

**Economic and Social Commission for Western Asia (ESCWA)**

Committee on Trade Policies in the States Members of the Economic
and Social Commission for Western Asia

First session

Amman, 8-9 December 2019



Item 9 of the provisional agenda

Arab States' exports: trends and patterns**Summary**

The present document unpacks what drives changes in exports from the Pan-Arab Free Trade Area (PAFTA) and its subregions in terms of markets served, products exported, and the type of goods, by their position in the stages of processing as new, existing and discontinued products, vis-à-vis a diverse set of blocs as partners over two time periods: between 1995 and 2016 and between 2005 and 2016. It finds that Arab countries are rather dynamic, though not to the same extent as sub-Saharan Africa, in terms of introducing new products and expanding into new markets in general. For PAFTA countries, intraregional and intra-subregional exports are, however, not as dynamic as extraregional exports, despite a number of regional and subregional trade agreements. This finding could be taken as another piece of evidence on the prevalence of factors that impede regional trade despite the removal of tariff barriers. Another important finding from the perspective of intra-Arab trade is the rising importance of consumer goods in new products in intraregional trade. Along with the finding that discontinued products in intraregional trade are predominantly and increasingly intermediate goods, consumer goods replace intermediate goods in intra-PAFTA trade.

The Committee on Trade Policies in the States Members of the Economic and Social Commission for Western Asia is invited to review the content of the present document and discuss proposals on ways to improve external trade performance of the Arab region.

CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
Introduction	1-5	3
<i>Chapter</i>		
I. DATA AND APPROACH	6-11	3
II. RESULTS	12-25	4
III. CONCLUSION AND RECOMMENDATIONS	26-30	15

Introduction

1. Beyond calculating growth rates of exports vis-à-vis different partners in terms of value or volume, evaluating export performance of a country entails an assessment of its exports along several dimensions. One very interesting aspect to explore is to unpack what drives changes in a country's exports in terms of markets served and products exported. For instance, growth in exports could be a result of: a significant increase in the number of markets served; a wider range of products exported; higher values of exports to markets already being served; or higher values of products already being exported.
2. Decomposing exports in such a manner could be quite revealing about past export performance and the impact of associated trade policies, thus helping guide policymakers in identifying areas or measures likely to boost exports. For instance, if there is strong preference for variety, developing comparative advantages in products that are not yet in the export basket of a country offers better prospects for boosting its exports. Similarly, if the existing export markets are largely saturated, expansion into new markets, possibly along with creating comparative advantages in new products, should be the target of policy. In the latter case, unless accompanied by efforts to penetrate new markets, competitiveness gains might translate into little or no increase in exports. In most cases, trade policy should therefore be geared toward diversifying exports by exporting more products or serving more destinations.
3. Competitiveness keeps evolving over time spurred by changes in technology and preferences and producers need to keep abreast of those changes to be able serve markets and benefit from export opportunities. In this sense, expanding to new products and/or into markets is a positive development. It is, however, also important to maintain competitiveness in products that are currently specialized in, to ensure sustainability of production and exports, as well as to demonstrate that new products or markets are not merely the result of random discoveries, but, rather, the outcome of systematic efforts and strategy. Regional markets could play a crucial role in the quest to discover new markets and/or products by providing trade relationships that can nurture exporters to meet international standards, foster learning by doing and build further competitiveness.
4. The analysis could also be extended to unveil the type of products that make up export flows in terms of markets served or products traded. In the current study, products are classified by their position in stages of processing: raw materials, intermediate goods, capital goods, and consumer goods. Decomposing exported products in this way could provide insights into the nature and extent of, as well as emerging tendencies in, participation in international production networks and supply chains. For example, in the case of intermediate goods, emergence of new flows in terms of traded products and destination markets is particularly important.¹
5. This paper is structured as follows. The second section briefly describes the approach taken and data employed to decompose the change in bilateral export flows between selected blocs/regions. The third section presents results of the exercise, before concluding in the fourth and last section.

I. DATA AND APPROACH

6. The approach taken in this paper to gauge the diversification exports in terms of markets served and products exported or expansion into new ones, as well as discontinued products or markets, is relatively straightforward. To this end, the change in the value of a country's exports between two periods is simply decomposed into exports to existing markets and of products already in the export basket (the intensive margin), exports to new markets and of new products (the extensive margin) and discontinued products or markets.
7. In practice, this decomposition can be carried out using different levels of disaggregation for the exports data at the product level, with highly granular data better capturing the dynamism of the exporters' initiatives

¹ Andrea Beltramo, Koen De Backer and Laurent Moussié, "The export performance of countries within global value chains (GVCs)", OECD Science, Technology and Industry Working Papers, No. 2012/2 (Paris, Organisation for Economic Co-operation and Development).

to expand into new markets and products. For example, a greater extent of product differentiation would be captured with more disaggregated data.

8. While the definitions of intensive and extensive margins appear fairly straightforward, alternative definitions of new markets and products could be employed. A new market could be defined as a trading partner to which no product was exported in the reference year, but to which some products are exported in later years. Alternatively, a new market could instead be defined in a product-centric manner by referring to a market as a new market if it is a destination for a product that was not exported to it in the reference year. Under this definition, a market can be classified as new even if there were other products exported to it in the reference year.

9. Similarly, a new product could be defined with respect to the partner or in a more ambitious manner regardless of the partner. Under the partner-specific definition, a new product is referred as one that was not exported to the partner in the reference year but exported in later year or years. Under the ambitious definition, a new product is defined as one that was not exported to any partner in the reference year but exported to some destinations in later year or years. It should also be noted that, depending on the choices of new product and market definitions, some of the components in the mathematical model could become redundant and calculations are done accordingly.

10. The decompositions presented in the next section are carried out using merchandise export flows at the HS 6-digit level from the United Nations Commodity Trade Database (UN Comtrade). To ensure that the changes over longer periods could be calculated, HS1988/92 nomenclature is adopted, based on World Customs Organization Sector classification for the Harmonized System (HS) product nomenclature. In order to avoid the bias that may be introduced by missing data, if there is no data for a country in one of the years to calculate the change in bilateral merchandise exports, that country is not included in the aggregate for the bloc it belongs to as a reporter or partner. Failure to make this adjustment would have resulted in all products for the country in question being unjustifiably identified as discontinued or new products.

