priorities** for regional integration (e.g., connectivity gaps, economic geography…)
Promotion of regional peace & stability	**Does not guarantee political peace** & **security**, but reduces likelihood of conflict (e.g. EU). Nationalists/populists oppose integration on **loss of sovereignty**
	Policies and institutions are needed to ensure that regionalism is inclusive and that social, environmental, governance risks are managed

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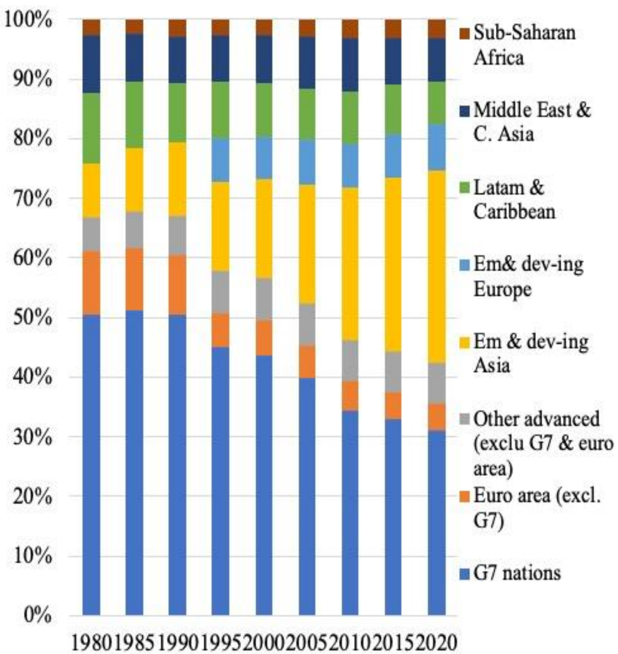
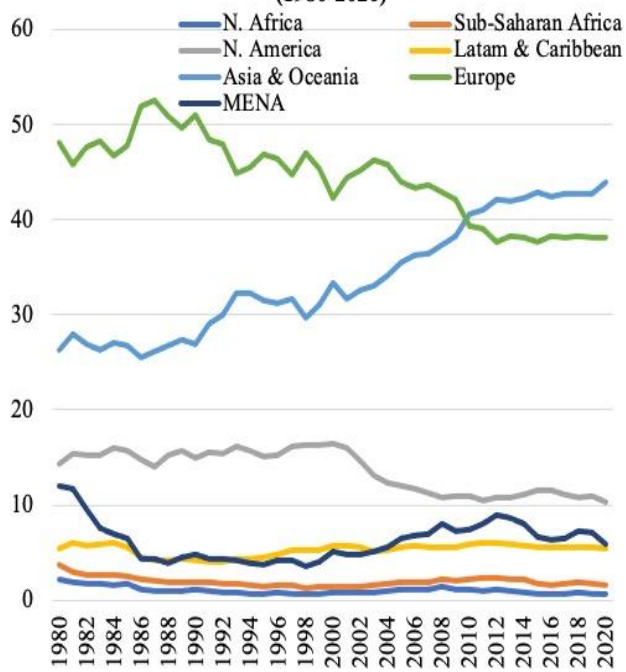
How does the MENA region compare to other regional counterparts?

- **Substantial shift in economic geography** to emerging Asia; Middle East (& Central Asia) region is one of the least dominant players in the global economy, with only Sub-Saharan Africa trailing behind
- MENA region falls at the lower end of the spectrum in both trade & FDI. **MENA accounted for just 5.8% of overall global exports trade & 7% of FDI inflows** in 2020, faring just better than Sub-Saharan Africa (for both FDI and trade) and Latin America (for trade)

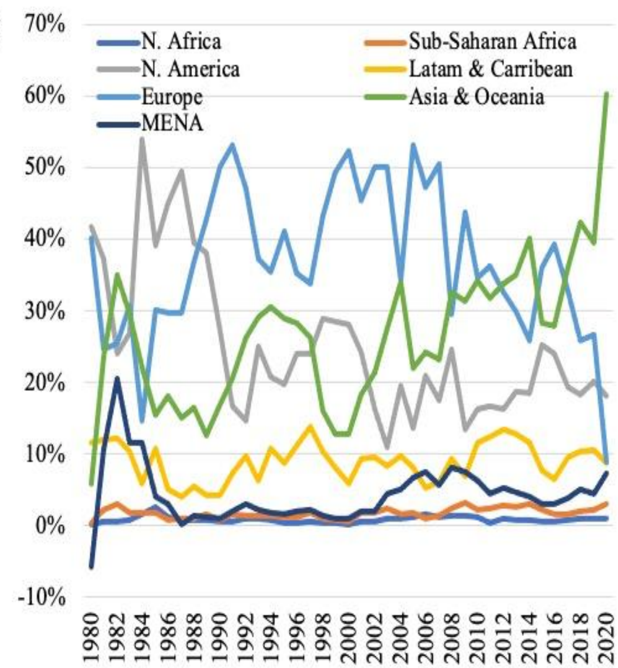
Share of Global Gross Domestic Product by region, based on purchasing-power-parity (PPP)



Share of exports by region, as % of total exports (1980-2020)



Share of FDI inflows by region, as % of global FDI flows (1980-2020)



Source: IMF World Economic Outlook database (Oct 2021), UNCTAD

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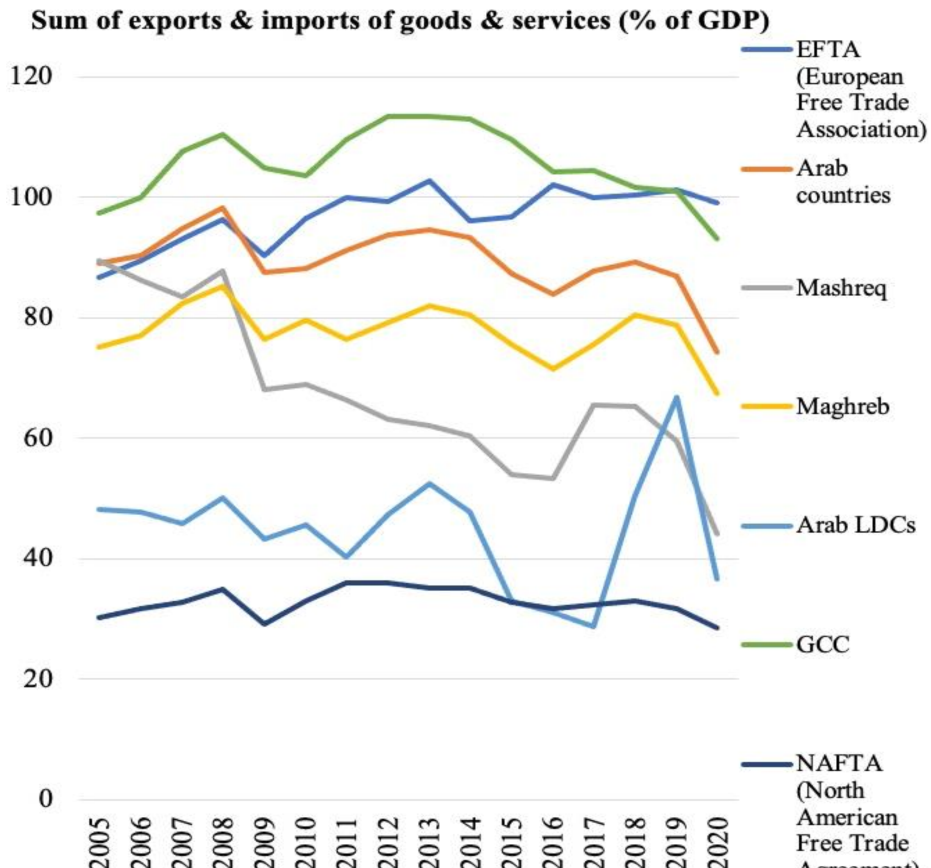
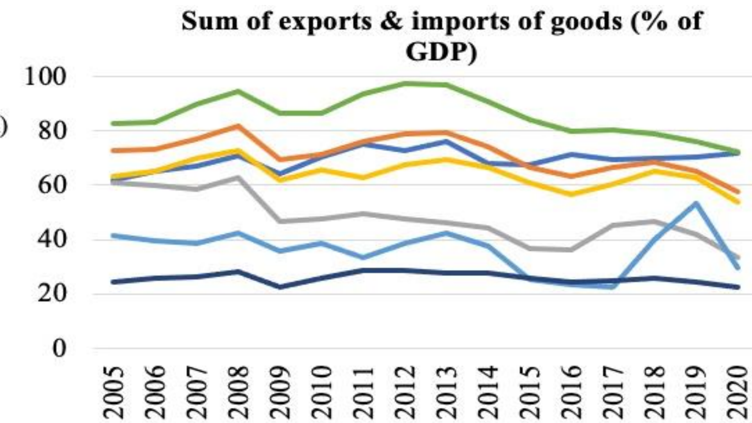
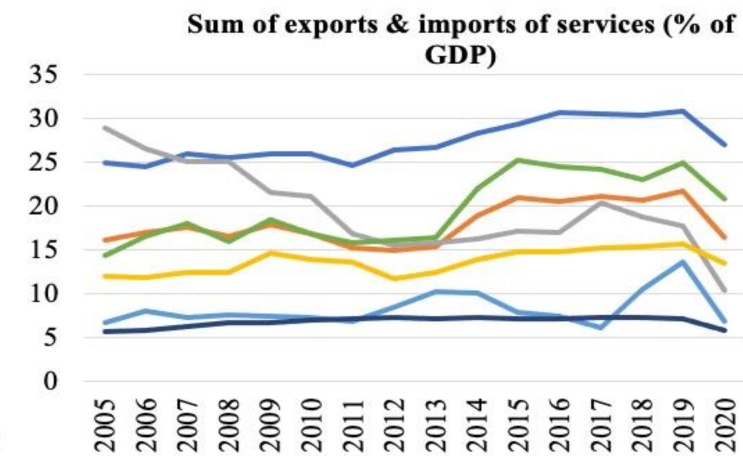
Arab trade openness is driven by GCC's dependence on oil exports & food imports

- GCC: largely **dependent on oil exports** (49% of total exports in 2020) + high **reliance on imports** (food & manufactured goods account for 11.3% & 70% of total Ms in 2020)
- Other regions show a **declining trend in trade openness** during 2005-2020, with the **Maghreb's openness falling at a faster pace than the rest of the region**





