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and Social Commission for Western Asia

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**Monitoring and evaluating Arab economic integration****Summary**

Policymakers acknowledge the importance of economic integration as a tool to enhance sustainable development. However, designing an economic integration strategy is not an easy task because of uncertainties about the impact of ongoing trade wars, sectoral coverage of integration schemes, level and depth of commitments and trade reforms, initial economic situation, existing comparative advantages and erosion of trade preferences. As a result, there remains a large untapped potential for integration as a means of economic and human development in the Arab region.

In order to assist member States in harnessing that potential, the Economic and Social Commission for Western Asia (ESCWA) has developed a system of indices and scoreboards to monitor and assess economic integration in the Arab region, dubbed “Arab Economic Integration System of Indices (AEISI)”. The system can be used to highlight the costs and benefits of integration policy, as well as the bearing of existing structural features and unexpected events, and thus inform necessary complementary reforms. The present document introduces the AEISI, describing its scope and methodology. It also provides examples of findings and suggests ways forward for the further adaptation of the AEISI to member States’ needs. Members of the Committee are invited to discuss the content of the present document and provide comments thereon.

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## Introduction

1. Policymakers acknowledge the importance of economic integration as a tool to enhance sustainable development. At the intraregional level and under the umbrella of the League of Arab States, Arab States signed the Agreement for the Facilitation and Promotion of Trade among Arab States as early as 1981. Currently, there are several trade agreements in force in the region, including the Greater Arab Free Trade Area (GAFTA); the Agadir agreement; and the Customs Union of the Cooperation Council of the Arab States of the Gulf. Negotiations are also underway towards the establishment of an Arab customs union. Many Arab States have further developed individual partnerships with the European Union, the United States of America and the Common Market for Eastern and Southern Africa (COMESA). They have embarked in diverse regional trade agreements (RTAs) and other bilateral agreements. To date, 13 Arab States<sup>1</sup> are members of the World Trade Organization (WTO).

2. Designing an economic integration strategy for Arab countries is no easy task. The external environment is marked by stumbling global economic growth, trade policy uncertainties caused by the ongoing trade wars and Brexit, and anemic growth in main developed trading partners. Egypt, Jordan, Morocco and Tunisia have been offered to enter “deep and comprehensive” partnerships with the European Union and negotiations have proved challenging. On the South-South front, some Arab States have signed the African Continental Free Trade Agreement, which created a massive continental free trade area.

3. Overall, a large research body and analyses by the Economic and Social Commission for Western Asia (ESCWA) show that there remains a large untapped potential for integration as a means of economic and human development in the Arab region. Several related questions arise, such as: What is the optimal combination of extraregional and intraregional integration? How effective have Arab RTAs been so far in achieving their stated objectives? What have their consequences been on economies, and to what extent have RTAs contributed to improving well-being and reducing poverty?

4. Answering those questions hinges on the availability of quality data, and effective and comprehensive monitoring and impact evaluation tools. Without such analytical tools, it is nearly impossible to track the effects of existing regional integration schemes; assess to which extent expectations have been met; determine whether policy adjustments are necessary; and hence build consensus around the integration project and convince the private sector to come on board.

5. In order to help member States to tackle the challenges of economic integration, ESCWA has developed a set of indices to monitor and assess economic integration in the Arab region, dubbed “Arab Economic Integration System of Indices (AEISI)”. The system makes use of a set of composite indices and scoreboards to highlight the costs and benefits of integration policy, and the bearing of existing structural features and unexpected events, and thus inform necessary complementary reforms. Arab countries’ performance in economic integration has been evaluated for 2010-2015 and early 2016. The system is being updated and findings for 2016-2017 will soon be made available. Assessments for 2013-2014 and 2015-2016 can be found in the *Assessing Arab Economic Integration Report*, first and second editions.<sup>2</sup> A third edition with updated rankings and analyses will be published in 2019. The system is being reviewed so as to harmonize the approach adopted by ESCWA with those of the Economic Commission for Africa (ECA) and the Economic and Social Commission for Asia and the Pacific (ESCAP).

6. The present document explains the structure of the AEISI; clarifies what it does and does not measure and how; and provides examples of the findings. It finally suggests a way forward in ESCWA work on monitoring regional economic integration.

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<sup>1</sup> Bahrain, Djibouti, Egypt, Jordan, Kuwait, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates and Yemen.

<sup>2</sup> [E/ESCWA/EDID/2015/4](#) and [E/ESCWA/EDID/2017/6](#).

## I. MONITORING REGIONAL ECONOMIC INTEGRATION

7. Designing an economic integration strategy that maximizes gains is a complex endeavour. Throughout the world, economic integration has proven to be an effective means to increase productivity and competitiveness through specialization, and unlock a structural transformation process susceptible to increase job creation and improve living standards. Nevertheless, the process may be costly in the short term, economically and politically, as evidenced by strong anti-globalization movements reflecting concerns about adjustment costs and distributional effects of integration.

8. ESCWA has proposed a system of indices and scoreboards to monitor and evaluate progress in regional economic integration. The objectives of the system are: (a) to support and improve policy design so as to leverage economic integration as a development strategy; (b) to improve governance and implementation of economic integration measures; and (c) to facilitate political debate and the emergence of political consensus, with a view to deepening integration in the long term.

### A. IMPROVING ECONOMIC INTEGRATION POLICY DESIGN

9. Using the AEISI, ESCWA aims to monitor advancements in the regional economic integration process, taking into account the combined influence of diverse elements, such as structural features that condition countries' specialization; exogenous and endogenous shocks and their disruptive or enhancing effects; the role of flanking policies that back up the integration process; additional activities and actions that may strengthen linkages among countries; and developmental aspects. The AEISI further factors in the respective influence of economic integration at the global, regional and bilateral levels. Capturing all those elements is necessary to inform the design of evidence-based economic integration policies, strategies and initiatives and to guide the integration project in the intended direction.

### B. IMPROVING GOVERNANCE AND IMPLEMENTATION OF INTEGRATION MEASURES

10. As information about enablers, policies and outcomes of economic integration processes in the Arab region is monitored, organized and made available to Arab Governments and implementing agencies, policy design and implementation are facilitated. The AEISI can be used to identify bottlenecks along the implementation process. Such an institutionalized information-sharing system facilitates the organization and synchronization of implementation agendas, encourages regular communication among partners and creates an avenue for discussion and resolution of disagreements.

11. Depending on the communication strategy and consultation process set up, the private sector may contribute to monitoring by helping to pinpoint inadequate and inconsistent implementation of agreements. As a crucial actor of the economic integration process, the private sector should be able to assess new opportunities and seize them if potential gains from economic integration were to materialize. Ultimately, through information-sharing and proper regulation, a smoother economic transition into integration could be made possible as swift creation of new firms compensates for lost ones and workers' transfer from one sector to another is facilitated.

12. In addition, monitoring and assessment bring key information to citizens and help them to understand Governments' integration efforts. The AEISI aims to monitor economic integration successes and setbacks and provide the reasons for both in a transparent and simple way. It is meant to help decision makers in designing communication strategies to inform all audiences of changes and progress. ESCWA is also developing a web platform with a view to giving access to AEISI findings to all stakeholders, in order to instill transparency in the regional economic integration process and help to build consensus. Simplicity and transparency are key for such an objective; however, traditional models used to evaluate the impact of trade schemes on countries' welfare are gravity and computable general equilibrium models that are extremely complicated and not suitable for strategic communication. That is why ESCWA has developed its economic integration monitoring and evaluation system using composite indices and scoreboards. Such a system is more

effective in explaining policy options and strategies; tracking the intended and unintended consequences of economic integration policies; and assessing the influence of exogeneous factors on which Governments have no control and which may disrupt the planned path. Clear communication about those aspects is needed to build credibility and trust.

### C. FACILITATING DEBATE AND COOPERATION AMONG RTA MEMBERS

13. Monitoring integration implies frequent and regular interactions among RTAs partners, which helps to build trust and may lead to further cooperation over time, as accountability, participation and implementation effectiveness are enhanced.

## II. SCOPE OF THE AEISI

14. The AEISI attempts to capture, as accurately and comprehensively as possible, the state and features of Arab countries' economic integration at all levels: bilateral, regional and international.