11. As an additional step, new, existing and discontinued products are further decomposed by their position in stages of processing, based on the classification of the United Nations Conference on Trade and Development (UNCTAD). The exported products are grouped into four broad categories: raw materials, capital goods, intermediate goods, and final consumption goods.

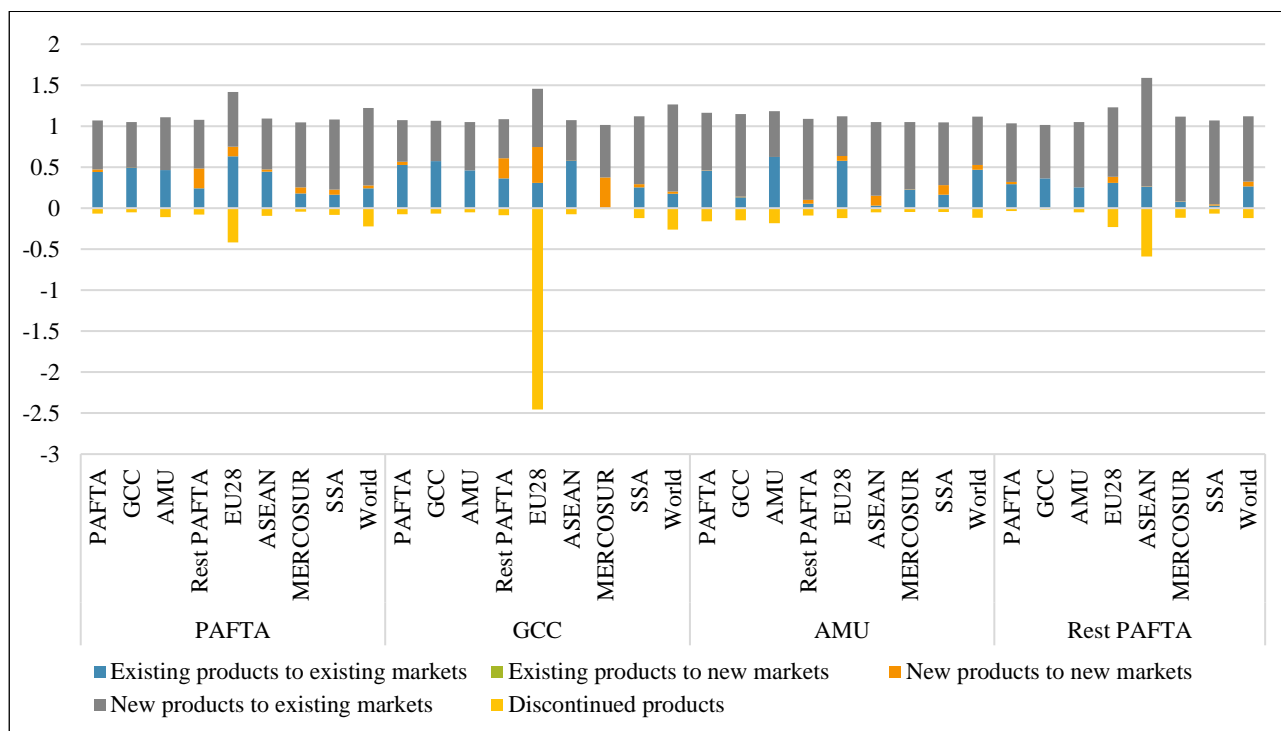
II. RESULTS

12. In order to unpack how the exports of the Arab region and its subregions evolve vis-à-vis selected blocs and regions as partners, the decomposition introduced in the previous section is carried out for two time periods: 1995-2016 and 2005-16. By narrowing the time period, we aim at not only highlighting more recent trends but also to show how intensely new products are introduced or markets penetrated over different time frames. The same calculations are carried out for selected blocs and regions as reporters to benchmark and compare the findings for the Arab region.

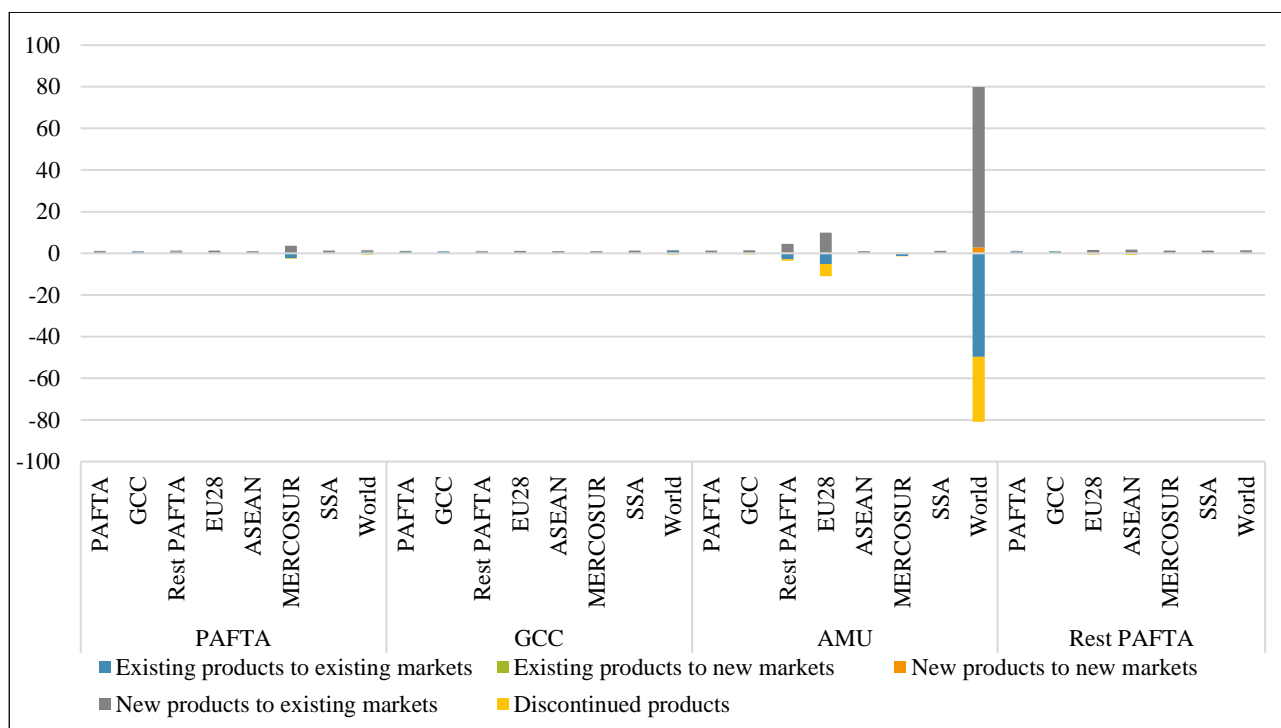
13. How does the Arab region fare in this type of analysis? When the change in merchandise exports of the Arab region and its subregions between 1995 and 2016 is decomposed along intensive and extensive margins, an interesting picture emerges (figure 1, panel A). New products or markets tend to make up a greater portion of the change in merchandise exports of the Arab region vis-à-vis partners outside the region than intraregional exports. This is somewhat surprising given that the Pan-Arab Free Trade Area (PAFTA) has been in effect during almost the entire period. Though it requires more thorough analyses, this cursory analysis suggests that PAFTA has largely failed to spur Arab firms to forge trade relations with their intraregional partners. The change in the region's exports to the European Union and the Association of Southeast Asian Nations (ASEAN), however, is more similar to intraregional exports in terms of intensive and extensive margins, possibly reflecting that these are more mature markets with well-established export baskets destined to them.