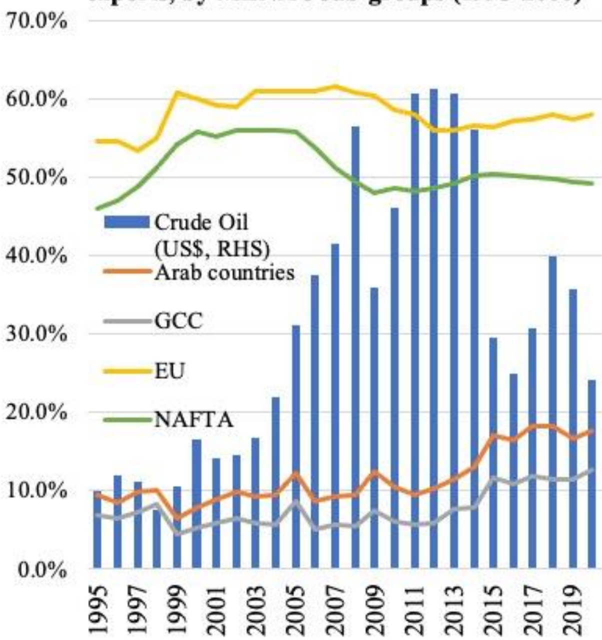


Source: UNCTAD

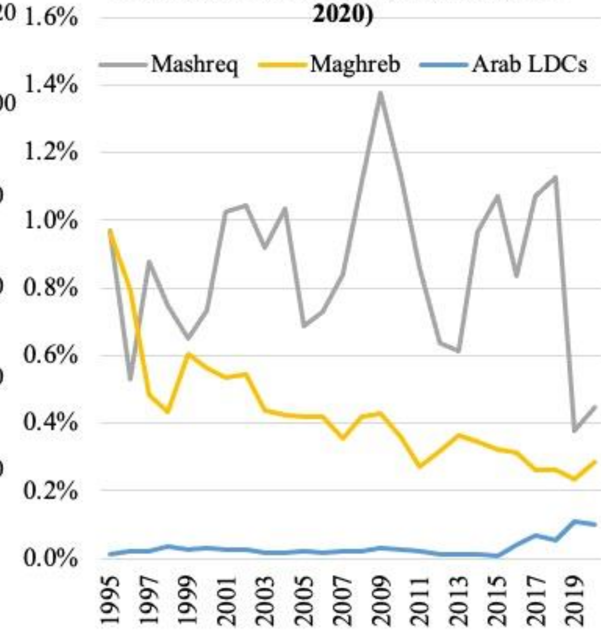
Intra-regional Goods Trade shows growing Integration with GCC

- Despite multiple regional trade agreements in the region, **intra-region trade has been low.** Arab nations export about **18% of their total exports** to within the sub-group.
- **Exports trade between the GCC nations nudged up to around 13% last year**, from a low of 4.5% in 1999: a large part of this is **re-exports** (although not denoted separately in the data)
- **Intra-group exports among Maghreb countries slipped** from close to 1% of their total exports in mid-1990s to close to 0.2% in 2019. **Mashreq nations have seen volatility in their share of intra-group trade**, falling between a band of 0.4%-1.4% over the period 1995-2020
- **GCC's share of exports to the wider MENA region has been on the rise** => **more integration**

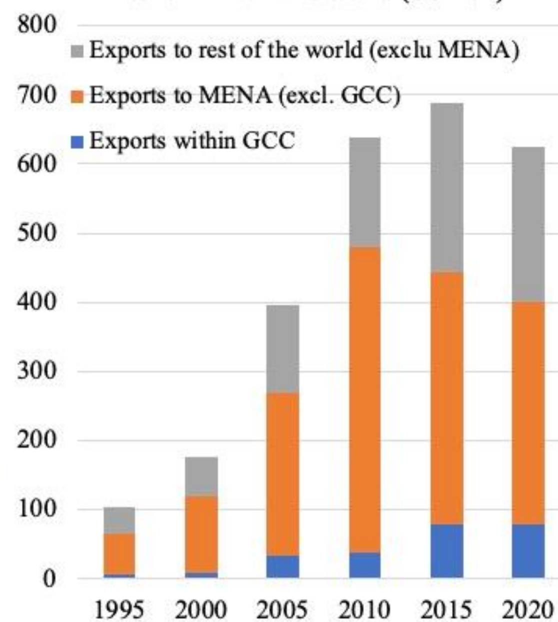
Intra-group exports as % of group's total exports, by MENA's sub-groups (1995-2000)



Share of intra-group exports in total exports, by ESCWA's sub-regions (1995-2020)



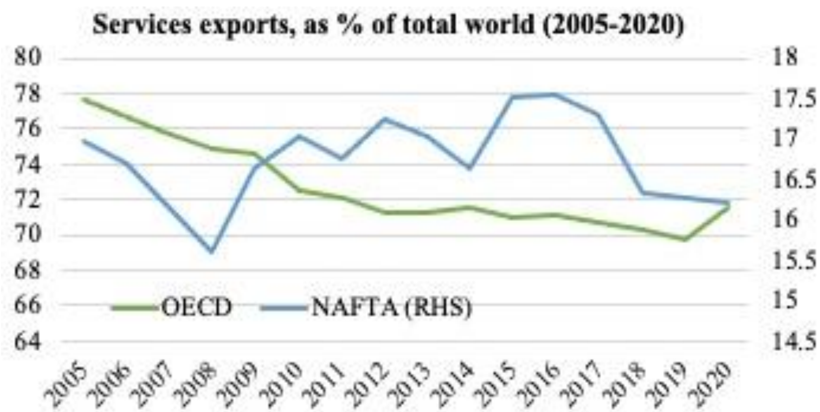
GCC's intra-group exports, exports to rest of MENA and world (USD bn)

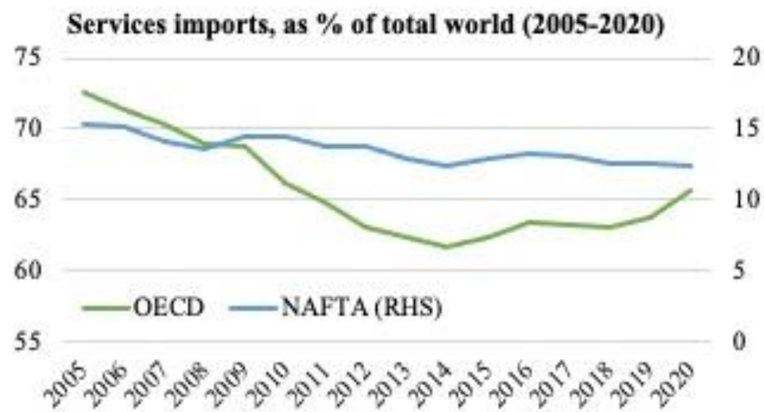


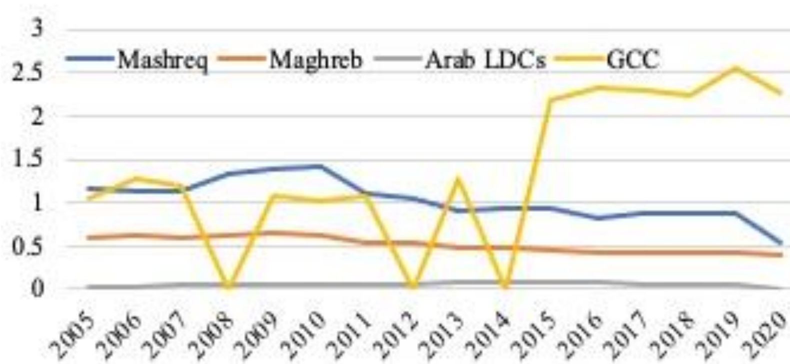
Source: UNCTAD, IMF, Refinitiv Eikon

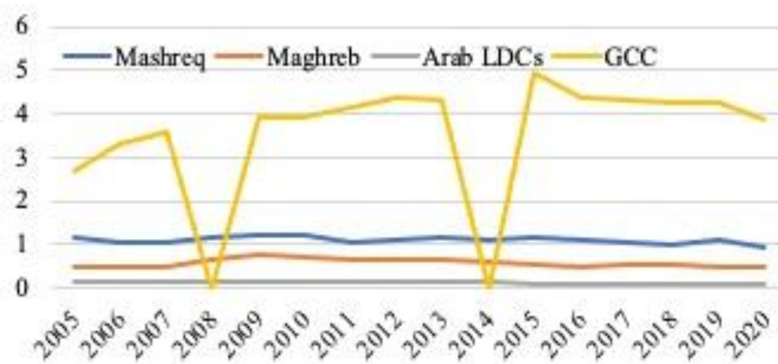
Intra-regional Services Trade is growing but low compared to international trends

- **Share of region's services trade is rising**, but lies between 4-6% of global services trade (OECD accounts for 2/3rd of global services trade)
- **GCC accounts for the bulk of services trade**; within GCC, UAE is the key driver (exports share rose to 1.5% in 2019 vs 0.1% in 2005), followed by Saudi Arabia (0.4% in 2019) and Qatar (0.3%)
- **Travel (including tourism) and transportation were the largest sectors** within services (relatively low-value added)









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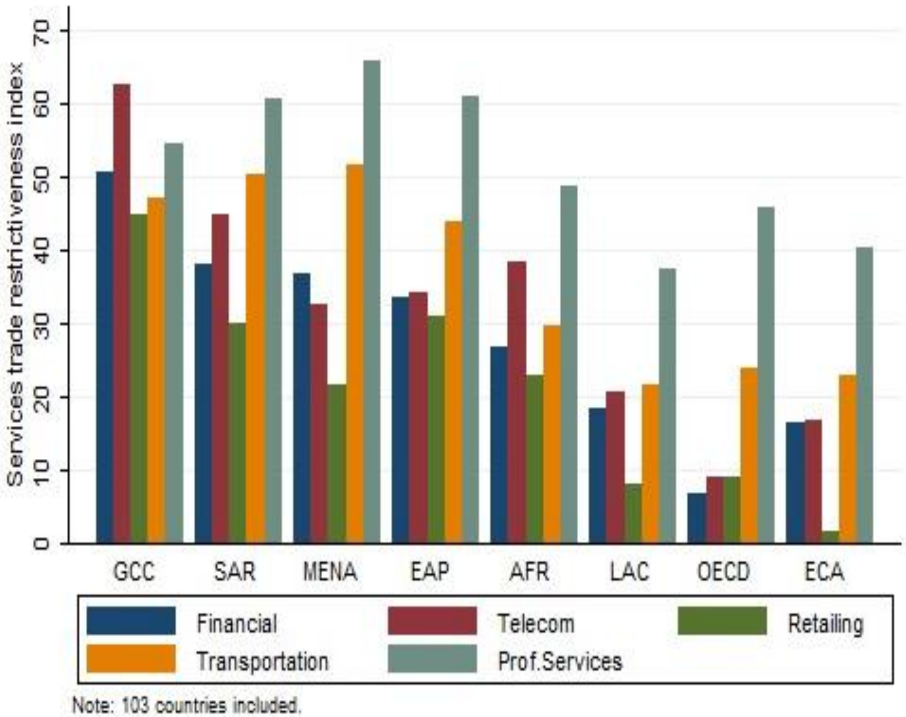
Source: UNCTAD