15. To do so, the AEISI provides answers to a set of questions, the most important being:

- *What is the performance of a given country in terms of economic integration?* The AEISI helps to form a detailed and precise idea of the depth, breath and speed of existing economic integration processes in the Arab region;
- *What is the performance of the considered country in comparison with others?* The AEISI offers a snapshot of the progress of a country towards economic integration at a given point in time in absolute terms and in comparison, to the relevant countries, taken as a group and individually;
- *What are the internal elements that explain performances?* The AEISI provides information about presumed enablers of economic integration, policies developed and outcomes of economic integration efforts;
- *How do external/exogeneous developments impact performance?* The AEISI monitors and evaluates achievements, challenges and opportunities, short-term policy-induced costs and structural bottlenecks, lessons learned and the impact of unanticipated events;
- *How are multilateralism and intraregionalism articulated?* The AEISI allows to better understand the respective contribution of interactions and synergies between subregional, regional and international contexts to integration performance. The tool can also be used to assess existing governance architecture and get insights on potential future moves in the direction of multilateralism, extraregional and intraregional integration, intensification of bilateral relations, and any combinations of those.

### A. WHAT DOES THE AEISI MEASURE?

16. Regional integration monitoring systems vary greatly from one to another in their conceptual frameworks, scope, structure and content. They may cover:

- Economic, cultural and technological elements;
- *De facto* (achieved) and/or *de jure* (implementation) aspects;
- Enabling factors, policies, outcomes and/or developmental goals when economic integration is perceived as a means to an end;
- Results of the adoption of a specific approach to integration (functional, economic or policy harmonization or integration versus cooperation);
- Each individual member country's performance at integrating at various levels (bilateral, regional, international), or its contribution to the performance of the groupings to which it belongs;

- Benchmark analyses involving comparisons across countries and/or groupings;
- Role of various regional integration institutions and donor-financed support programmes;
- Assessments of the needs and impact of various institutions based on which funding is re-evaluated and integration processes revised.

17. The AEISI measures *de facto* economic integration, covering a set of enabling factors, policies and outcomes. The performance of each country in economic integration is assessed, as well as its contribution to the group's integration level. Leading countries and intraregional subgroups are identified, the contribution of which to the region's integration performance is evaluated. Various groupings from outside the Arab region are also included. Benchmark analyses are possible as 138 countries and various non-Arab groupings are included.

#### B. WHAT IS OUTSIDE THE SCOPE OF THE AEISI?

18. The AIESI focuses on *de facto* (outcomes) versus *de jure* (implementation) aspects. The region being highly heterogeneous when it comes to the legal frameworks in place and the financial and human capacities available, no system focusing on *de jure* aspects would fit all Arab countries. The approach thus favours outcome-based versus policy-based monitoring. The AEISI does not include technological or cultural aspects *per se*, nor does it cover developmental consequences, as there is no single model of economic integration that would be optimal for all Arab countries. The introduction of development repercussions in the system would require extensive discussion with member States.

### III. METHODOLOGY OF THE AEISI

19. The AEISI differs from most indicator-based monitoring practiced in the field, which tends to focus on institutionalized aspects and outcomes, in attempting to capture the levers that can be used to increase integration performance and efforts deployed by Arab countries on a wide array of fronts. Besides, instead of computing composite indices using dozens of indicators, three indices of economic integration at the global, regional and bilateral levels are computed and additional information is displayed on scoreboards.

#### A. COMPOSITE INDICES AND SCOREBOARDS

20. Scores in composite indices are calculated by aggregating individual indicators. Composite indices are thus a highly effective tool to summarize and communicate information about complex phenomena. Scores and rankings can be produced, enabling comparisons across countries and regions. Specific strategies and patterns of regional integration can be identified, and scenario or benchmark analysis can be carried out.

21. The AEISI comprises three composite indices of *de facto* economic integration computed using three to six individual indicators in the areas of trade, foreign investment and remittance flows. The selected indicators pertain to the most relevant integration channels in the Arab region. Aggregating across a reduced number of individual indicators allows straightforward but accurate understanding of the underlying dynamics of economic integration.

22. The first index, called the Globalization Index, measures a country's performance in integrating globally. The Globalization Index allows to evaluate whether a country is keeping pace with or falling behind the most active countries in international markets. This first index aggregates information about imports, exports, inflows and outflows of foreign investment and remittances as percentage of gross domestic product (GDP).

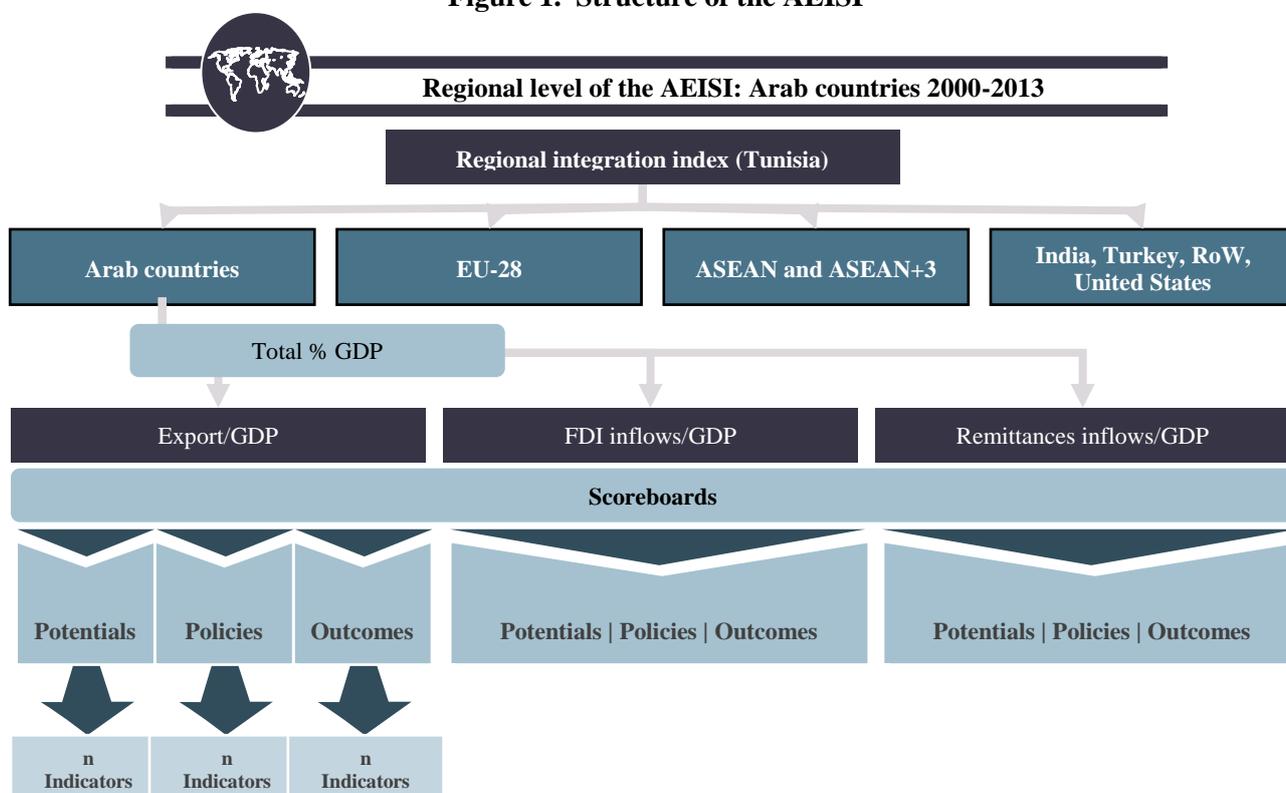
23. A second index, the Regional Flow Intensity Index is then calculated using exports and inflows of foreign investment and remittances, all in percentage of GDP. The selected indicators represent inflows of funds, i.e. "inputs" in the economy. It indicates the capacity of a country to grab part of the international demand to boost its growth. Using this index, it is also possible to assess whether the members of a regional

trade agreement perform better as a whole; that is whether trade agreements help pulling together members' resources and strengths.