Figure 1. Composition of change in bilateral merchandise exports along intensive and extensive margins for Arab region and subregions

A. Between 1995 and 2016



B. Between 2005 and 2016



Source: Authors' calculations based on UN Comtrade data (accessed on January 2019).

Note: PAFTA stands for Pan-Arab Free Trade Area, GCC for Gulf Cooperation Council, AMU for Arab Maghreb Union, ASEAN for Association of South-East Asian Nations, SSA for sub-Saharan Africa and MERCOSUR for Southern Common Market. "Rest PAFTA" refers to PAFTA member countries excluding GCC or AMU members.

14. The change in the Arab subregions' merchandise exports between 1995 and 2016 has evolved rather differently. The prominence of new products or markets tend to be greater for the change in the exports of Gulf Cooperation Council (GCC) countries destined to non-Arab partners. GCC is similar to the Arab region in this sense. Arab Maghreb Union (AMU) on the other hand exhibit a distinct pattern. While the share of new product or markets is relatively low in the change in the exports of AMU to the Arab region as a whole, European Union, and its intra-subregional exports, it is rather high to the GCC and Arab countries excluding GCC and AMU members. The Arab countries, not members of GCC or AMU, have rather dynamic export baskets vis-à-vis all the selected partners. Nevertheless, the share of new products or markets in the change in the merchandise exports to the Arab region and its subregions is lower, albeit marginally.

15. The change between 1995 and 2016 in the value of exports of the European Union, ASEAN and the North American Free Trade Area (NAFTA) is largely driven by greater exports along the intensive margin (figure 2, panel A). In other words, more developed blocs appear to have comparatively high shares of existing products destined to existing markets and this stylized fact is quite robust to changing the time period. A possible explanation is that they tend to have well-established export baskets and relations. For Mercosur and, to a much greater extent sub-Saharan African countries, expansion into new markets or products is more important.

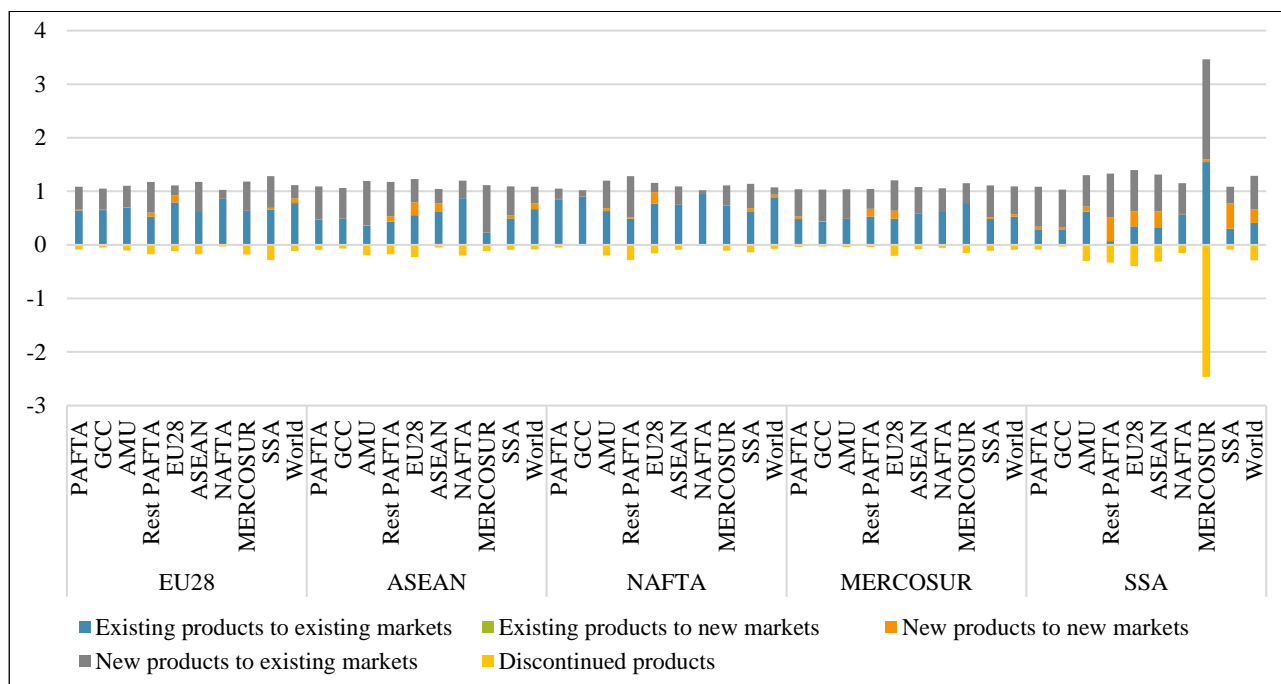
16. Nevertheless, the extent of the dominance of the intensive or extensive margin in driving the value of exports varies depending on the partner. For the European Union and ASEAN, the PAFTA countries, as well as the Arab subregions GCC AMU and the rest, are relatively more dynamic markets due to the introduction of new products. For NAFTA, while the change in the value its exports to the GCC is driven mostly by existing products and markets, its exports to the rest of PAFTA members excluding the GCC, and to a lesser extent to the AMU, are driven by new products. For MERCOSUR, PAFTA countries and subregions appear to be moderately dynamic markets, with no particularly large differences across Arab subregions in terms of the intensive or extensive margins. In the case of sub-Saharan African countries, the change in exports to PAFTA countries are mostly driven by the extensive margin but tends not be as dynamic as exports to the other partners. It is somewhat interesting to see that the change in exports of sub-Saharan African countries to AMU countries is driven to a lesser extent by the extensive margin than to the other Arab subregions, despite their geographical proximity and relatively stronger trade linkages. This apparent contradiction could be explained by looking at the change in exports between 2005 and 2016 (figure 2, panel B). The exports of sub-Saharan African countries to the AMU tend to be much more dynamic than its exports to other Arab subregions when a later time period is considered, suggesting that AMU was relatively well-established market for sub-Saharan African countries and/or initially the basket of products exported to PAFTA countries excluding AMU was rather limited.