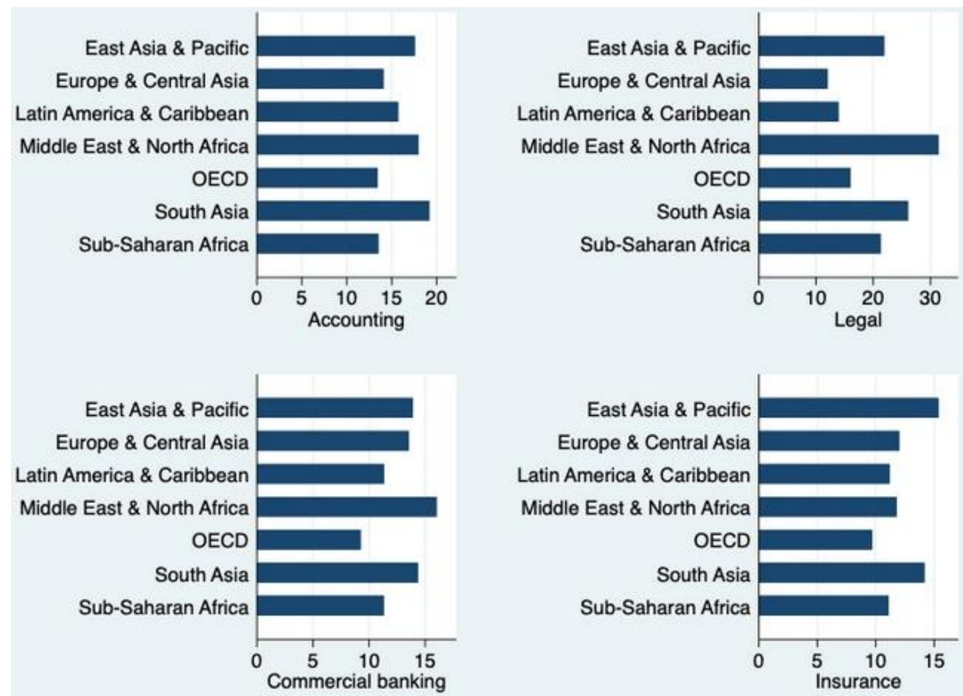
Services Trade Restrictiveness remains high in the MENA region => hampers integration

GCC exhibits the most restrictive policies in services (2012)



Source - Borchert, Gootiiz and Mattoo (2012): "Policy Barriers to International Trade in Services: Evidence from a New Database", World Bank Policy Research Working Paper 6109

Services policies are typically much more restrictive than tariffs on imports of goods, in particular in professional services and telecommunications



Source – Hoekman and Shepherd (2019): "Services trade policies and economic integration: New evidence for developing countries", CEPR Discussion Paper 14181; also on: https://voxeu.org/article/services-trade-policies-and-economic-integration

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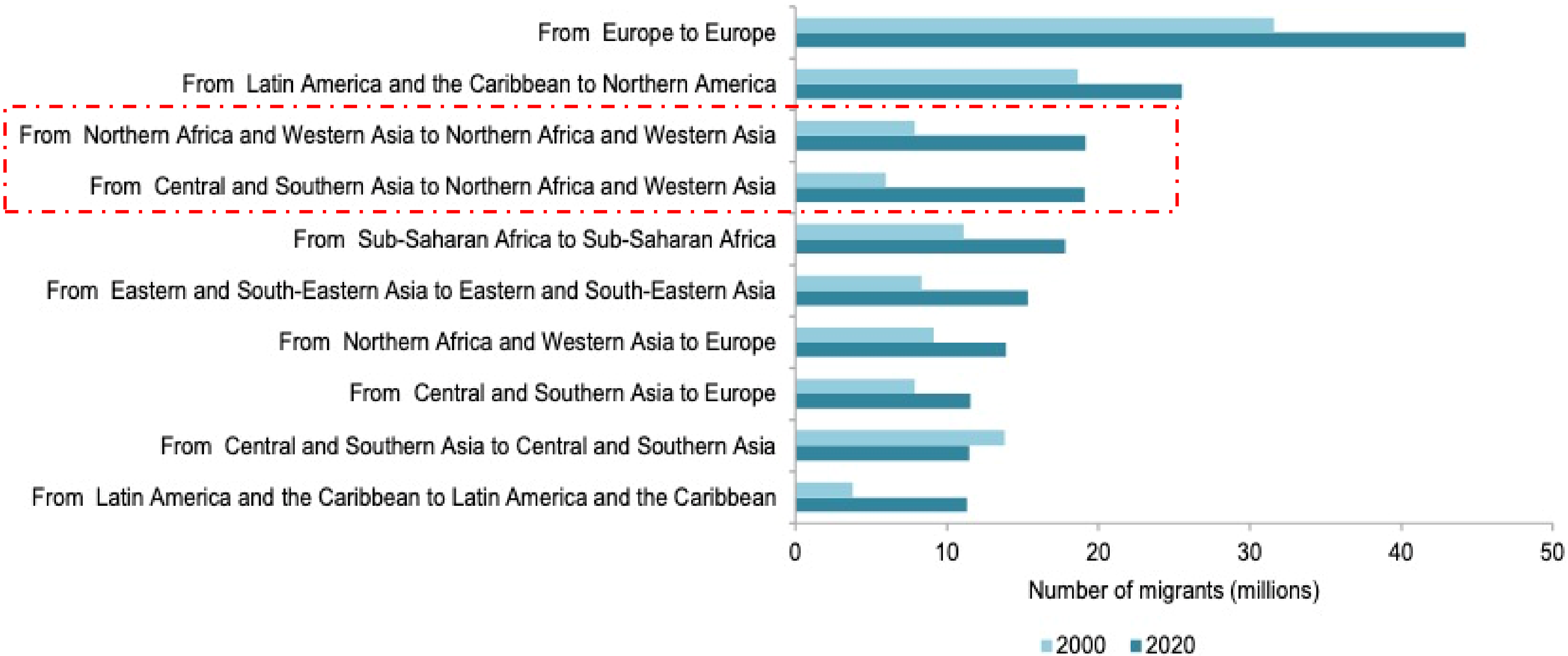
Ten largest regional migration corridors, by region of origin & destination: 2000 vs 2020

- The **regional balance of major migration corridors shifted** between 2000 and 2020
- Shift towards a **more multipolar global economy**: in 2000, 3 of the 10 largest regional migration corridors had Northern America as a destination; in 2020, only one!



Source: International Migration 2020 Highlights, UN DESA

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Migrant Labour in Arab region is the highest as a proportion of all workers

- **Northern America, Western Europe & Western Asia together account for abt half of migrants globally**
- **Migrants share as a % of total workers is highest in the Arab States** (rising to 41.4% in 2019). Both Europe (other than Eastern) and North America have seen their shares decline between 2013 and 2019
- **Migrants account for a high proportion of total populations in the GCC** (an estimated 88% in UAE, about 80% in Qatar, 72% in Kuwait, 45% in Bahrain and 38.3% in Saudi Arabia)
- **GCC features in top migration corridors from Asia**. **A distinct pattern in North Africa**: migrants from the north-west (Morocco, Algeria & Tunisia) move to Europe + from north-east (Egypt) tend to migrate to GCC
- **Outside of the conflict countries, Egypt was the largest labour-exporter to the region**. In 2019, Egyptians moved to Saudi Arabia and the UAE (938k and 886k respectively) while the other major corridors were Jordan-Saudi Arabia (234k) and Lebanon-Saudi Arabia (150k)

International migrant workers, number & ratios by broad subregion

	Migrant workers (mn)	Distribution of international migrant workers (%)			Migrant workers as a proportion of all workers (%)		
	2019	2013	2017	2019	2013	2017	2019
Northern Africa	1.2	0.5	0.7	0.7	1.1	1.6	1.6
Sub-Saharan Africa	12.6	5.3	7.2	7.4	2.2	2.9	3.0
Latam & Carribean	5.9	2.9	2.7	3.5	1.5	1.4	1.9
N. America	37.4	24.7	23.0	22.1	20.2	20.6	20.0
Arab States	**24.1**	**11.7**	**13.9**	**14.3**	**35.6**	**40.8**	**41.4**
E. Asia	4.8	3.6	6.0	2.8	0.6	0.6	0.5
S.E. Asia & the Pacific	12.1	7.8	7.1	7.2	3.5	3.3	3.4
S. Asia	7.1	5.8	4.5	4.2	1.3	1.0	1.0
N., S., & W. Europe	40.9	23.8	23.9	24.2	16.4	17.7	18.4
E. Europe	13.4	9.2	8.1	8.0	9.2	9.1	9.4
Central & W. Asia	9.4	4.7	5.2	5.6	10.0	11.1	12.0
Total	**169.0**	**100.0**	**100.0**	**100.0**	**4.4**	**4.7**	**4.9**