24. The third index is the Bilateral Flow Intensity Index; it is calculated for each Arab country vis-à-vis other Arab countries and relevant institutional or economic subregions.<sup>3</sup> Scores reflect the relative importance of intraregional bilateral interactions, or the relative dependence of a country on a given Arab grouping or individual country (figure 1).<sup>4</sup> The index tracks the contribution of key Arab partners (regions and individual countries) to the economic situation of any given Arab country.

25. In addition to the three composite indices, three scoreboards are used to reflect Arab countries' potential to integrate (Potentialities scoreboard); the policies set up to harness this potential, that is *de jure* integration aspects (Policies scoreboard); and the *de facto* integration achieved (Outcomes scoreboard). Using scoreboards instead of aggregating all the selected indicators into a single composite index allows for clearer monitoring and comparison across countries and regions. When too many indicators are aggregated into a single composite index, it becomes virtually impossible to disentangle the contribution of each indicator to the final ranking of a given country and hence to design effective policies.

**Figure 1. Structure of the AEISI**



*Abbreviations:* EU, European Union; ASEAN, Association of Southeast Asia Nations; RoW, rest of the world.

*Source:* E/ESCWA/EDID/2015/4, annex I.

*Notes:* The case of Tunisia is given as an example to represent the structure of the AEISI. ASEAN countries are the following: Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam. ASEAN+3 are ASEAN countries plus China, Japan and the Republic of Korea.

<sup>3</sup> For computing the three indices, missing data were filled by linear approximation and when the last year(s) was (were) missing, the last statistical information was used. A min-max approach was applied for normalization between 0 and 1. Subsequently, scores were calculated using a simple average of the underlying individual indicators based on which countries were ranked in comparison to the best and worst performers.

<sup>4</sup> Z-scores are also calculated at the bilateral level to measure the relative intensity of integration between two countries, given the bilateral integration level reached by each pair of countries within the region.

26. Usually, the share of a country's exports to the region in total exports to the region is used to evaluate intraregional integration. In the case of the Arab region, in which countries differ greatly in size and trade profiles, such an indicator may essentially reflect the economic weight of a country and, to a lesser extent, its contribution to trade and integration within the region. As an example, within the GCC, Saudi Arabia accounts for a large part of Oman's trade to the region because of the relative size of the two countries more than because of the strength of their economic ties. The AEISI uses the ratio of a country's exports to its GDP as an indicator, which partly solves that problem. The AEISI integration indices can be categorized as "dependency indices", as defined in the specialized literature on the subject.<sup>5</sup>

## B. INDICATORS

27. The AEISI monitoring and evaluation system uses 106 individual indicators, among which 7 pertain to *de facto* integration and are used to compute the composite indices. The first list of potential indicators was established based on a review of the existing literature on integration in the Arab region, which is relatively scarce depending on the issue at hand. It was thus completed by research focusing on integration of developing countries in general. The list was then narrowed down using the following criteria:

- Clear and reasonably strong causality between the indicator and integration performance;
- Significant impact of the selected indicator on integration outcomes to ensure the effectiveness of the derived policy recommendations;
- Timely availability for the findings to be useful to member States.

28. A sheer dose of pragmatism was used when establishing the first classification of the selected indicators along the three scoreboards. The final structure of the AEISI was discussed with internal and external experts.

## IV. RESULTS

29. Over the period 2016-2018,<sup>6</sup> the global outlook shifted, offering renewed opportunities to further globalization after 2017 due to several factors, among which: (a) a ratio of global trade to GDP that was below 1 since the 2008 global financial crisis, and reached 1.2 in 2017; (b) global trade and GDP growth improvement beyond expectations; (c) the rebalancing in China, i.e., switching from external demand to domestic demand in generating growth, which was heading towards a rather soft landing; (d) and increasing global prices of energy from an average annual crude oil price of \$31.6 per barrel on 11 April 2016 to \$86.3 per barrel on 10 April 2018 (figure 2). Consequently, if in 2016, countries had to struggle to protect their exports from shrinking and increase their share of a global market that was not growing, after 2017, international integration dynamics enhanced. Opportunities to improve productivity through foreign investment, specialization and technology diffusion increased, in particular for developing countries. However, in 2018, trade policy uncertainties surged casting negative shadows on the outlook.

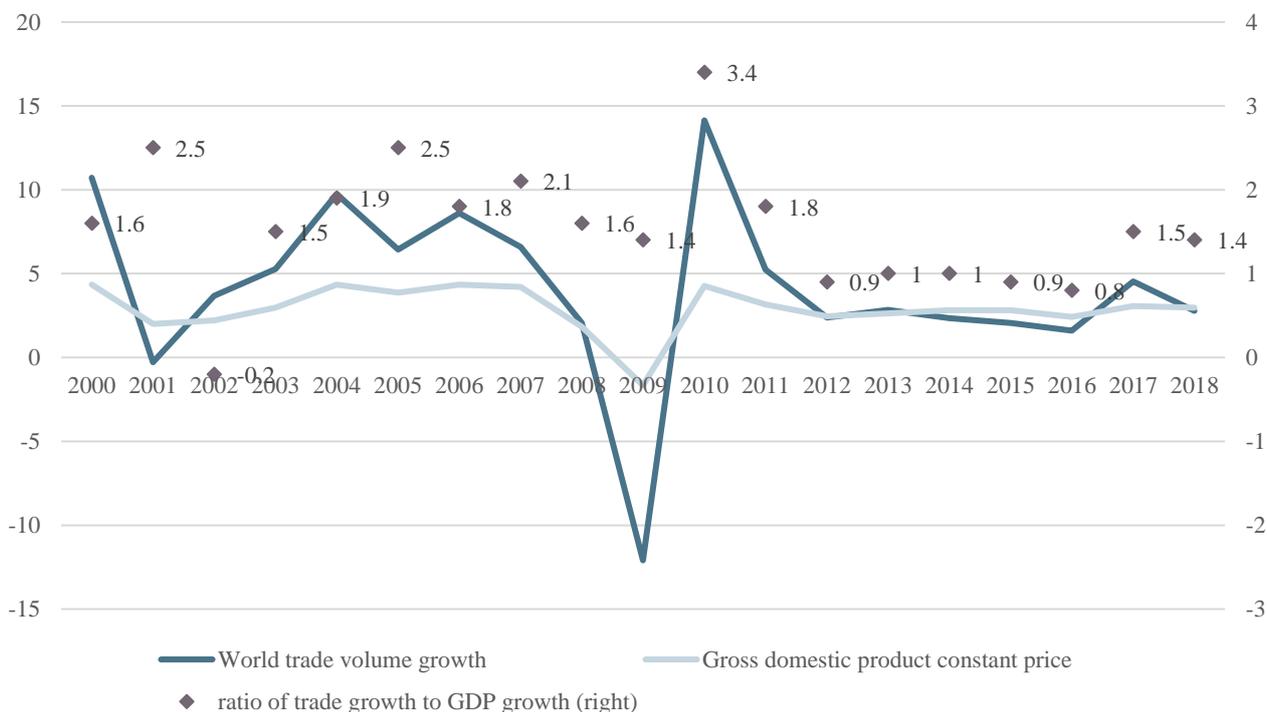
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<sup>5</sup> See [E/ESCWA/EDID/2017/6](#) for more details on dependency.

<sup>6</sup> Findings for the period 2013-2016 are published in [E/ESCWA/EDID/2017/6](#).