17. What types of products drive the change in the value of new products as defined in the previous section by their position in the stages of processing. New products are dominated by intermediate and consumer goods for PAFTA as a whole and Arab subregions with the exception of AMU (figure 3). In the case of AMU, consumer goods tend to dominate new products in value terms vis-à-vis most partners. Raw materials drive the change in the value of new exported products of AMU to ASEAN and PAFTA, intermediate goods to NAFTA and MERCOSUR.

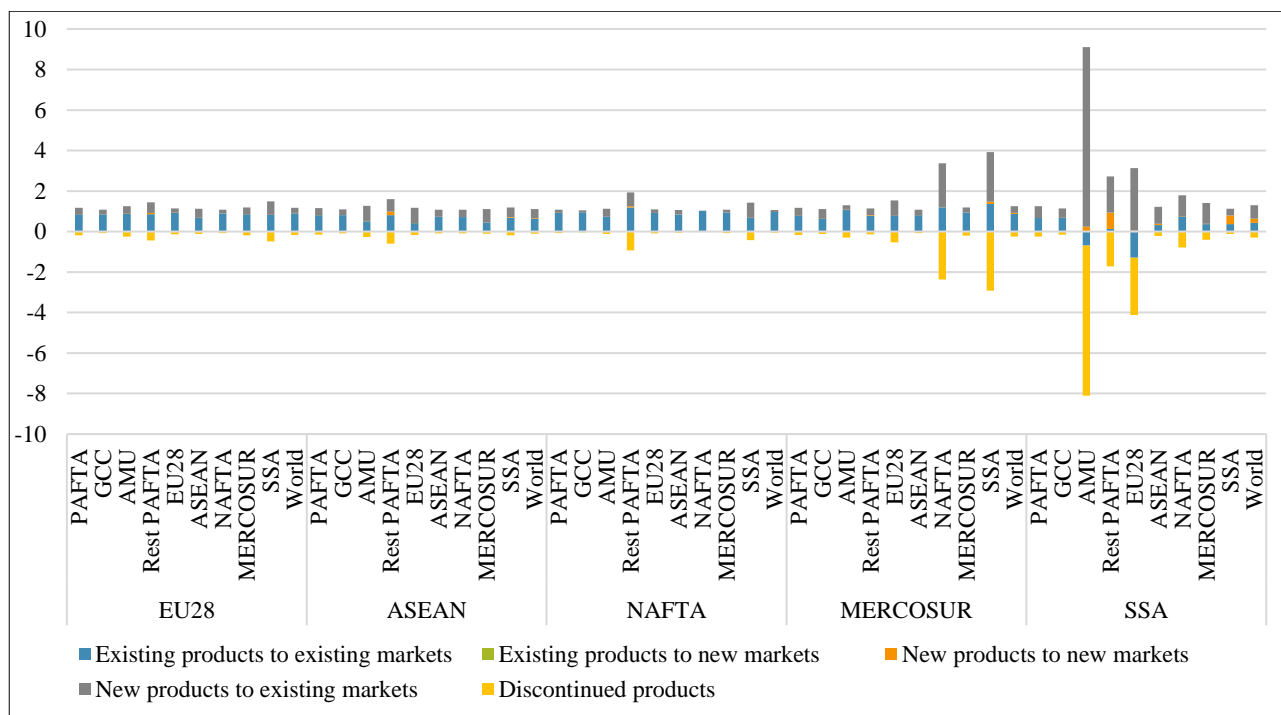
18. In the case of European Union, ASEAN and NAFTA, capital and consumption goods make up a high share of new products vis-à-vis most partners and intermediate goods are featured prominently in the exports of new products (figure 4). For Mercosur and SSA, raw materials along with intermediate goods drive the change in new products. Interestingly, the composition of new products changes little between the periods considered for both PAFTA and its subregions, and the selected blocs and regions.

Figure 2. Composition of change in bilateral merchandise exports along intensive and extensive margins for selected trading blocs or regions