Source: ILO Global Estimates on International Migrant Workers

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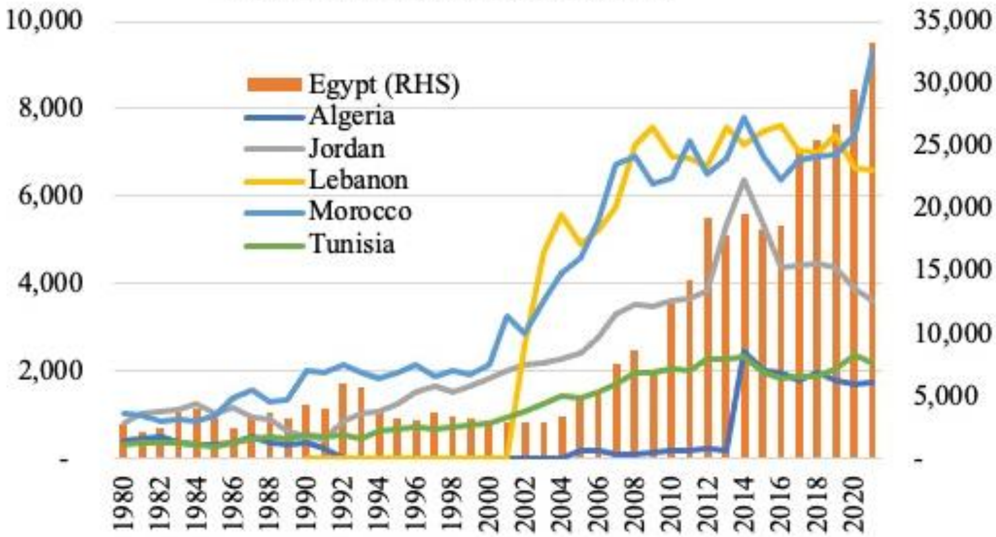
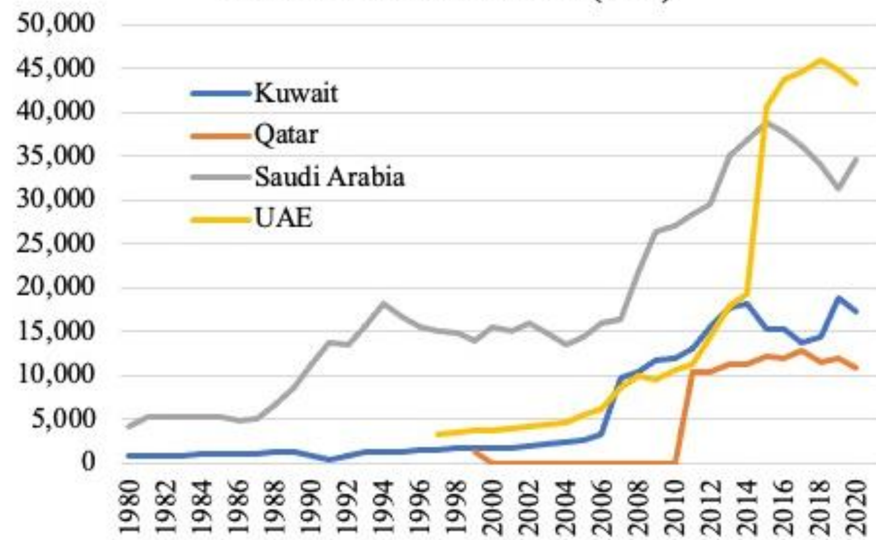
Indicators of Integration: Remittances

- Given high share of labour importing nations in the Middle East, it comes as no surprise that **UAE and Saudi Arabia are among the top 3 remittance sources globally** (behind only the US)
- Saudi Arabia used to account for the highest remittance amounts from among the GCC, but UAE surpassed it from 2015
- **Egypt** saw a significant jump in remittances receipts after 2016: supported by devaluation of the pound + progress in reforms. **Morocco** is the second highest remittance recipient in the region
- In terms of **dependence on remittances, Lebanon and West Bank & Gaza top the list** (32.9% of GDP and 17.1% in 2020)

Remittance inflows into the major labour exporting nations in the Middle East ($mn)



Remittance outflows from major labour importing nations in the Middle East ($mn)



Source: Migration and Development Brief 35, Nov 2021, World Bank

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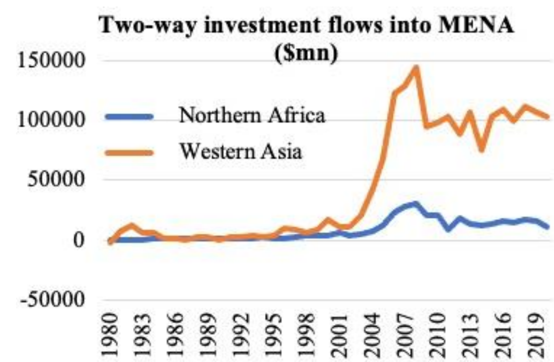
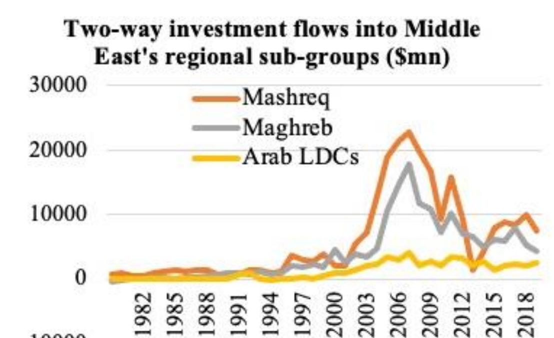
Indicators of Integration: FDI flows

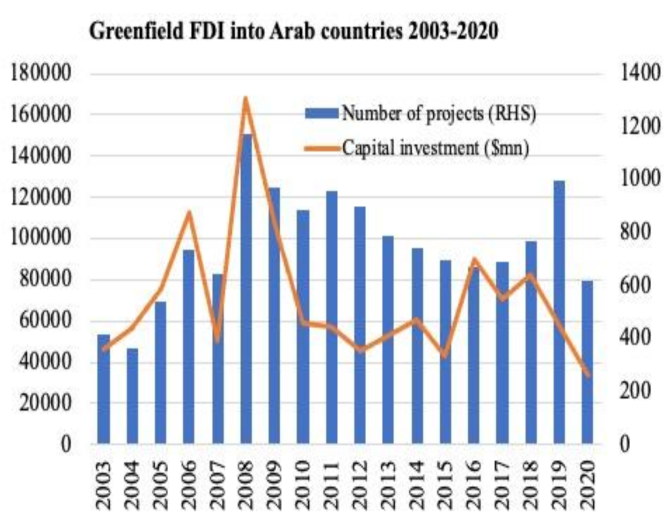
- **FDI inflows into the MENA region** increased sharply from the early 2000s but **weakened after peaking in 2008** ($88bn) FDI largely due to **inflows into the GCC** (capital investment concentrated into energy, real estate/ construction & chemicals sectors)
- Other than GCC, **two-way investment flows (inflows + outflows) into the Mashreq & Maghreb region have been weak** accounting for roughly 0.4% and 0.2% of global FDI (vs 3%+ in GCC)
- **During 2003-19 (pre-Covid), a total of $1.2 trillion was invested** in close to 13,000 projects in the Arab region. Almost **2/3-rd of projects tracked** during 2003-19 **based in UAE**.
- **UAE, Saudi Arabia & Egypt were top destination nations for FDI**

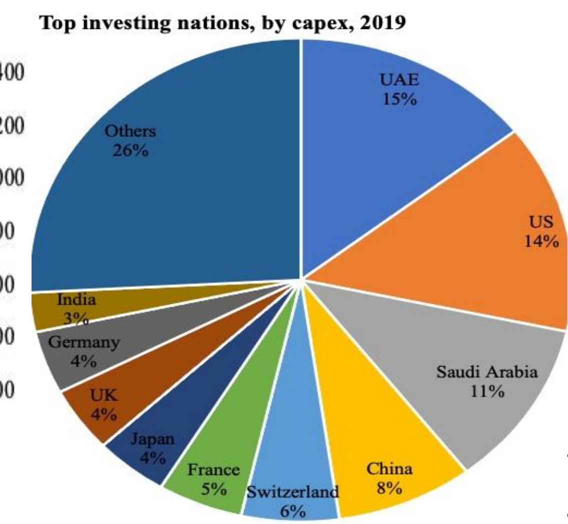




Source: UNCTAD

- Main sources of **FDI inflows into the Arab region**: Middle East (UAE, KSA) is an active investor along with US, Europe & China
- **China is an important investor**: invested in 305 projects in Arab region during 2003-19, with a total capital investment of $61.7bn





Source: Arab Investment & Export Credit Guarantee Corporation (Dhaman)

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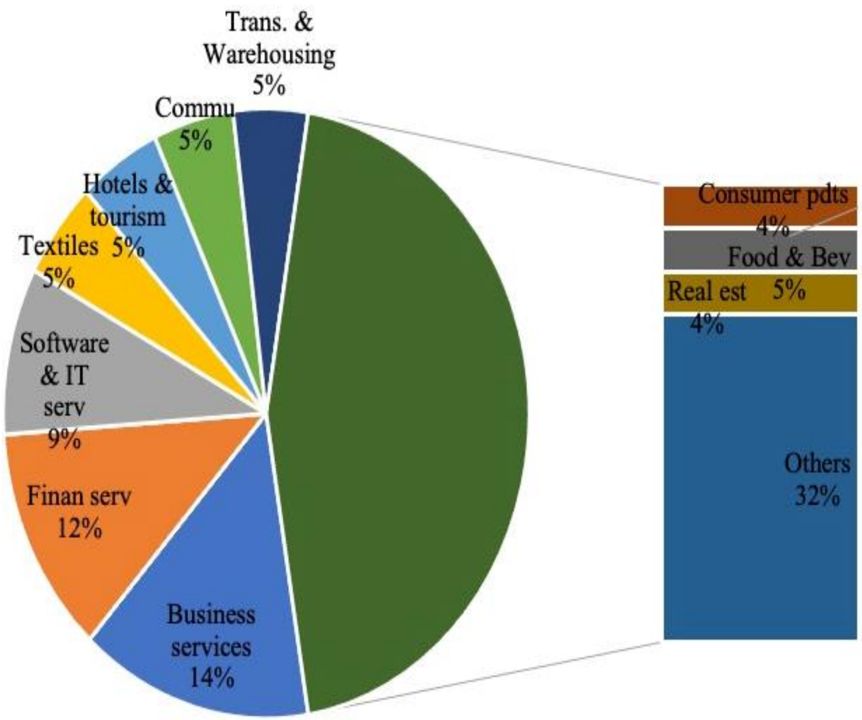
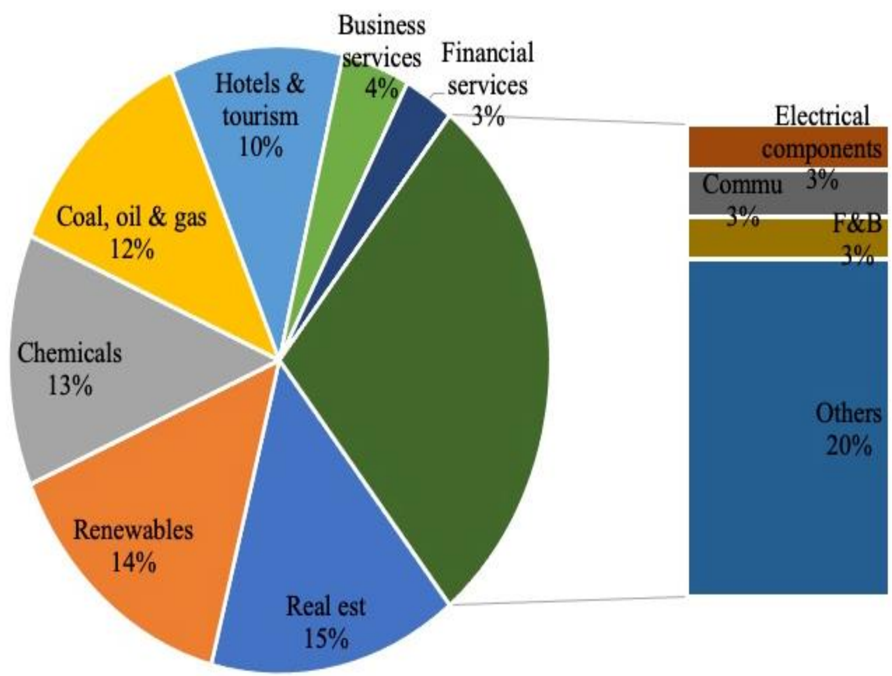
Sector Concentration of FDI inflows: real estate dominates; renewables is a recent trend