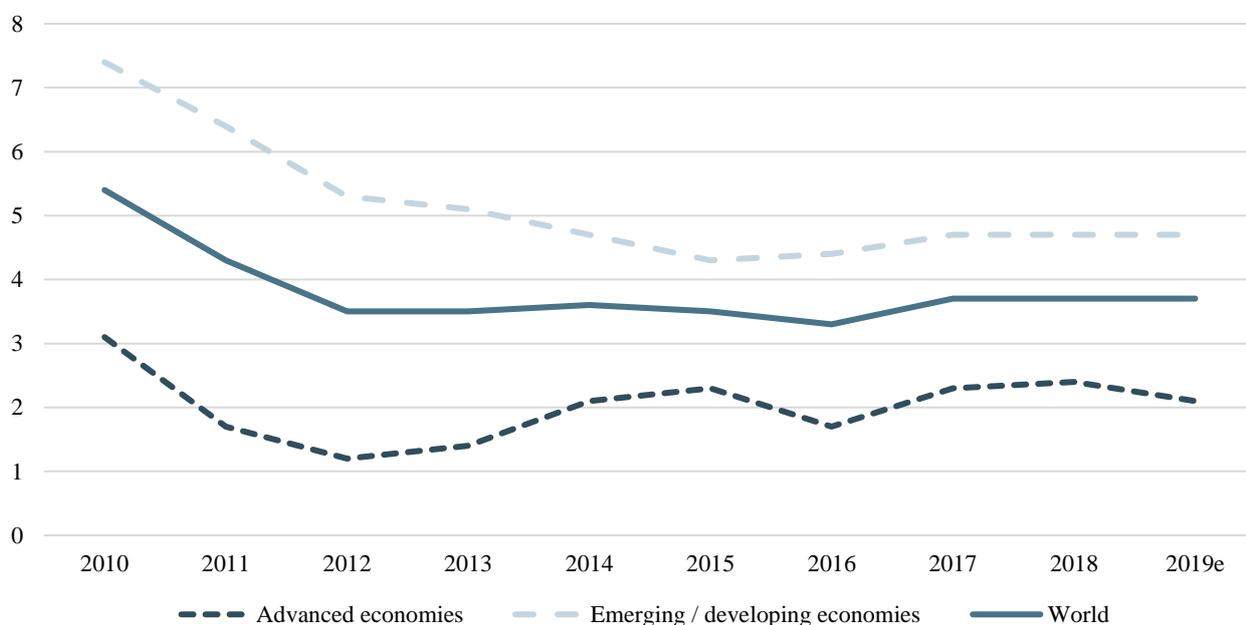
**Figure 2. Global context of economic integration**

**A. WORLD TRADE VOLUME AND REAL GDP GROWTH**



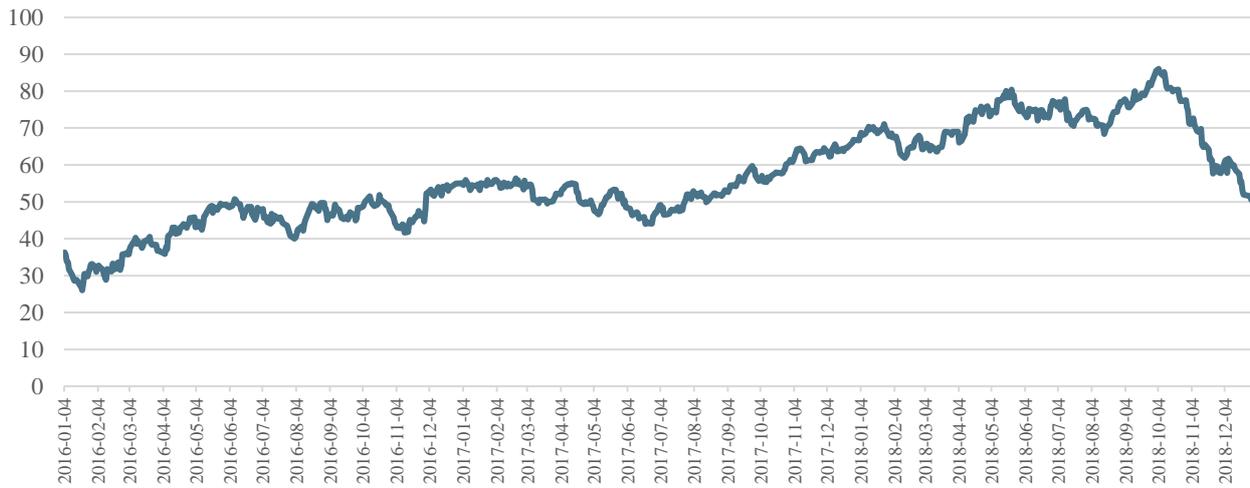
Source: ESCWA calculations using 2018 United Nations Conference on Trade and Development (UNCTAD) data. Available at [https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en) (accessed on September 2019).

**B. REAL GDP GROWTH (ANNUAL PERCENTAGE CHANGE)**

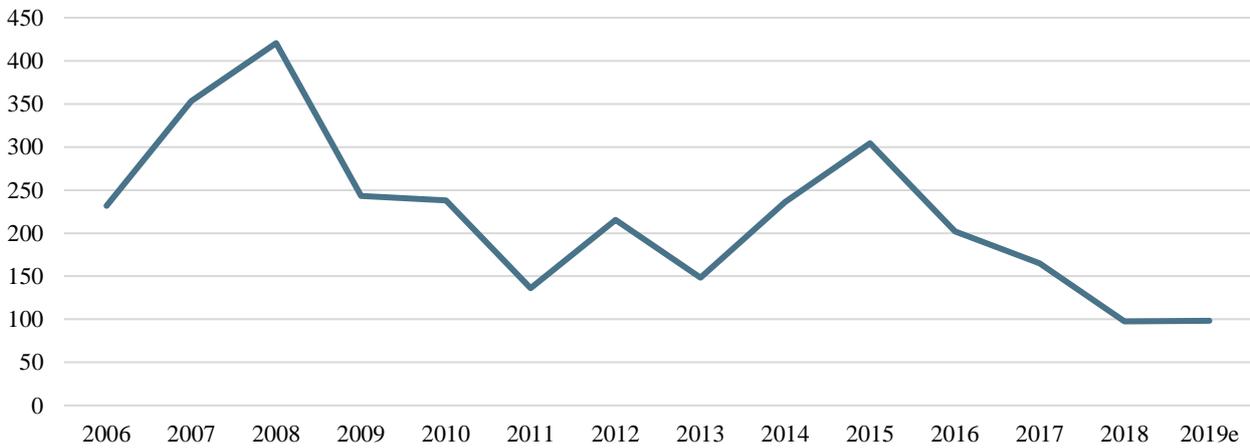


Source: International Monetary Fund, World Economic Outlook database. Available at <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx> (accessed on September 2019).

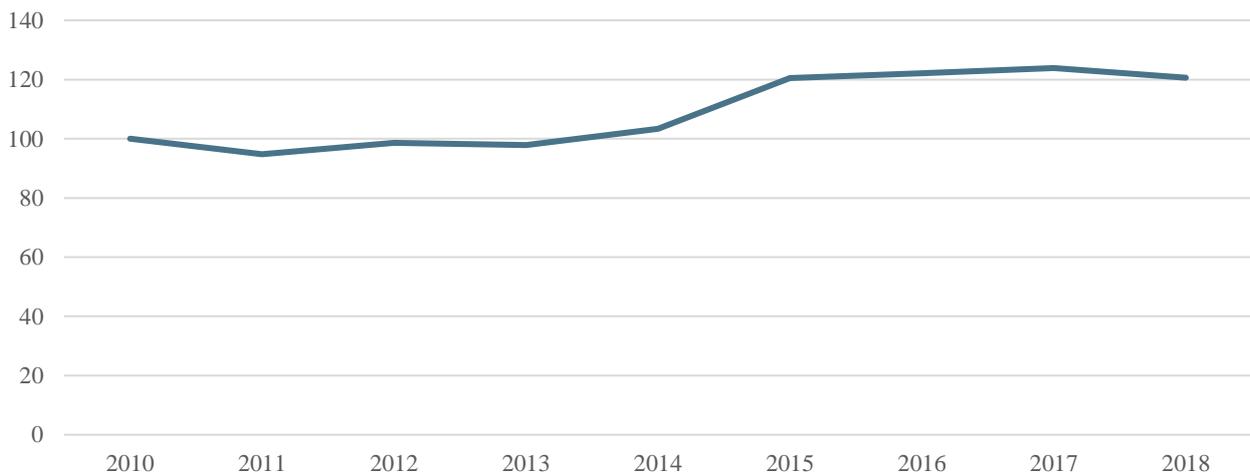
C. CRUDE OIL PRICE (BRENT, DOLLARS PER BARREL, DAILY)