A. Between 1995 and 2016



B. Between 2005 and 2016

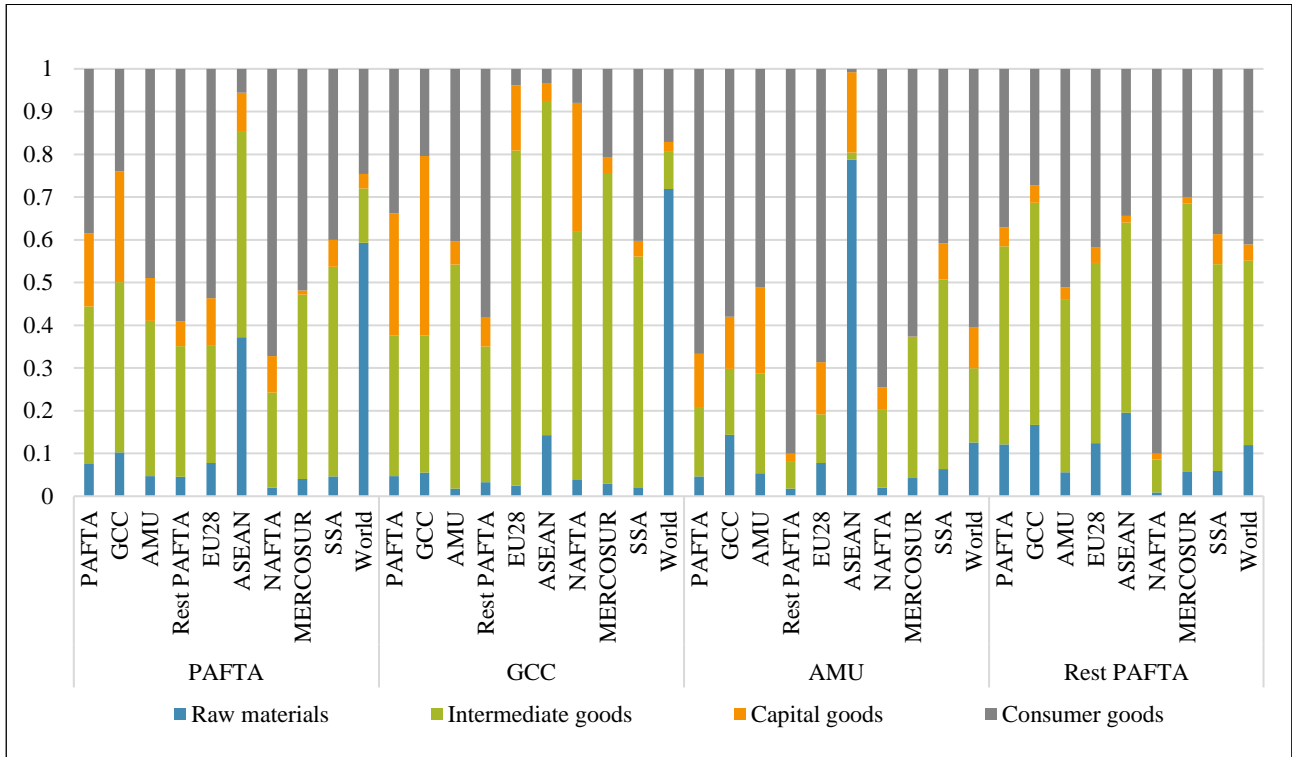


Source: Authors' calculations based on UN Comtrade data (accessed on January 2019).

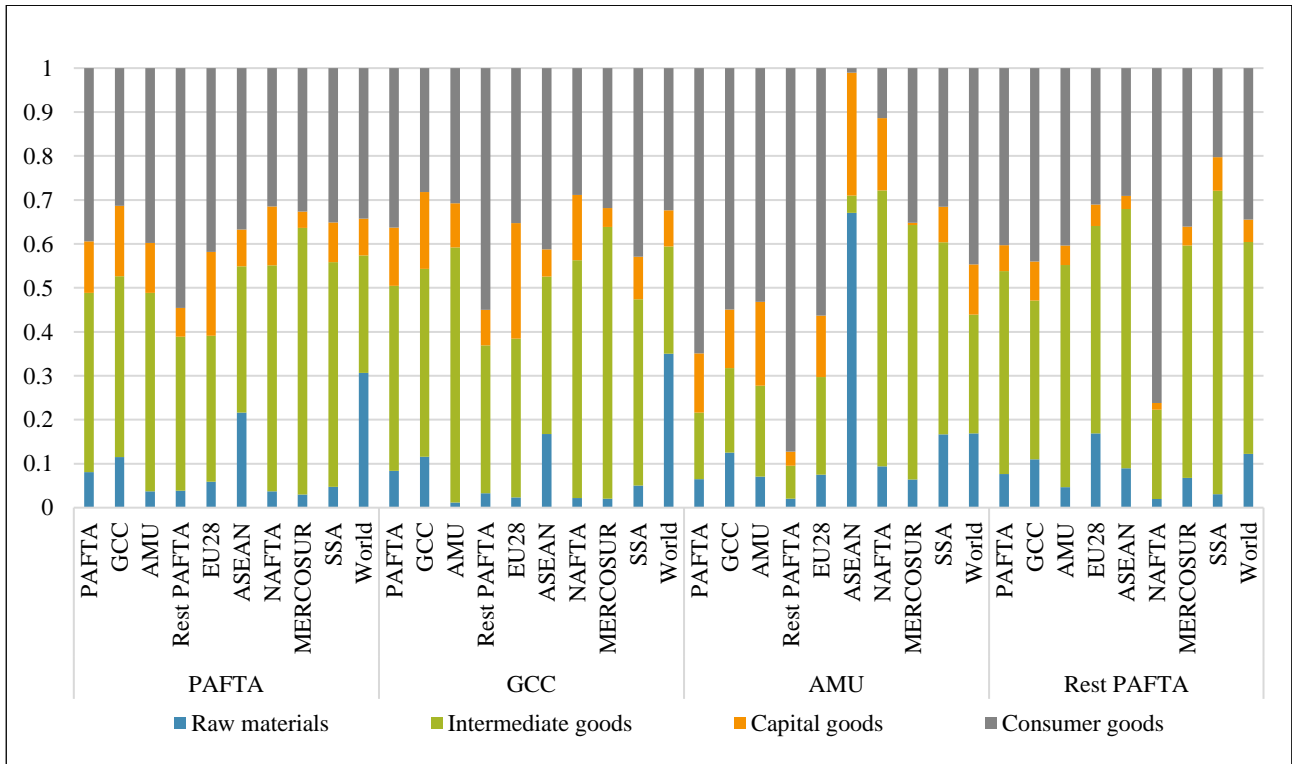
Note: PAFTA stands for Pan-Arab Free Trade Area, GCC for Gulf Cooperation Council, AMU for Arab Maghreb Union, ASEAN for Association of South-East Asian Nations, SSA for Sub-Saharan Africa, MERCOSUR Southern Common Market. "Rest PAFTA" refers to PAFTA member countries excluding GCC or AMU members.