- **Real estate dominates in terms of capex** ($9bn into 44 projects), followed by renewables (a recent trend, given clean energy ambitions & commitments)
- Together, the **oil and gas and chemicals sectors account for one-fourth of total investments in 2019**, but not in number of projects (large capex in O&G, chemicals)

FDI in Arab countries (# of projects) by sector, 2019



FDI in Arab countries (capex) by sector, 2019



Source: Arab Investment & Export Credit Guarantee Corporation (Dhaman)

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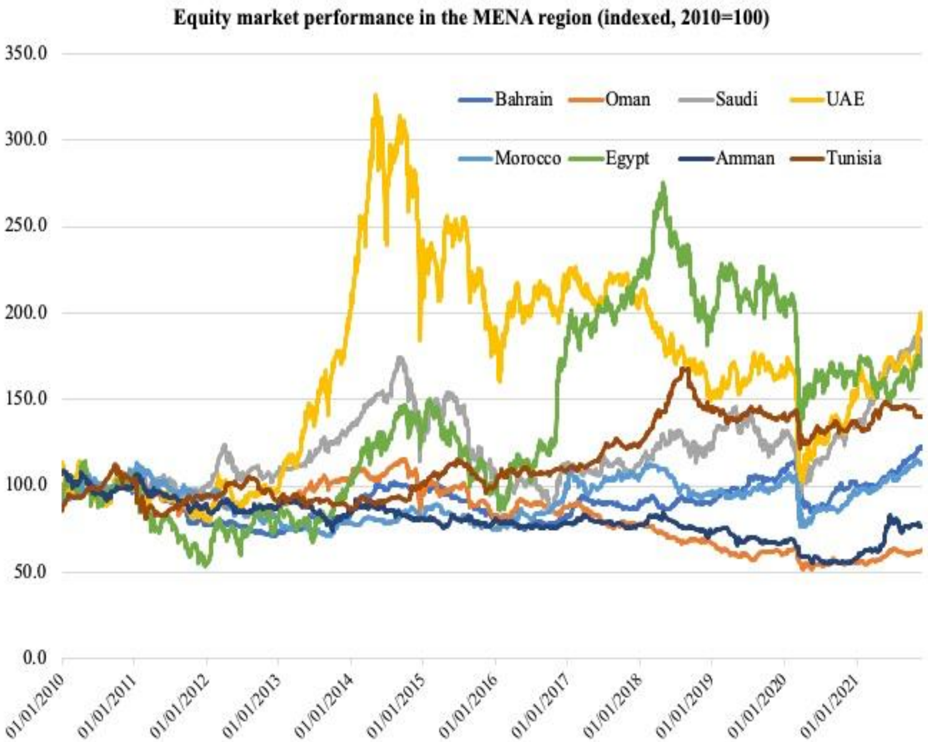
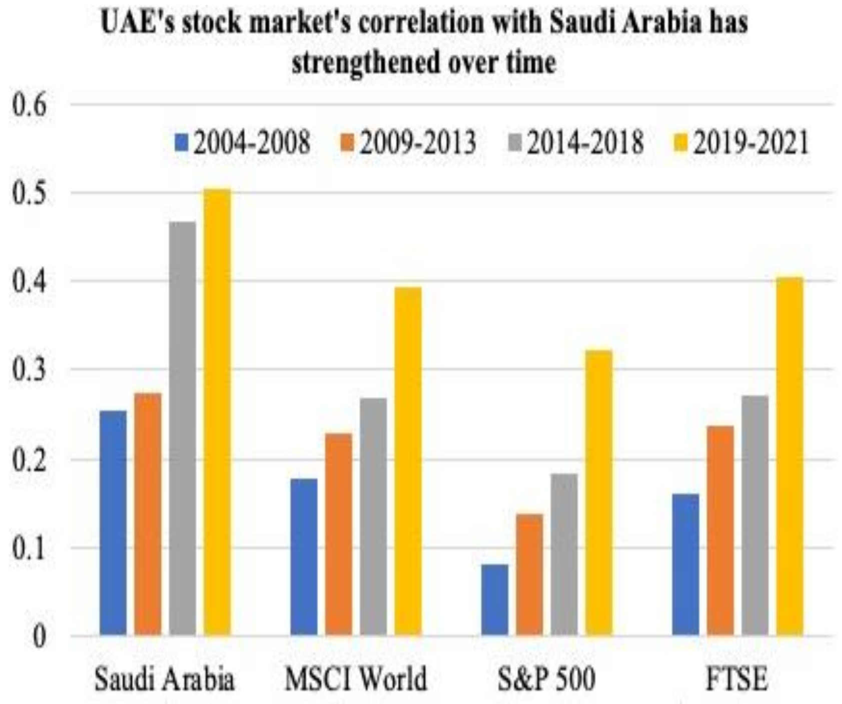
Indicators of Integration: Equity Markets

- **MENA equity markets are dominated by Saudi Arabia** (by total market cap)
- **Markets in the region continue to be illiquid**, with a large retail investor base, and remain highly concentrated in a few sectors (banks, real estate and insurance)
- Only the **GCC countries have increased their global and regional financial markets integration** over the pre-Covid period





Source: Refinitiv Eikon/ Datastream

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Cross-country Correlations of Market Returns (2004-2021(Nov.)

1. Regional markets are mostly correlated with the UAE 2. Few of the other larger markets (Egypt and Saudi Arabia) are also correlated with the MSCI EM index 3. Correlation between GCC markets is higher than with global / developed / emerging market indices. 4. Regional markets have low correlation with global markets.

	UAE	Amman	Bahrain	Egypt	Morocco	Oman	Saudi Arabia	Tunisia	S&P 500	Stoxx	FTSE	Emerging Markets	MSCI World
UAE	1.0000												
Amman	0.2028	1.0000											
Bahrain	0.2331	0.1510	1.0000										
Egypt	**0.2971**	0.1614	0.1316	1.0000									
Morocco	0.1196	0.0944	0.1052	0.1305	1.0000								
Oman	**0.3324**	**0.2393**	**0.2317**	**0.2159**	0.0921	1.0000							
Saudi Arabia	**0.3155**	0.1044	0.1051	**0.2125**	0.0917	0.1904	1.0000						
Tunisia	0.0923	0.0767	0.0550	0.0625	0.0705	0.1027	0.0854	1.0000					
S&P 500	0.1455	0.0210	0.0550	0.1113	0.0868	0.0717	0.1738	0.0074	1.0000				
Stoxx	0.2476	0.0744	0.1082	0.2102	0.1177	0.1562	**0.2190**	0.0757	0.6064	1.0000			
FTSE	0.2318	0.0600	0.0988	0.1915	0.1126	0.1557	0.2029	0.0650	0.5778	**0.9268**	1.0000		
Emerging Markets	**0.3125**	0.1125	0.1278	**0.2917**	0.1443	0.2340	**0.2586**	0.0907	**0.4720**	**0.6678**	**0.6458**	1.0000	
MSCI World	0.2322	0.0630	0.0981	0.1937	0.1323	0.1554	0.2305	0.0405	**0.9058**	**0.8038**	**0.7734**	**0.7002**	1.0000

Source: Refinitiv Eikon/ Datastream

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Effects of Covid19 on Integration

- **Covid19 pandemic** left its mark on the global economy, with all regions posting a **decline in output**
- **Global growth dipped by 3.1% in 2020** according to the IMF, with the **MENA region posting a 3.2% drop** (only Egypt grew in 2020, by 3.6%)
- Overall, **2020 was characterized by**: (i) GDP contraction; (ii) weak domestic demand; (iii) supply chain disruptions; (ii) shift to digital (work from home, learn online)
- **Wide gap in fiscal & monetary stimulus:** advanced nations' stimulus since start of 2020 stood at ~25% of GDP vs low-income countries under 3% of GDP
- With unequal distribution of vaccines, inequality has widened further => **an uneven global recovery**

Output
Oil exporters' double whammy from low oil prices
Larger declines in nations dependent on tourism
Makes case for stronger regional integration

FDI flows
Inflows into West Asia grew, supported by UAE & Saudi
Intra-regional FDI only 14%
Uncertainty => FDI flows switch from real estate into "new" sectors

Goods trade
Middle East decline in trade was sharpest across all regions
Maghreb remains integrated with Europe; GCC & Mashreq more integrated with Asia

Labour & Remittances
Reverse migration given job losses => uptick in remittances
Drop in working hours + less support for informal sector jobs + impact on women/ youth/ refugees => poverty/ inequality

Equity/ Capital markets
Drop during initial months of pandemic followed by recovery
1/3-rd of region's countries tapped intl financial markets to meet financing needs

Services trade | Tourism
Decline in services trade sharper vs goods; recovery at a much slower pace
Intl tourist arrivals in the Middle East fell by 74% in 2020 (global avg: 73%)

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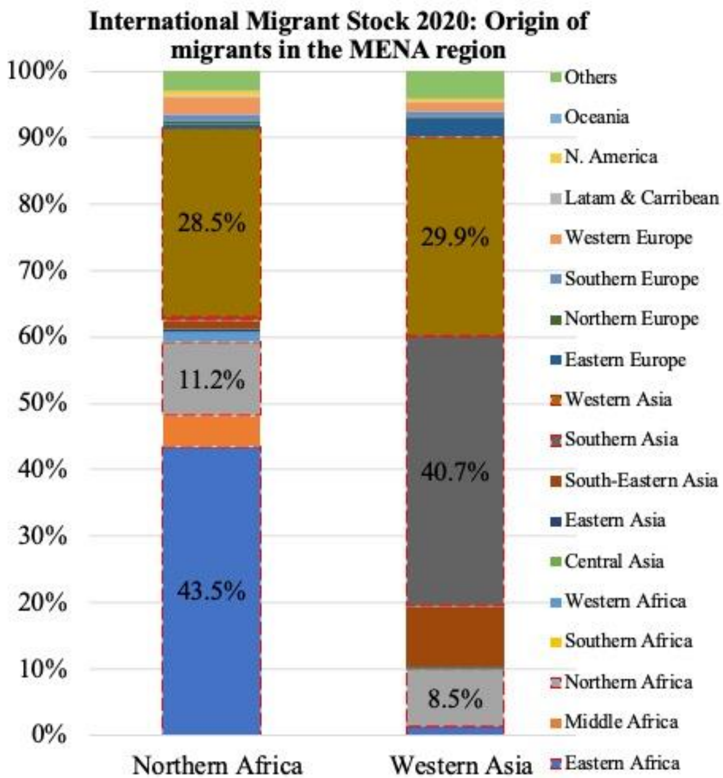
Labour affected by mobility restrictions & job losses: largest losses in working hours