D. CHINA, CURRENT ACCOUNT BALANCE (BILLIONS OF UNITED STATES DOLLARS)



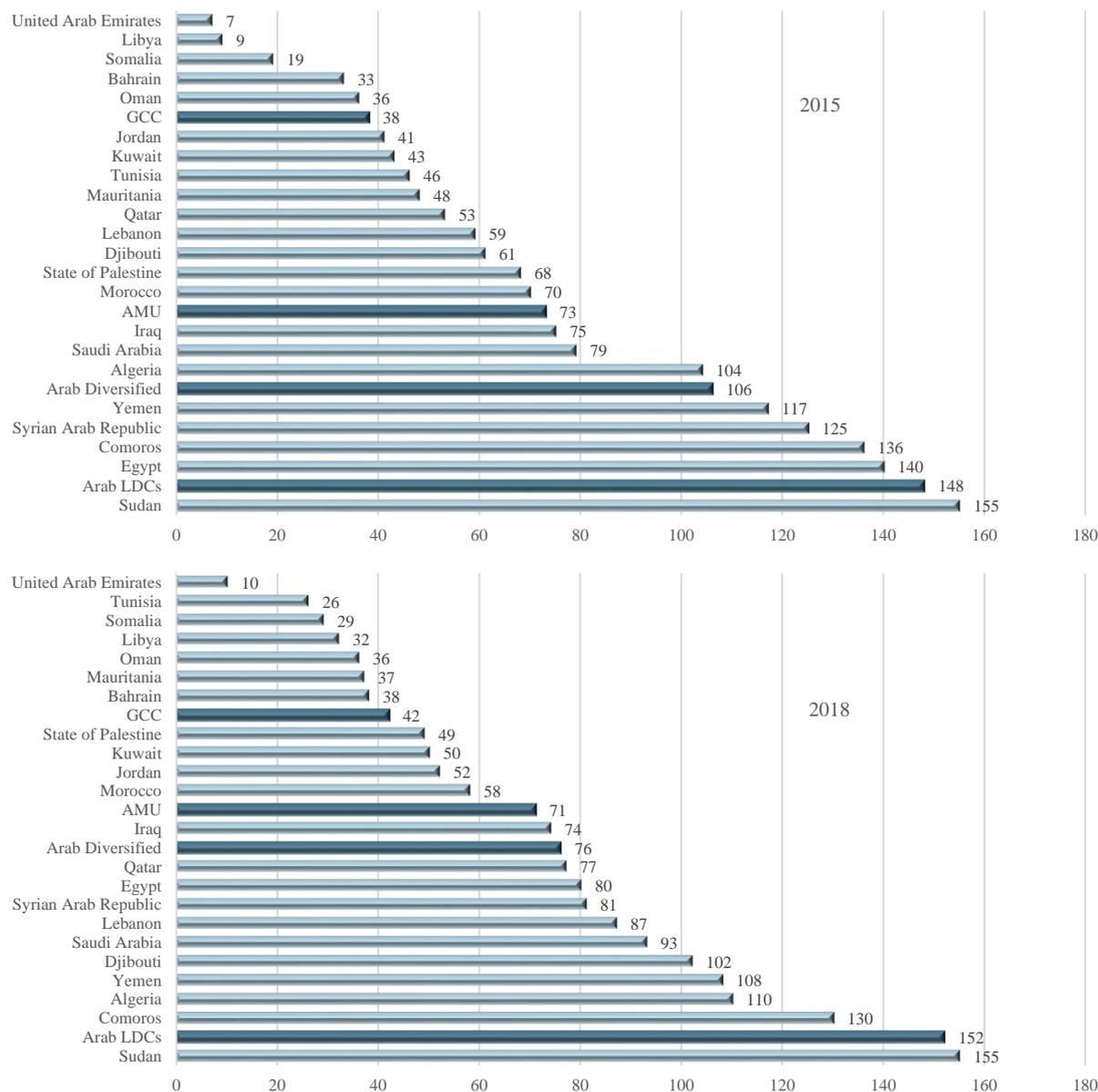
E. UNITED STATE DOLLAR, REAL EFFECTIVE EXCHANGE RATE, INDEX



Source: Figures C, D and E: International Monetary Fund, DataMapper. Available at [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/OEMDC/ADVEC/WEOWORLD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD) (accessed on September 2019).

30. In 2016, the Globalization Ranking Index was topped by Singapore, Viet Nam, Slovakia, Belgium, Czechia, Hungary, Luxembourg, the Netherlands, and Slovenia. As evidenced in the literature, developed, prosperous and small countries, that is relatively less self-sufficient ones, tend to be more open and thus more globalized than larger countries. The findings also highlight the very sizeable advantages and disadvantages of being geographically close to a fast-growing hub, a large high-end market, and/or part of an efficient regional integration scheme.

**Figure 3. Globalization rankings, 2015 and 2018**



*Abbreviations:* AMU, Arab Maghreb Union; GCC, Gulf Cooperation Council; LAS, League of Arab States; LDC, Least Developed Countries.

*Source:* Upcoming Assessing Arab Integration Report, volume III.

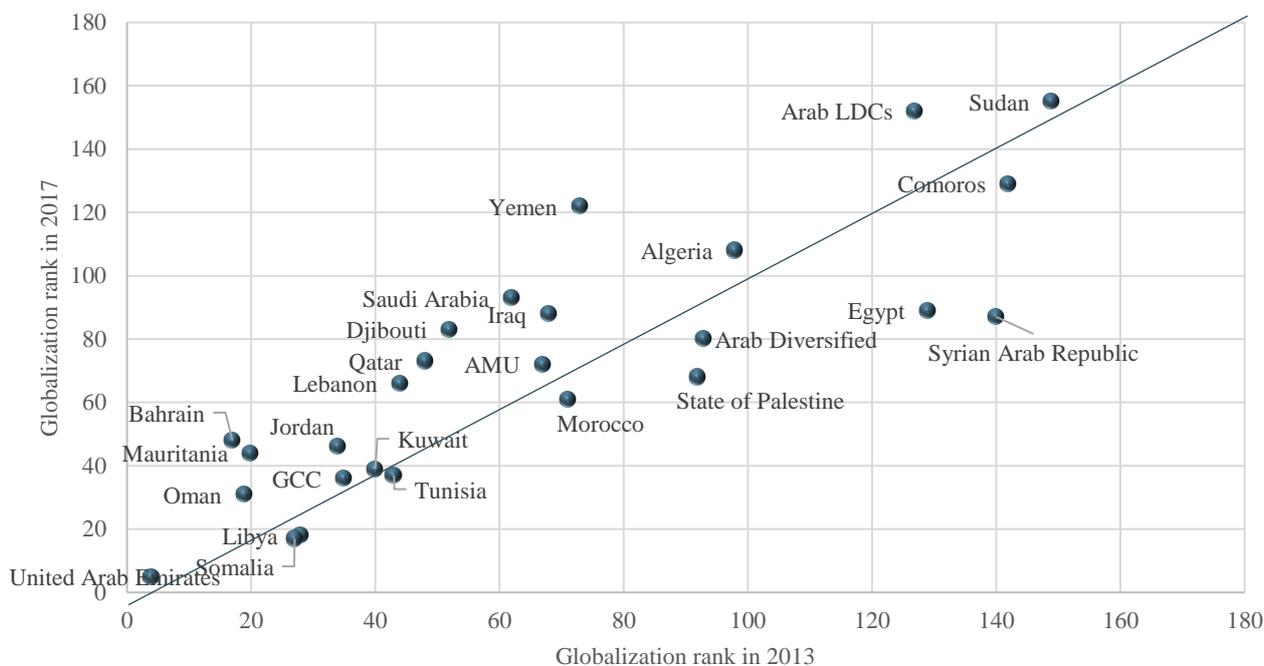
*Note:* Arab diversified economies are Egypt, Iraq, Jordan, Lebanon, State of Palestine and Syrian Arab Republic. Arab LDCs are Comoros, Djibouti, Somalia, Sudan, Yemen. 2018 results are preliminary estimates.