Figure 3. Composition of new products by stage of processing in Arab region and subregions

A. Between 1995 and 2016



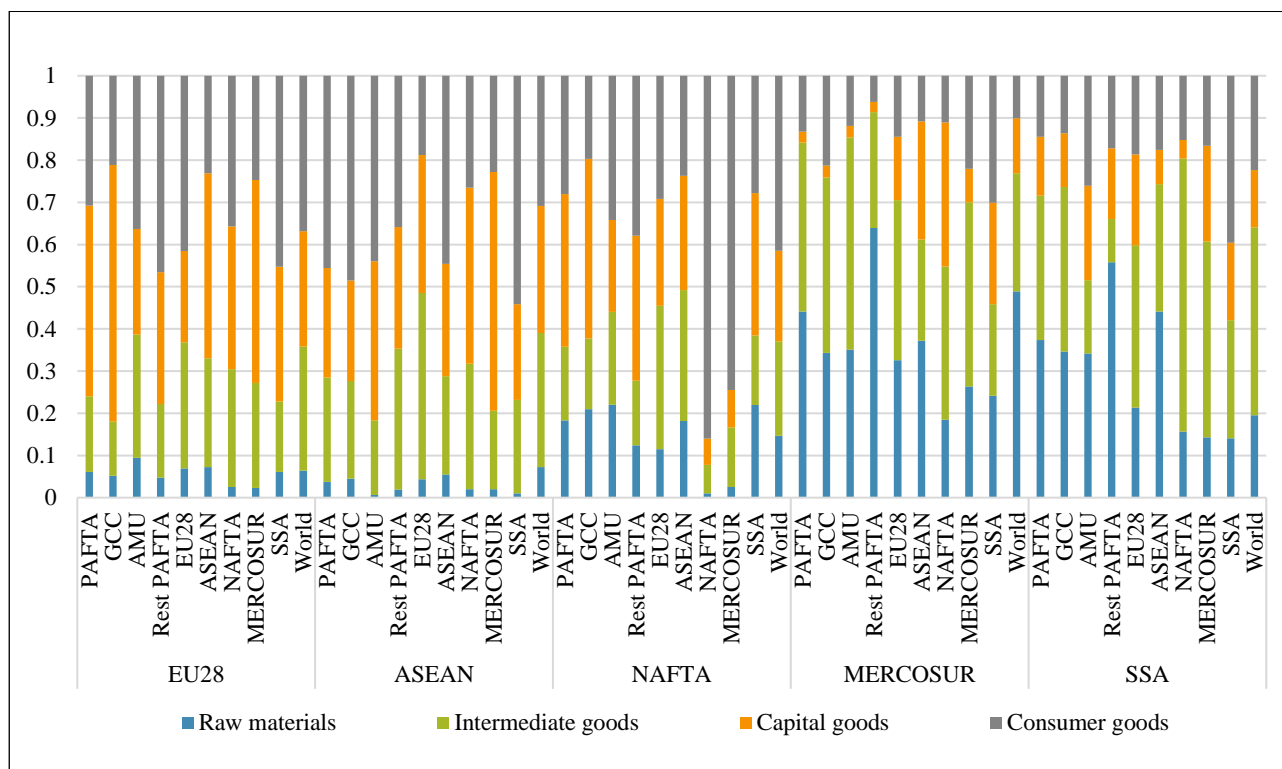
B. Between 2005 and 2016



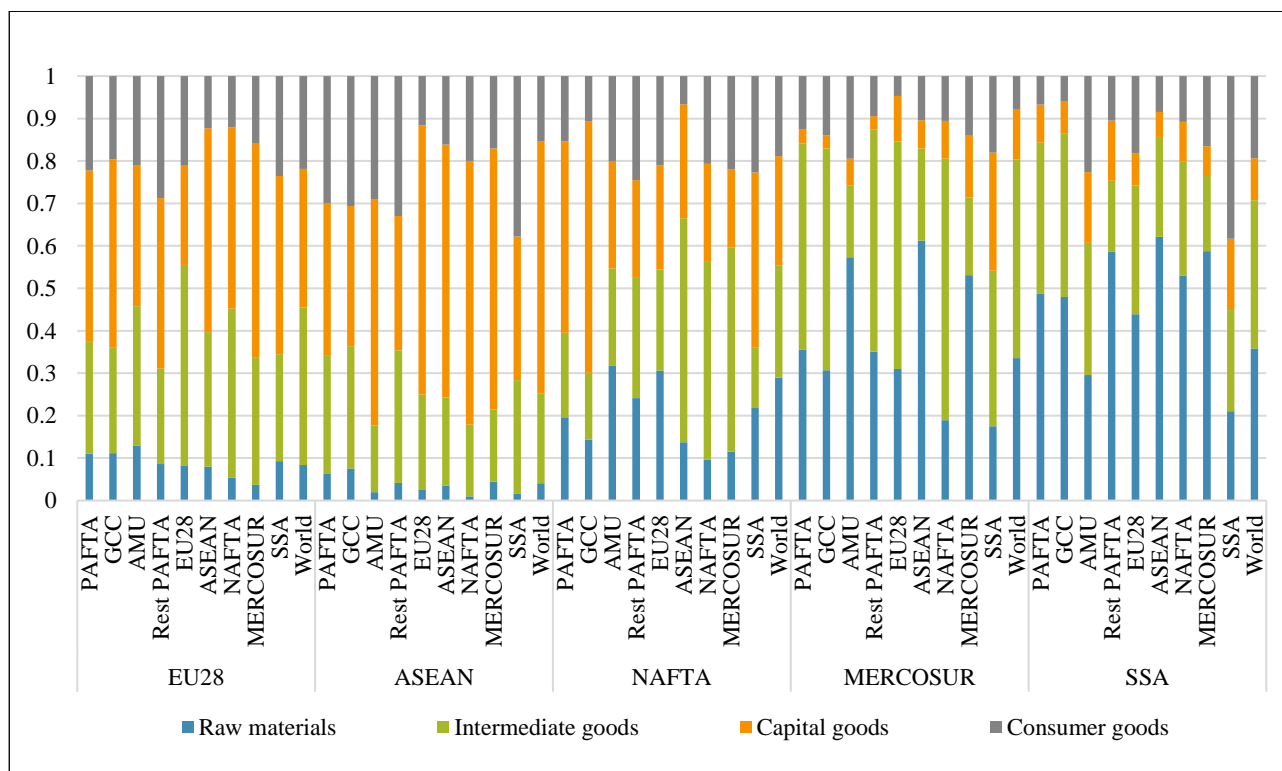
Source: Authors' calculations based on UN Comtrade data (accessed on January 2019).