- In 2020, **N. Africa attracted migrants from E. Africa (44% of total)** & from within N. Africa (11%). In contrast, **migrants into W. Asia came from S. Asia (41%)**, W. Asia (30%) & N. Africa (8.5%)
- **Working hours fell the most in the Arab states**, with recovery worst off across all regions. Distinct characteristics: employment edges up in in public sector (+ job security); informal sector worse off given mobility restrictions; employed women and young people were disproportionally negatively affected by the pandemic (low-income households => higher poverty levels & rising inequality)



Source: UN DESA

Quarterly estimates of working hours, world & in Arab States
(% change & full-time equivalent jobs rounded to the nearest 100k)

	Change in working hours relative to Q4 2019 (adjusted for population aged 15-64)		Equivalent number of full-time jobs (48 hours/ week)	
	World	**Arab States**	**World**	**Arab States**
Q1 2020	-4.9%	-2.3%	-142,000,000	-1,200,000
Q2 2020	**-18.7%**	**-19.4%**	**-543,200,000**	**-9,800,000**
Q3 2020	**-7.4%**	**-9.3%**	**-217,000,000**	**-4,700,000**
Q4 2020	-4.5%	-5.0%	-131,900,000	-2,500,000
Q1 2021	-4.5%	-7.2%	-131,400,000	-3,700,000
Q2 2021	-4.8%	-6.5%	-140,100,000	-3,400,000
Q3 2021	-4.7%	-6.5%	-136,900,000	-3,400,000
Q4 2021	-3.2%	-4.5%	-94,600,000	-2,400,000

Source: ILO

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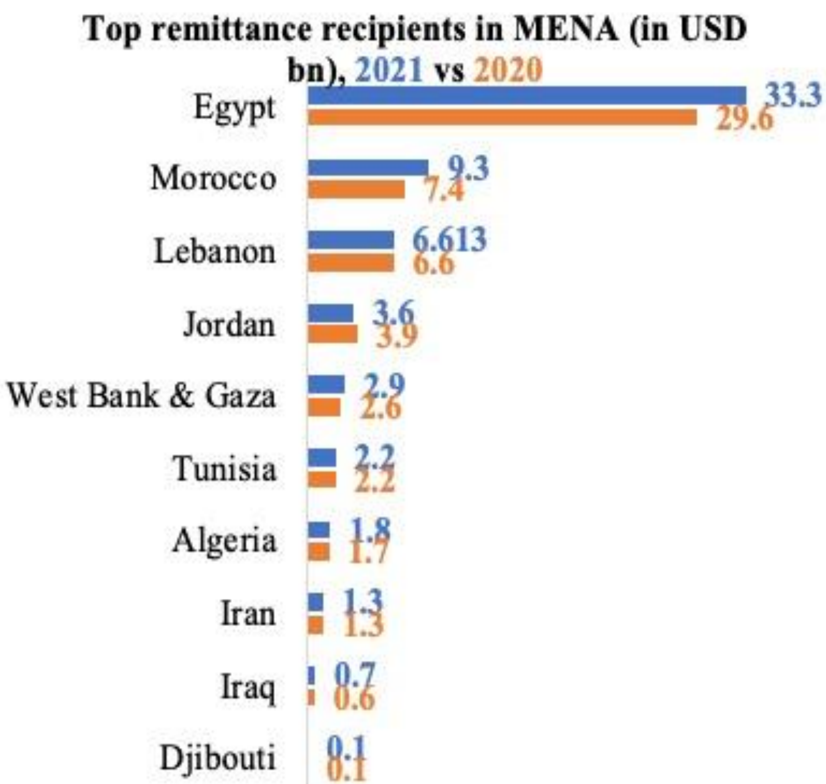
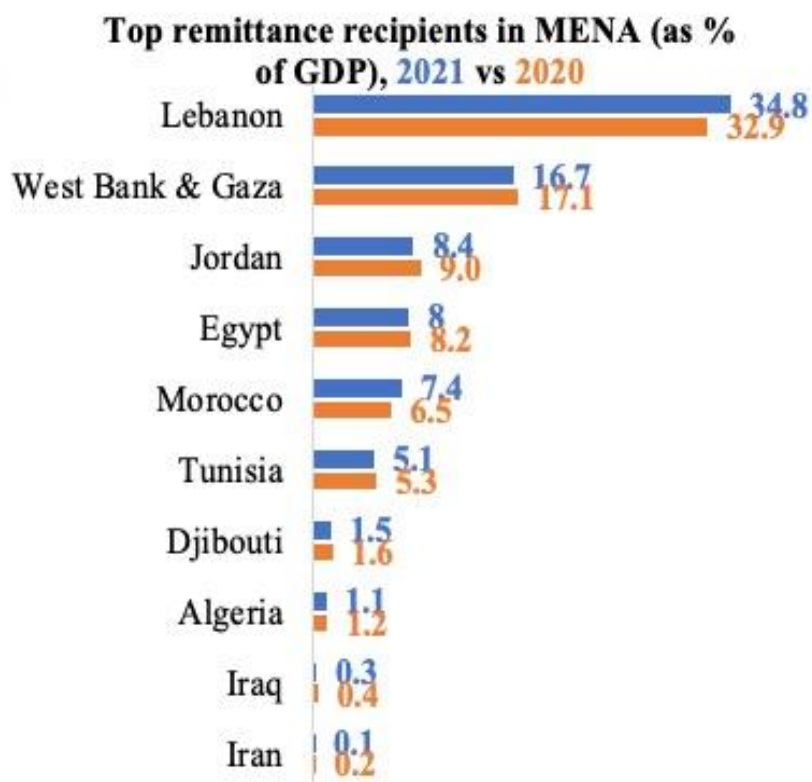
Remittances emerge resilient in 2020

- Migrants in GCC => **job losses resulted in a return home to other parts of the Middle East and to Asia**, partly reflected in remittances data
- **Remittances fell in Q2 2020 but recovered quite quickly** & remained resilient (including into 2021)
- **Egypt continued to see a surge in reported remittances** (+11% to a record high $30bn); Lebanon saw a decline in 2020 to $6.6bn (2019: $7.4bn)





Source: Migration & Remittances Brief #35, World Bank

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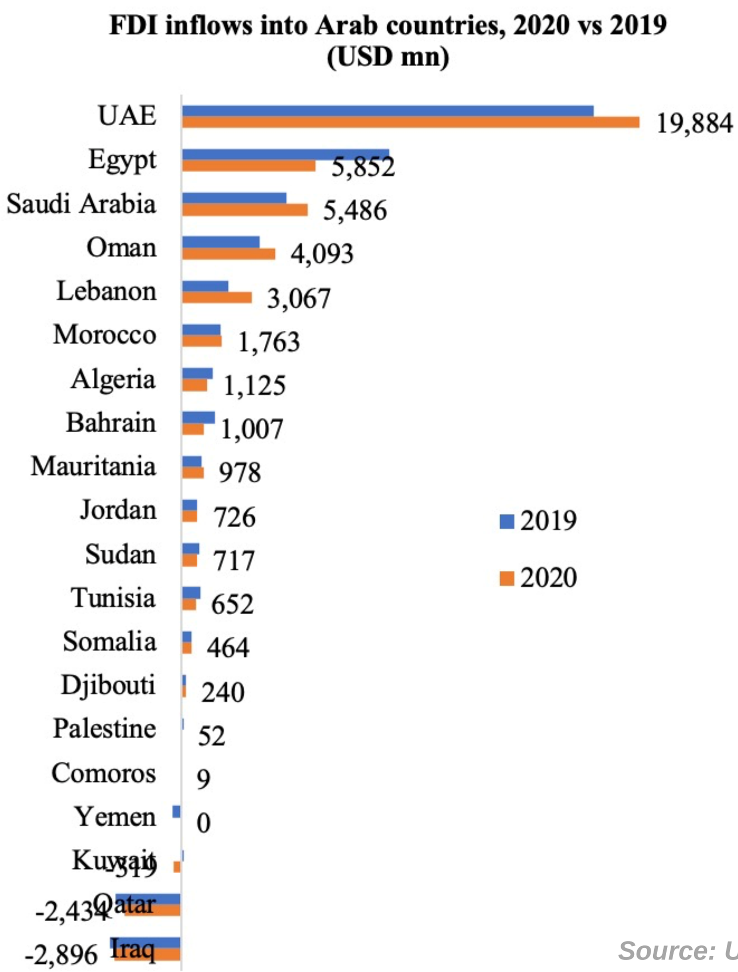
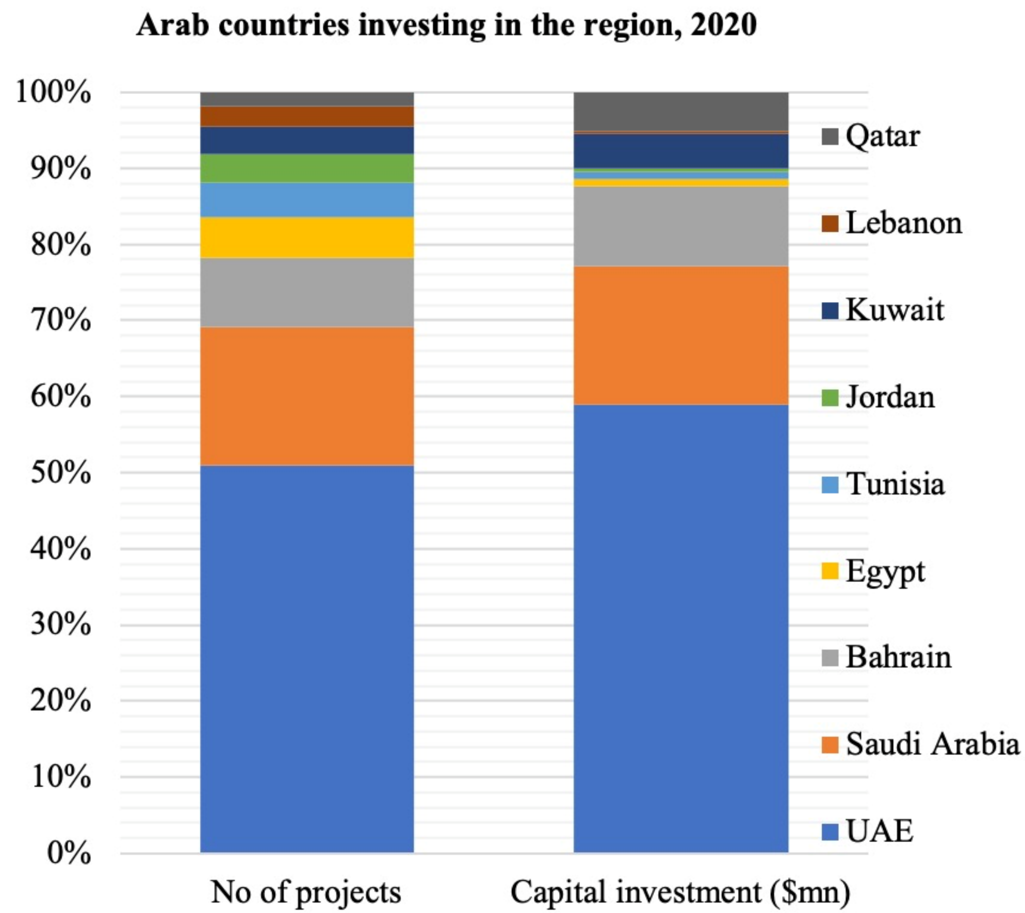
FDI inflows into West Asia increased in 2020 (UNCTAD); GCC largest inter-Arab investors