31. In 2015-2017, three Arab countries appeared in the top 20 on the Globalization Ranking Index: the United Arab Emirates, Libya and Somalia. Preliminary results for 2018 show that only the United Arab Emirates managed to stay in the top 10. The others had fallen down in the ranking and deserted the top 20. Between 2015 and 2017, Libya had lost 11 spots and 14 more, in 2018, moving down from the ninth to the thirty-second rank mostly due to the volatility of its oil production and the ongoing conflicts (figure 3). The good performances of Somalia essentially reflect the small size of the country, its subsequent economic dependency from foreign partners, and a substantial increase in foreign direct investment inflows as share of the GDP since 2009.

32. In general, Arab oil-exporting countries globalization performance suffered from slow global growth in 2015-2016, the appreciation of the American dollar, low oil prices and oil-production cuts under the OPEC deal. On the other side, non-oil exporting countries globalization efforts were hampered by depressed economic growth in the region and in many of their partners, especially in Europe and Asia as well as the appreciation of the American dollar. However, after 2017, despites mounting trade policy and Brexit related uncertainties, global trade increased beyond expectations, fueled by stronger than expected economic growth in developed and developing countries as well. Arab countries were thus offered new opportunities to strengthen their ties with foreign partners.

33. Figure 4 below tracks changes in country ranks between 2013 and 2017. Any country below the line moved up the ranking and improved its insertion in global markets relatively to other countries in the sample. Two Arab countries only, namely Egypt and the State of Palestine moved sizably up the ranking following an increase in their imports in volume and value and greater workers' remittances inflows. The Comoros, Morocco, Somalia, Tunisia and Libya held their ground. The drivers behind changing globalization patterns were higher imports and/or exports due to a favorable economic context, especially in the United States and Europe, and a quite soft landing following the rebalancing in China, the three main Arab countries' trading partners. However, in terms of percentage in GDP, globalization levels, as measured here, shrunk by 5 percent in the Arab United Emirates and up to 48 percent in Bahrain.

**Figure 4. Globalization ranking of Arab countries, 2013 and 2017**

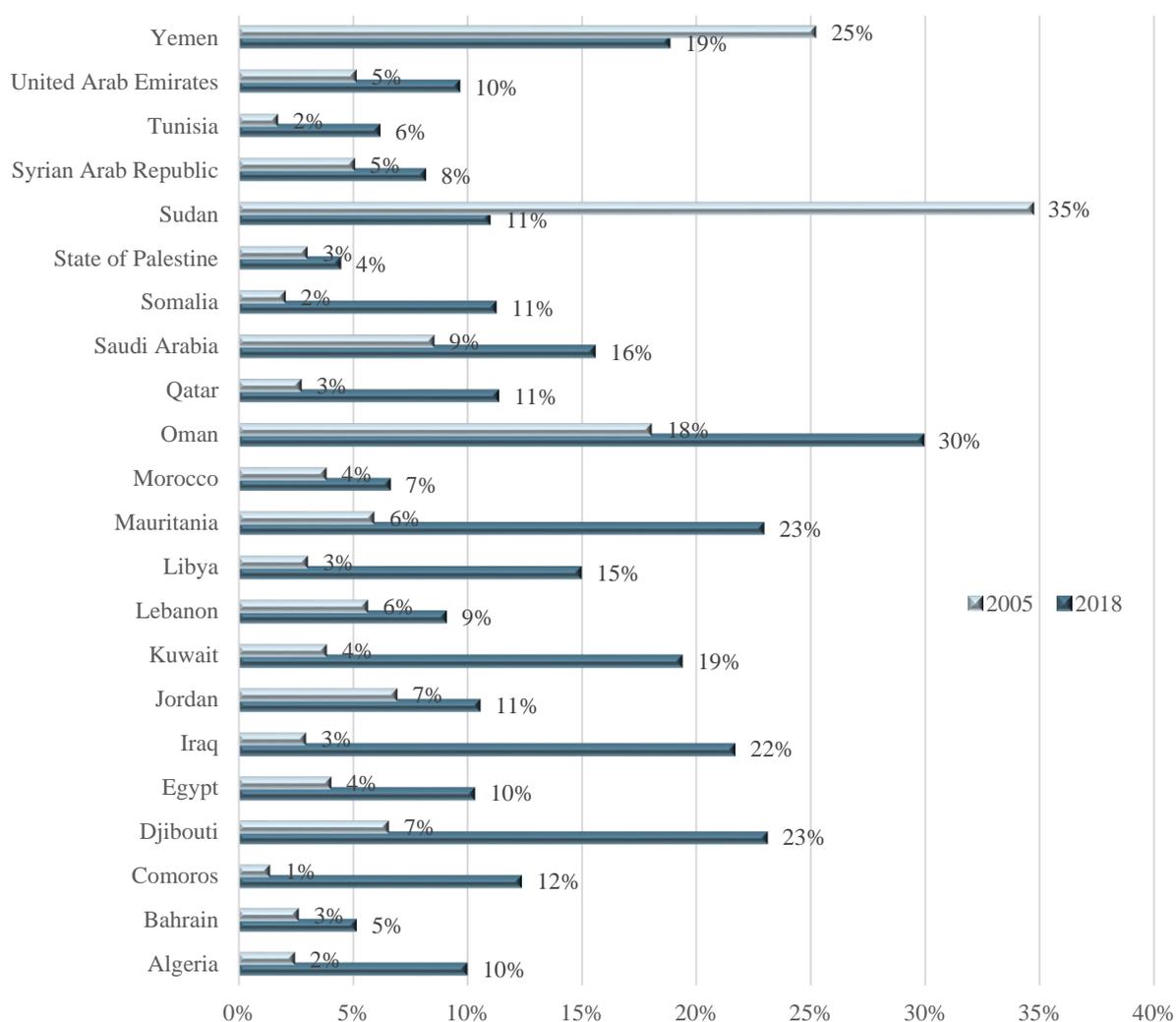


Source: Upcoming Assessing Arab Economic Integration Report, Volume III.

34. Change in the distribution of Arab countries' trading partners and their relative weights should be carefully monitored, especially since the 2008 global financial crisis and the sovereign debt crisis in Europe, when it became all the most urgent for Arab countries to find new sources of economic growth. Most Arab countries shifted their trade eastward and strengthened their ties with Asia and a fast-growing China. If it served them well in the beginning, as the business cycle of China and the ASEAN was disconnected from that of developed countries, this move constitutes today a major risk of crisis contagion due to the economic size of China<sup>7</sup> and its closer ties with developed countries.

35. Between 2005 and 2018, total trade between China and Iraq increased sevenfold, while trade with Libya and Algeria witnessed a fivefold increase; against a threefold increase with Djibouti, Qatar and Tunisia. Trade between China and Egypt and the Syrian Arab Republic roughly doubled. As of 2018, China accounted for over 10 per cent of total exports for the majority of Arab oil-exporting countries (figure 5).

**Figure 5. Share of China in Arab total trade, 2005 and 2018 (percentage)**

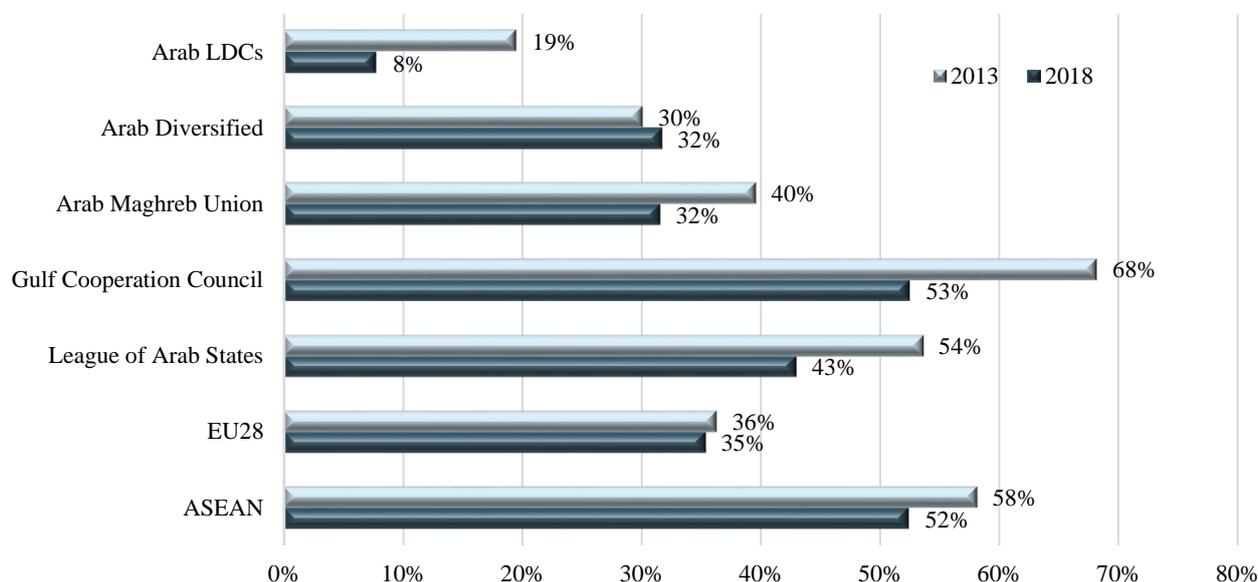


Source: Upcoming Assessing Arab Economic Integration Report, Volume III.