Figure 4. Composition of new products by stage of processing in major trading blocs or regions

A. Between 1995 and 2016



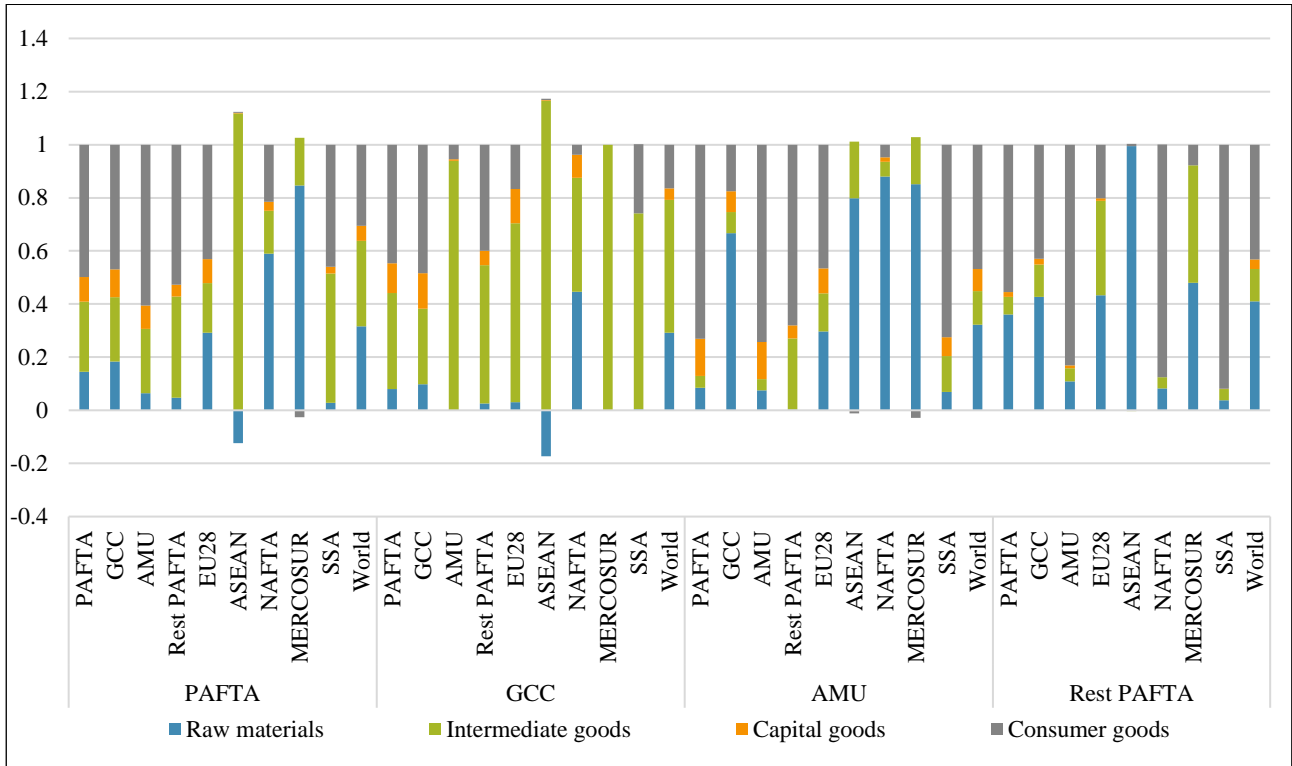
B. Between 2005 and 2016



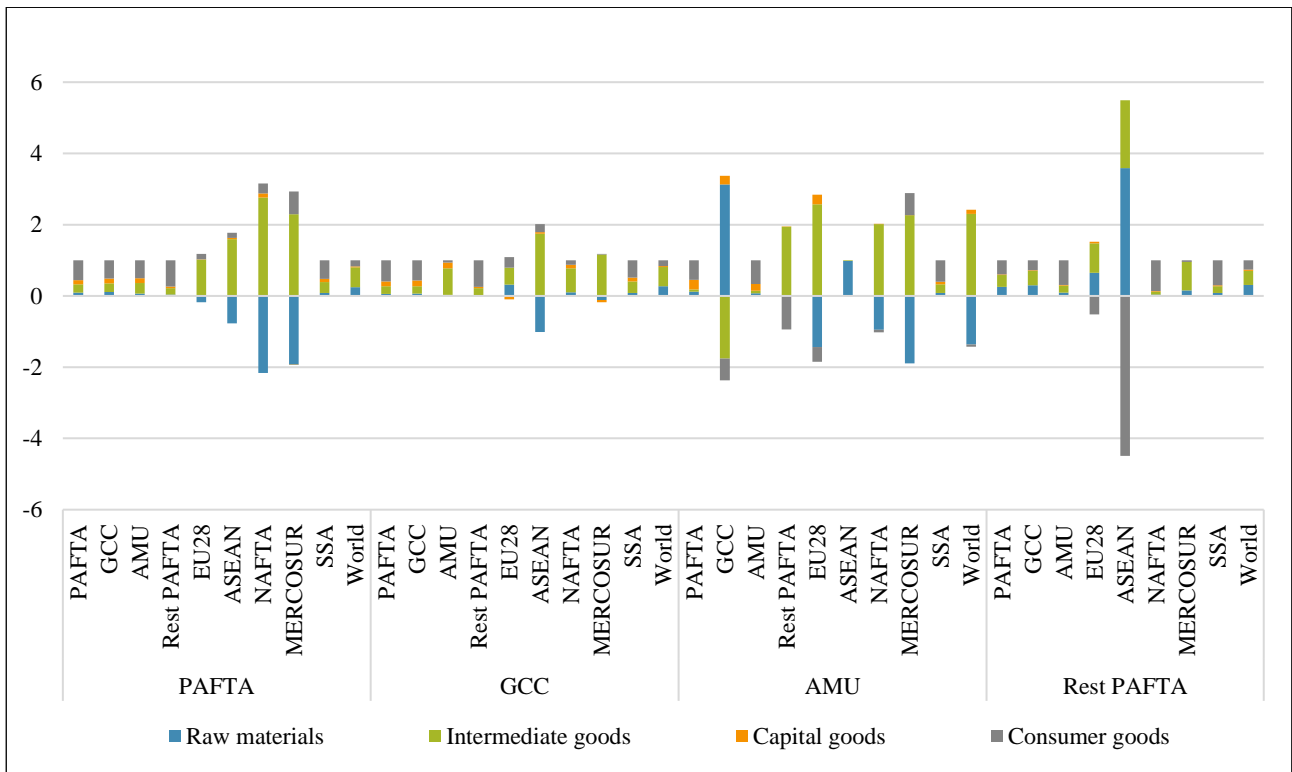
Source: Authors' calculations based on UN Comtrade data (accessed on January 2019).