- **Inflows into West Asia grew in 2020: mainly into GCC**
- **Inter-Arab investments: UAE, Saudi Arabia and Bahrain** together accounted for more than 75% of the number of inter-Arab investment projects & **close to 90% of the total capex in 2020**



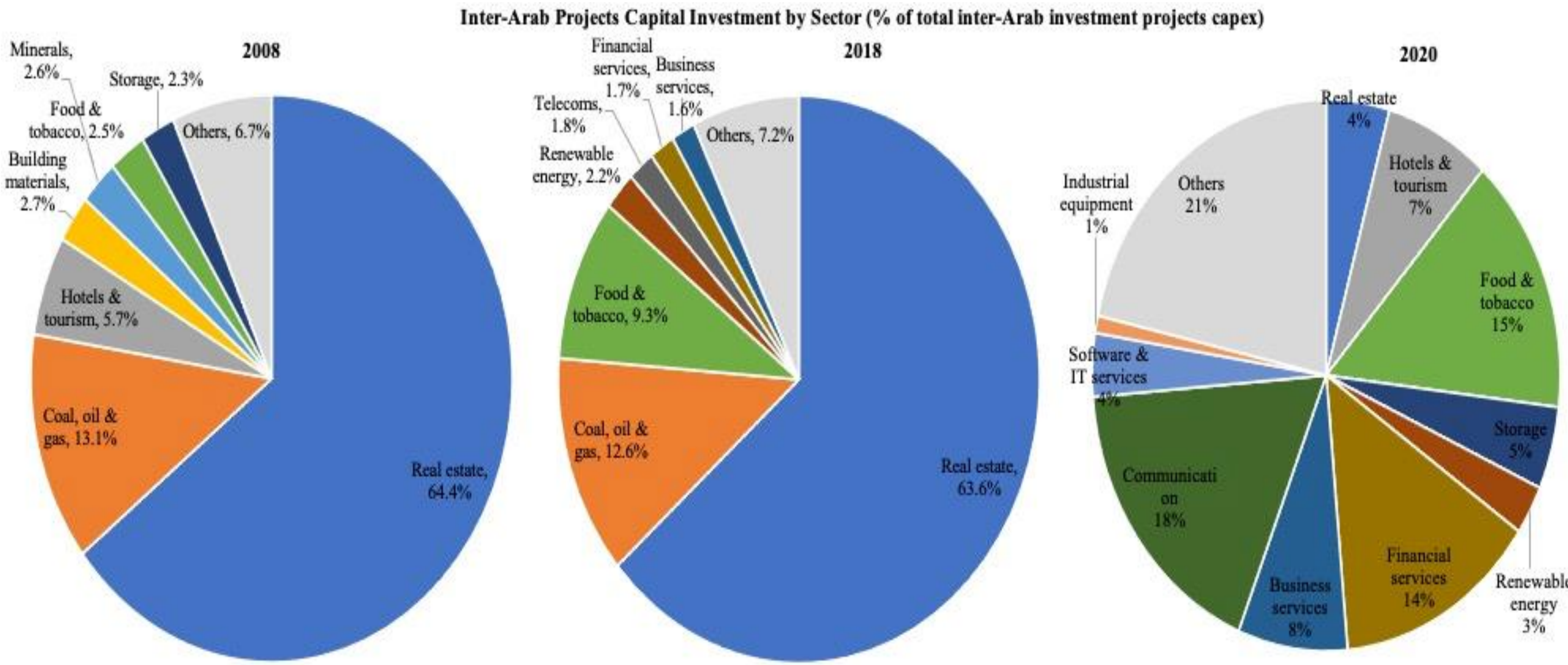


Source: UNCTAD, Arab Investment & Export Credit Guarantee Corporation (Dhaman)

Inter-Arab FDI flows into "new" sectors: restricted to pandemic years or a shift?

Sector composition of inter-Arab FDI flows changed: most striking is the **share of real estate sector**

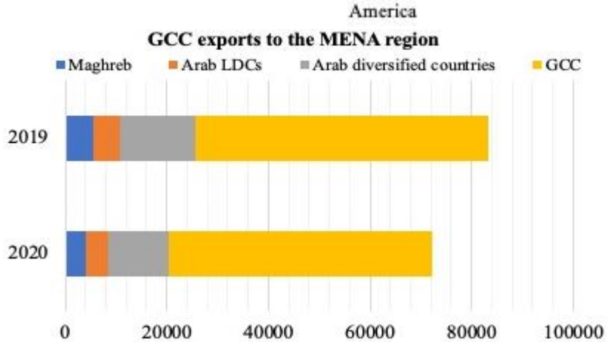
- **Rise in renewable energy projects** (both in number and value): one of the top 5 inter-Arab projects in 2020 was the water desalination plant project in Abu Dhabi
- **Investments into "services" have increased**: financial services (14% in 2020 vs 1.7% in 2018), business services (8% in 2020 vs 1.6% in 2018), communication and business services (18% and 8% respectively in 2020)

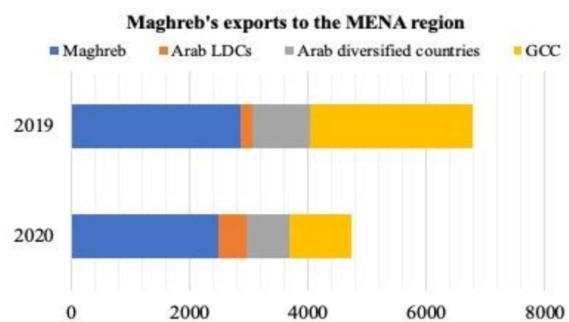


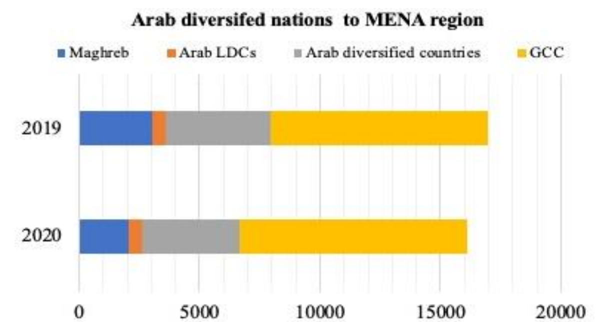
Source: Arab Investment & Export Credit Guarantee Corporation (Dhaman)

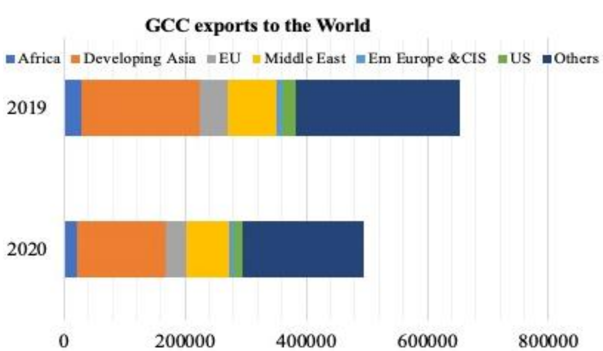
Trade was severely hit in 2020, but patterns remain similar; services trade rebounding at a slower pace

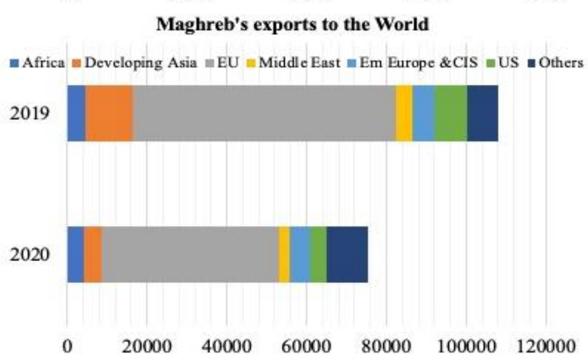
- **Countries that trade the most within MENA are oil importers**, esp. Mashreq nations with strong links to GCC
- **Maghreb countries integrated with EU**, export the least within MENA *(yellow in middle chart, bottom panel)*
- **Each sub-groups' trade within Middle East remains dismal**: less than 5% for Maghreb and ranging around 10-15% for both GCC and Arab diversified nations *(includes Egypt, Iraq, Jordan, Lebanon, Palestine, Syria)*