<sup>7</sup> China absorbs more than half of the world's production of iron ore, refined copper, primary aluminum, smelted and refined nickel, and 11 per cent of the world's oil production.

36. Dependency ratios are calculated using only exports and inward flows of foreign investment and remittances. The goal is to better understand to which extent a given Arab country is capable of grabbing part of the global demand, attracting investors, and exporting its labour force to boost its economic activity and human development through economic integration. Figure 6 shows that quasi all Arab subregions have become less able to rely on the world economy to support their development. The strength of the linkages between the rest of the world and the GCC on the one hand, and the rest of the world and the AMU on the other, was reduced: the contribution of the rest of the world to the economic activity of the two Arab subregions shrank by 22 percentage points and eight percentage points, respectively, between 2013 and 2018. In 2018, the ratios of the sum of exports, foreign direct investment and workers' remittances inflows to GDP amounted to 53 per cent for the GCC and 32 per cent for the AMU, against 68 per cent and 40 per cent for the two regions, respectively, in 2013. In the case of the GCC, this is mainly the result of falling energy prices. In the case of the AMU, the deglobalization measured by the dependency ratio is attributable to the same factor added to a changing international landscape and still stagnating exports despite the ongoing recovery in Europe, its main economic partner by far.

**Figure 6. Dependency composite index for Arab subgroupings, EU-28 and ASEAN, 2013 and 2018**

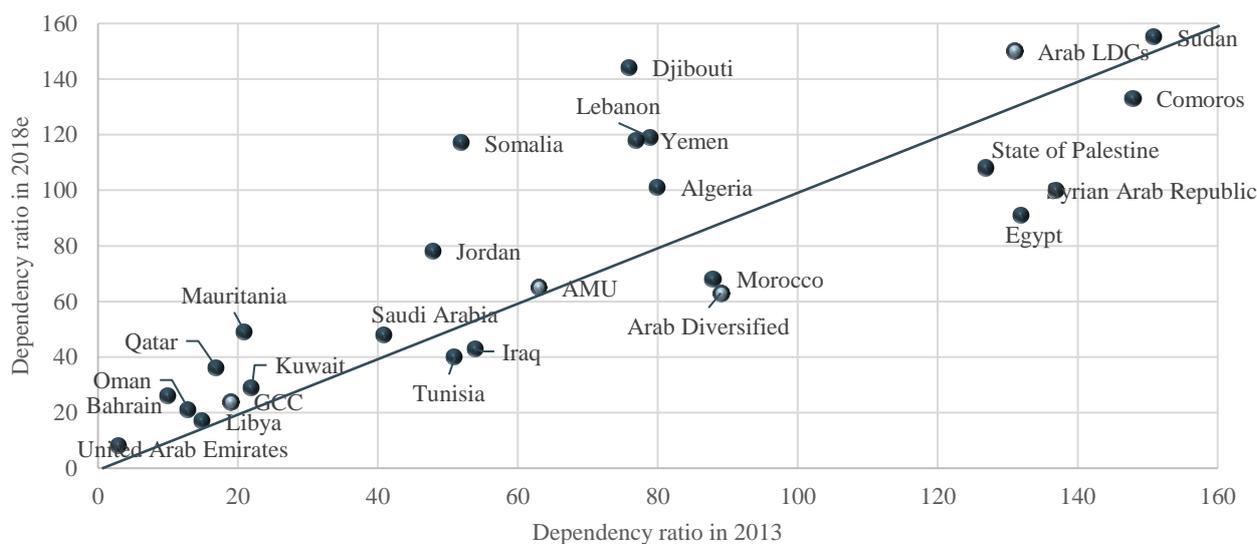


Source: Upcoming Assessing Arab Economic Integration Report, Volume III.

Note: Data for 2018 are estimates.

37. The move towards less dependency on the rest of the world at the subregional level can also be observed at the country level. All Arab countries relied less on revenue from the rest of the world to sustain their economic activity as showed by a comparison of their 2013 and 2018 rankings in figure 7. Only Egypt, the Syrian Arab Republic, Comoros, Libya and Morocco managed to hold their ground. The contribution of the world to their economy amounted 60 per cent of Libya's GDP, but only to 31 per cent of Morocco's GDP, around 25 percent of their GDP in Egypt, the Syrian Arab Republic and the State of Palestine, and 16 percent of the Comoros's GDP. The question then arises of the role of intraregional integration and the possibility for Arab partners to increase intraregional integration to sustain economic activity in times of reduced opportunities to integrate worldwide.

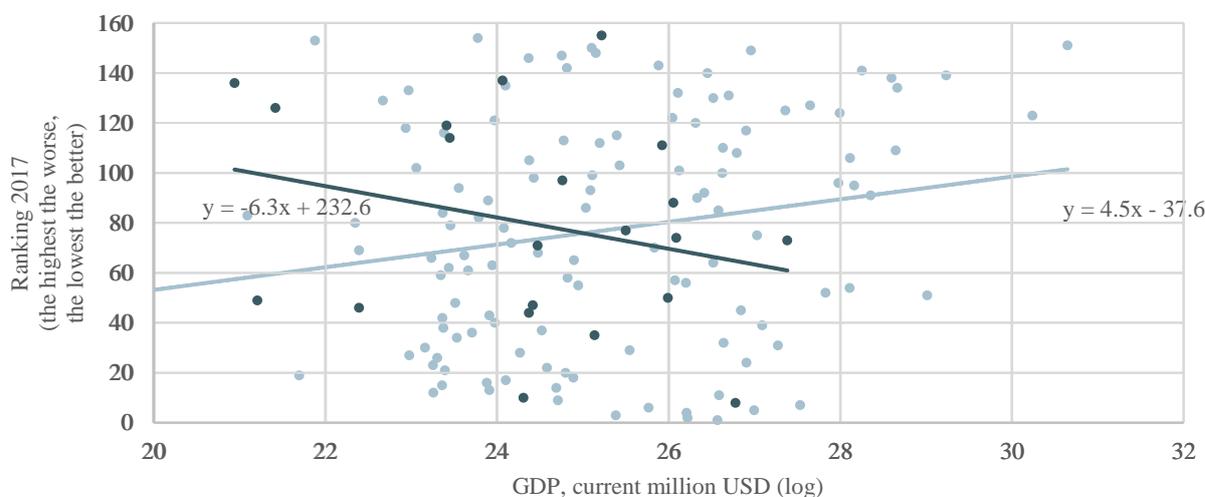
**Figure 7. Dependency ratio, Arab subgroupings and countries, 2013 and 2018**



Source: Upcoming Assessing Arab Economic Integration Report, Volume III.

Note: Data for 2018 are estimates.

**Figure 8. Economic integration performance and level of development in Arab countries in 2017**



Source: Upcoming Assessing Arab Economic Integration Report, Volume III.

Note: Light colour: other 125 countries covered by ESCWA's system of composite indexes and scoreboards for economic integration monitoring and evaluation, dark colour: Arab countries.