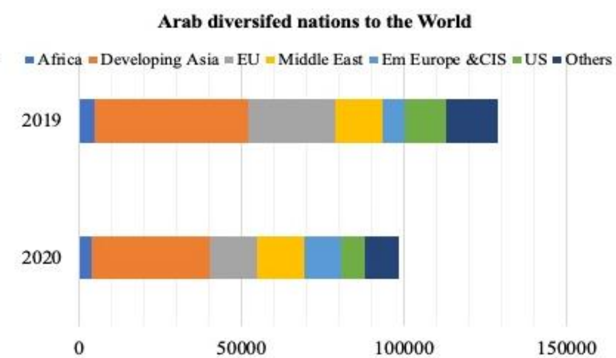




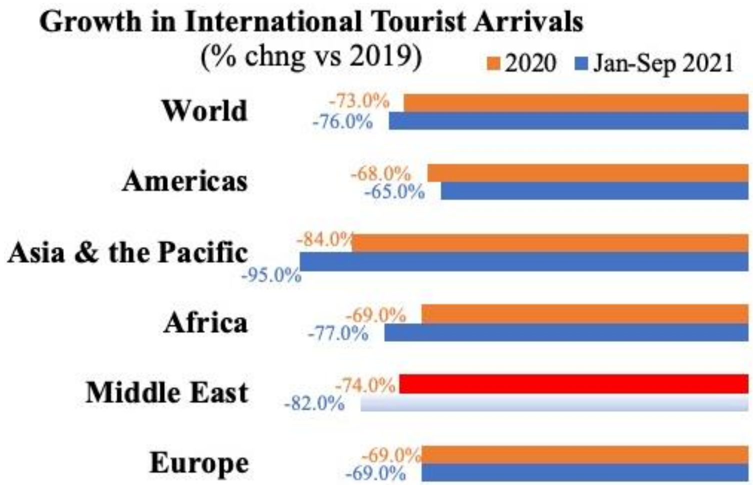






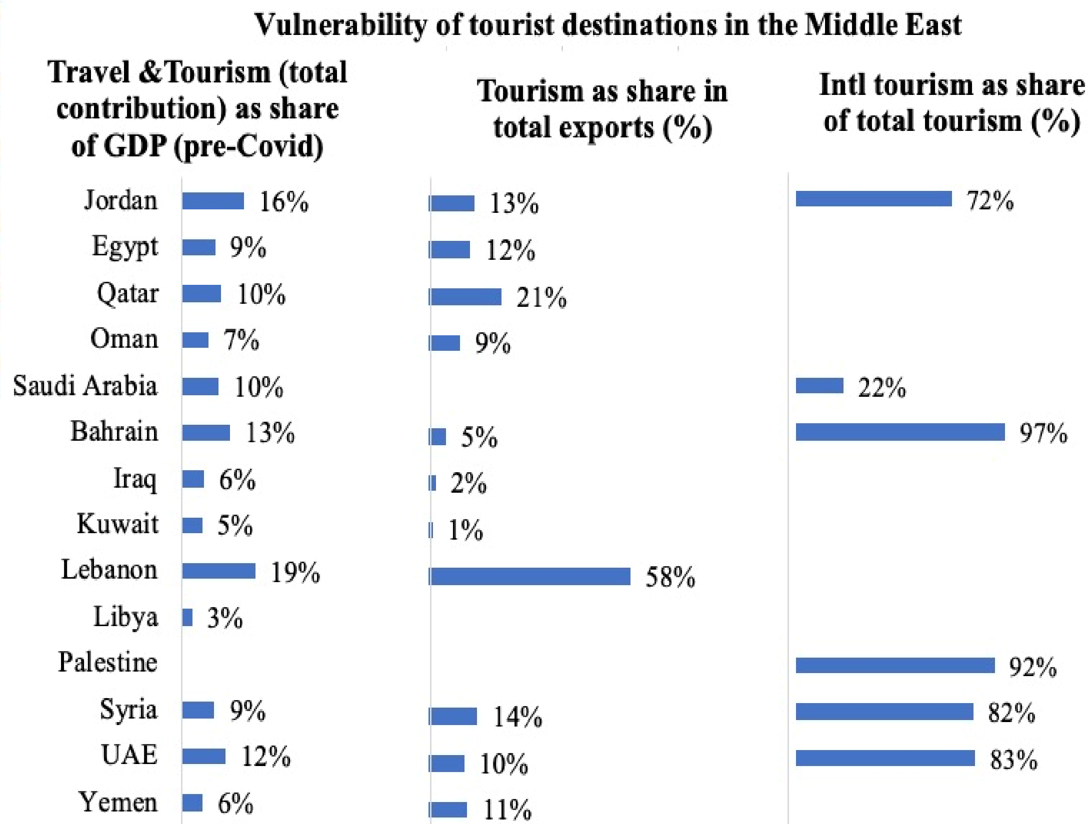


Tourism sector in the MENA region has yet to recover from pandemic fatigue



International Tourist Arrivals in the Middle East, by country (relative to 2019)

	World	Middle East	Jordan	Saudi Arabia
2020	**-73%**	**-74%**	**-76%**	**-76%**
Jan-20	1%	9%	12%	5%
Feb-20	-14%	4%	16%	-14%
Mar-20	-65%	-73%	-59%	-65%
Apr-20	-97%	-99%	-100%	-97%
May-20	-95%	-99%	-100%	-95%
Jun-20	-91%	-98%	-96%	-91%
Jul-20	-79%	-96%	-96%	-79%
Aug-20	-76%	-94%	-97%	-76%
Sep-20	-77%	-85%	-93%	-77%
Oct-20	-82%	-83%	-90%	-82%
Nov-20	-85%	-82%	-87%	-85%
Dec-20	-84%	-82%	-84%	-84%



Source: World Travel & Tourism Council

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Agenda

- Economic Importance of Integration
- Arab Economic Integration pre-Covid
- Main effects of Covid19
- **Reforms to foster integration; areas for policy research**

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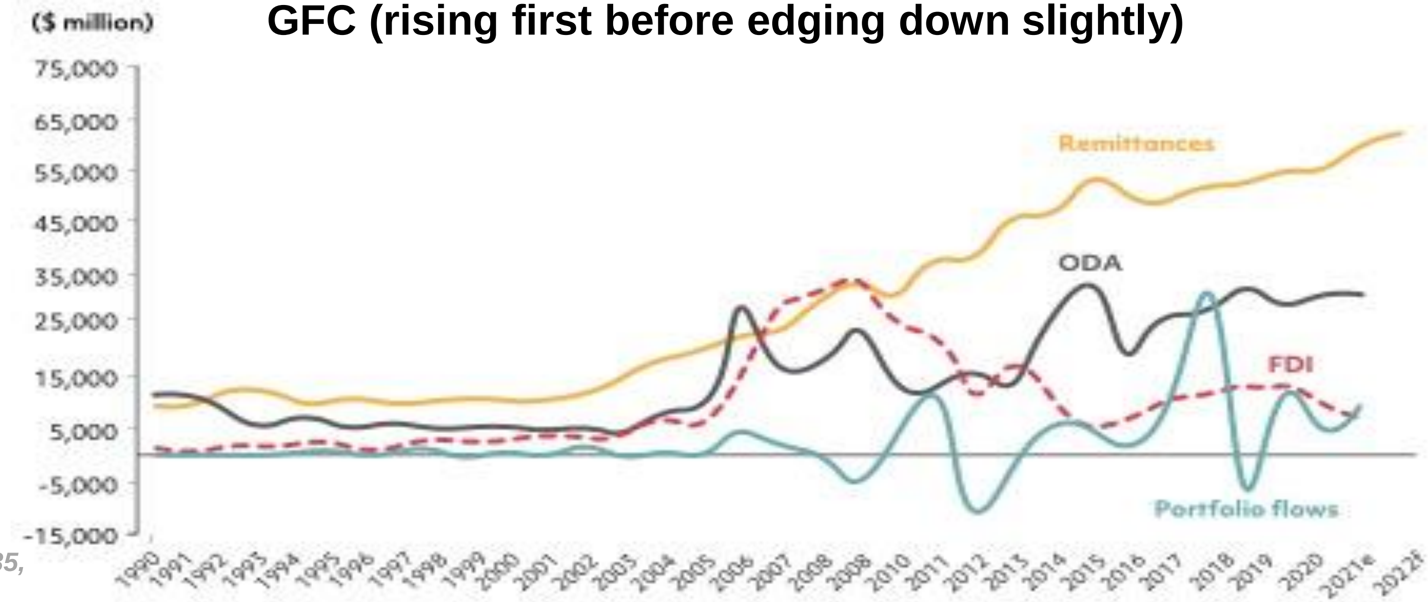
Pandemic vs. previous crises. Scarring effects of Covid19

Impact on Middle East's labour market has been unprecedented

	Pre-GFC	GFC	Pre-Oil Shock	Oil Shock	Pre-COVID	COVID
Unemployment rate	9.3	9.0	9.1	9.6	9.0	10.2
Labor force participation rate	50.3	49.9	49.5	49.6	49.7	48.1
Employment-to-working age population ratio	45.3	44.6	44.5	43.8	43.5	41.5
Ratio of total weekly hours worked[1]	42.1	42.2	42.1	42.1	41.6	40.3

Sources: ILOSTAT database, International Labour Organization modeled estimates and IMF staff calculations
Note: All values are median and in percent, unless otherwise noted. Pre-crisis is defined as two years before each crisis episode. COVID covers 2020; oil shock, 2014–15; and GFC, 2008–09. GFC = global financial crisis.
[1]Ratio of total weekly hours worked to population aged 15–64.

Remittances in MENA regionhave remained resilient in past crises including the GFC (rising first before edging down slightly)



Source: Migration & Remittances Brief #35, World Bank

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Recommendations for Policy & Research

- GCC are the main drivers of greater REI: need RTAs to support integration
- E-Services: Covid19 supported the move to digital; the trend will be sustained in a post-Covid world. How can MENA use digital for greater integration?
- Trade in services is fastest growing globally. Is the MENA region too restrictive? What needs to change? Broadband investment & integration
- Work-from-home policies: being a “global” citizen. Do borders matter?
- Rise of Renewables: opportunity to invest in & integrate the region’s RE power systems; create a regional grid to export to Europe & rest of the world
- Mashreq countries increasingly integrated with GCC. What limits ties with the Maghreb region? Distance or lack of bilateral and regional trade & investment agreements?

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Lessons from the Pandemic & way forward for Arab Regional & Global integration

Trade & Investment

- Focus on Trade facilitation (TF) measures: digital TF, automation, streamlining procedures
- Develop new "deep trade agreements" including services
- New trade & investment agreements with key partners: GCC and Asia
- Focus on integration into Global Value Chains
- New investment space: Digital services, e-commerce, FinTech, AgriTech

Labour & Rights of Establishment

- Facilitate regional labour mobility: common labour cards/visas
- Skills validation & recognition of qualifications (esp. refugees)
- Reduce barriers to rights of establishment
- Measures to avoid "remittance trap": improve competitiveness of domestic industries (lower costs of doing business, upgrade infrastructure), seed funding/ financial assistance for startups
- Policies & investments to reduce brain drain from Mashreq & Maghreb

Banking & Capital Market development

- Enhance financial linkages by allowing "passporting" for regional banks
- Policy measures to integrate fragmented domestic markets to a single regional market
- Liberalize capital markets: facilitate regional listings
- Move towards greater harmonisation of legal, tax & regulatory systems

Other

- Dealing with state-owned enterprises that limit efficiency, competition
- Policy coordination for common challenges: climate resilience, food security, limit competition, ensuring financial stability
- Regional integration of energy and transport/logistics infrastructure
- Institutional: regional body, with powers & accountability, to implement integration policies

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Thank you

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