38. The table below uses a colour code to highlight the strength of intra-Arab bilateral integration in 2018: the darkest the shade, the closest the countries, the more Arab countries' economy (in rows) is supported through integration with their intraregional partners (in columns). The table shows that GCC countries are relatively more integrated as a subregion than any other economic or institutional Arab subgroup. They are also playing a leading role in fostering intra-Arab integration in general, in particular Saudi Arabia and the United Arab Emirates which, as providers, have developed strong economic ties with all Arab least developed countries (LDCs) and Mashreq countries, except Iraq. GCC ties with AMU countries appear relatively looser to the exception of Libya. To some extent, Egypt, Iraq and Tunisia have played a similar role within their

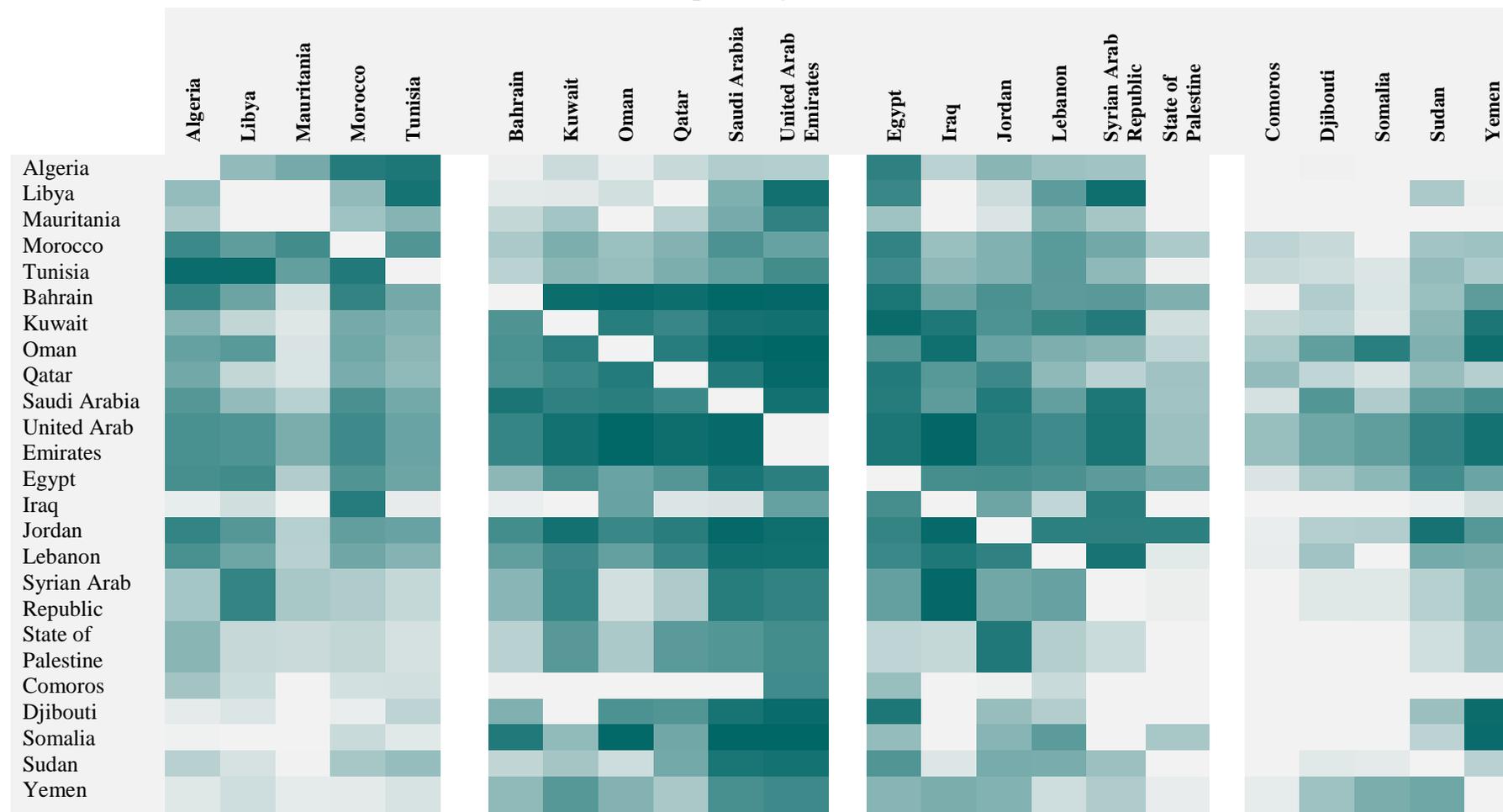
respective subregions. In each subregion, a country or two emerge that benefit relatively more from relationships with their neighbours: Tunisia in the AMU, Bahrain and the United Arab Emirates in the GCC, and Jordan and Lebanon within the Mashreq.

39. In the current context of global and interregional integration, two important questions arise: Have the leading countries in intra-Arab integration been able to continue to lead throughout the period under review? Is intra-Arab integration a fallback for Arab countries? A comparison over time of intra-Arab dependency ratios shows that, due to the economic difficulties of GCC countries, their ties with all Arab countries weakened between 2013 and 2018. It is especially true for Jordan and Lebanon, the dependency ratio of which vis-à-vis Saudi Arabia fell, respectively, from 12 per cent to 5 per cent and from 7 per cent to 2.2 per cent. This is an important loss of income for those two countries, which are facing the consequences of the ongoing war in the Syrian Arab Republic.

40. Comparing changes in the absolute levels of intra-Ara contribution to Arab countries' GDP between 2013 and 2018 shows that the region has not been an effective fallback and countries have integrated with new partners, mostly in Asia, to compensate for their losses. Thus far, intra-Arab integration has not been a stepping stone to further multilateral integration and did not help to weather the consequences of exogenous shocks, on which Arab countries have little control but which affect their economic performances tremendously, such as falling oil prices or the recession in the United States and Europe.

41. As a result, intra-Arab integration does not contribute much to encouraging specialization and the emergence of champions within the region. A large potential remains untapped; it is shown by the negative correlation between Arab countries' GDP, usually a major determinant of foreign direct investment inflows and exports, and their level of integration as measured by dependency ratios (figure 8). Similar analyses can be done using indicators from the three scoreboards.

Bilateral dependency ratio, Arab countries, 2018



## V. THE WAY FORWARD

42. The composite indices at the core of the AEISI measure Arab countries' extraregional and intraregional economic integration, focusing on the main channels of integration tackled by in-force intra-Arab trade agreements, that is merchandise trade and foreign direct investments. Workers' remittances are added, as migration has always been important in the Arab region. In the future, composite indices may cover additional aspects of economic integration, namely trade in services, which is considered as the new frontier of economic integration worldwide.

43. Although some indicators may be added in the future, the number of individual indicators used to compute composite indices, calculate scores and rank countries will remain small. As said earlier, this approach does not favour the aggregation of tens of indicators and a complex architecture made of subdimensions and dimensions, which would not be suitable for transparent evidence-based policymaking, neither would it meaningfully enrich the understanding of integration dynamics.

44. The AEISI enables effective communication without jeopardizing the transparency and straightforwardness of information produced on Arab countries' economic integration performance. It offers a much more comprehensive view of the economic integration process than any other existing monitoring system, thanks to the development of three scoreboards focusing respectively on enablers, policies and outcomes of economic integration.

45. ESCWA is considering the collection of additional information through surveys on barriers to trade in services to enrich its analyses. However, this endeavour is complex and annual updates may prove difficult. In the context of a project aimed at comparing the monitoring approaches of ECA, ESCAP and ESCWA, discussions were carried out on the nature of the integration process under monitoring, and on different analytical and methodological issues. ECA and ESCAP are using a larger set of indicators to compute economic integration indices and use principal component analyses (PCA) to select the most influential ones. In the future, ESCWA may develop a similar type of monitoring tool for purposes of comparison and harmonization across regional commissions (this will remain subject to data availability). The modifications currently envisioned are to use PCA as a robustness test, not as an aggregation method. Eventually the grouping of indicators in the scoreboards may also be revised to ensure coherence with the integration dimensions selected by other United Nations regional commissions.

46. Furthermore, a web platform will be launched to give access to all stakeholders to the statistical information used to build the monitoring and evaluation system and trade country profiles, a new product recently released by ESCWA. The platform will disseminate information for further scholarly research; it will encourage providing feedback and contribute to stirring political debate and reaching consensus around the region's integration project.

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