Figure 5. Composition of existing products by stage of processing in Arab region and subregions

A. Between 1995 and 2016



B. Between 2005 and 2016



Source: Authors' calculations based on UN Comtrade data (accessed on January 2019).

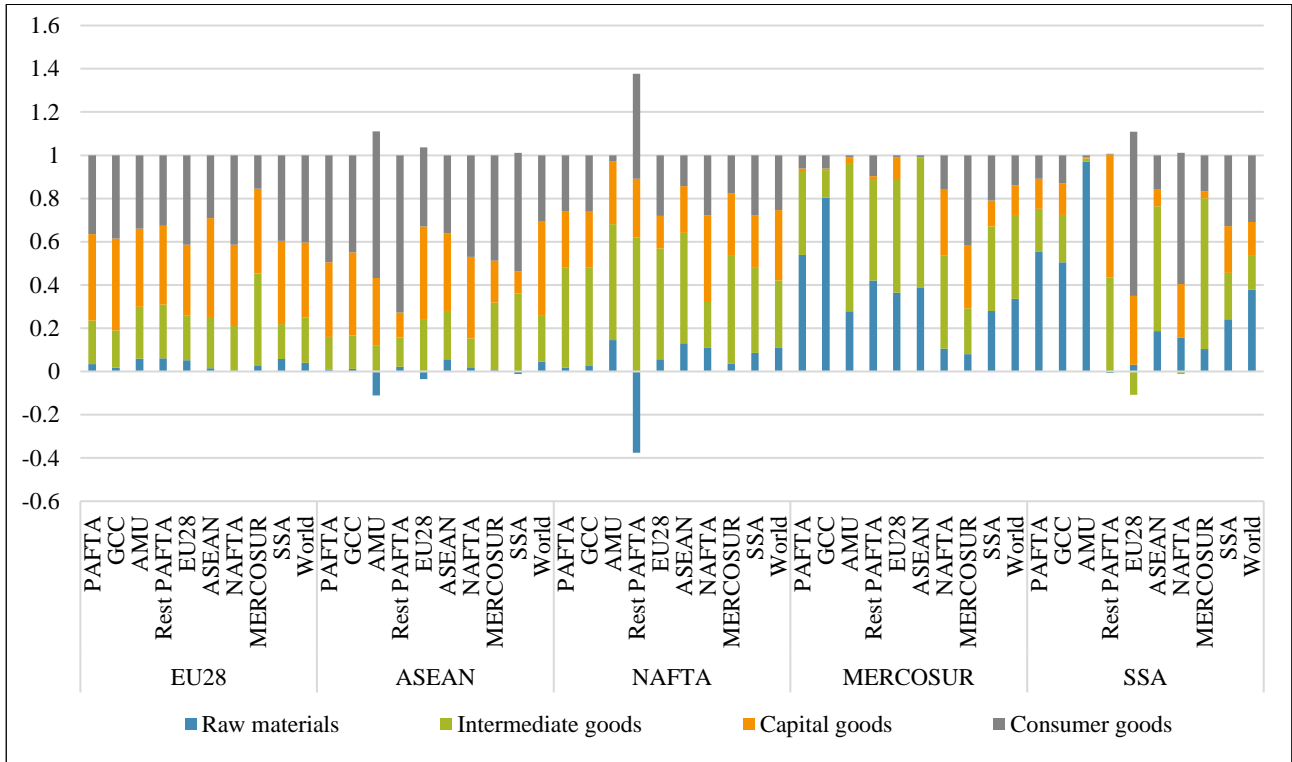
19. In terms of products driving the change in the value of existing products for PAFTA countries and its subregions, the picture is rather mixed, depending crucially on the reporter, partner and the time period considered (figure 5). Capital goods invariably have little to no contribution to the change in the value of existing products exported, regardless of the reporter-partner pairs or the period considered. The change in the value of existing products exported intraregionally within PAFTA is dominated by consumer goods, followed by intermediate goods. This seems to remain valid also looking at the change in more recent time periods. It is worth noting that the change in the exports of existing products of PAFTA to European Union, NAFTA and MERCOSUR have become increasingly concentrated on intermediate goods, moving from consumer goods in the case of exports to European Union and raw materials in the case of exports to NAFTA and MERCOSUR. The exports of existing products of PAFTA to ASEAN and sub-Saharan African countries has been dominated by intermediate goods.

20. There are significant differences across Arab subregions in terms of the type of goods that drive the change in the exports of existing products. For GCC, intermediate goods have driven this change vis-à-vis most of its partners, with the notable exceptions of NAFTA (raw materials) and intra-GCC exports (consumer goods), between 1995 and 2016. This changes somewhat when looking at the change between 2005 and 2016 and consumer goods trump intermediate goods in the case of PAFTA countries excluding GCC or AMU and sub-Saharan Africa. In the case of AMU, between 1995 and 2016, the change is driven either by raw materials (GCC, ASEAN, NAFTA and MERCOSUR) or consumer goods (AMU, rest PAFTA, European Union and sub-Saharan Africa). It is worth noting that, when looking at the change in the value of existing products over the period 2005-2016, intermediate goods drive the change vis-à-vis PAFTA countries excluding GCC or AMU, European Union, NAFTA and MERCOSUR, often at the expense of raw materials (figure 5, panel B). As for the PAFTA countries excluding GCC or AMU, there are parallels with the AMU. That is, the change between 1995 and 2016 in the exports of existing products is primarily driven raw materials (to ASEAN, European Union, MERCOSUR) and consumer goods (to PAFTA, GCC, AMU and NAFTA). Between 2005 and 2016, the change in the value of the subregion's exports of the existing products is driven instead mainly by consumer and intermediate goods. Only in the case of ASEAN as partner, raw materials dominate the change in the value of existing products exported, though the contribution of intermediate goods is also rather significant.

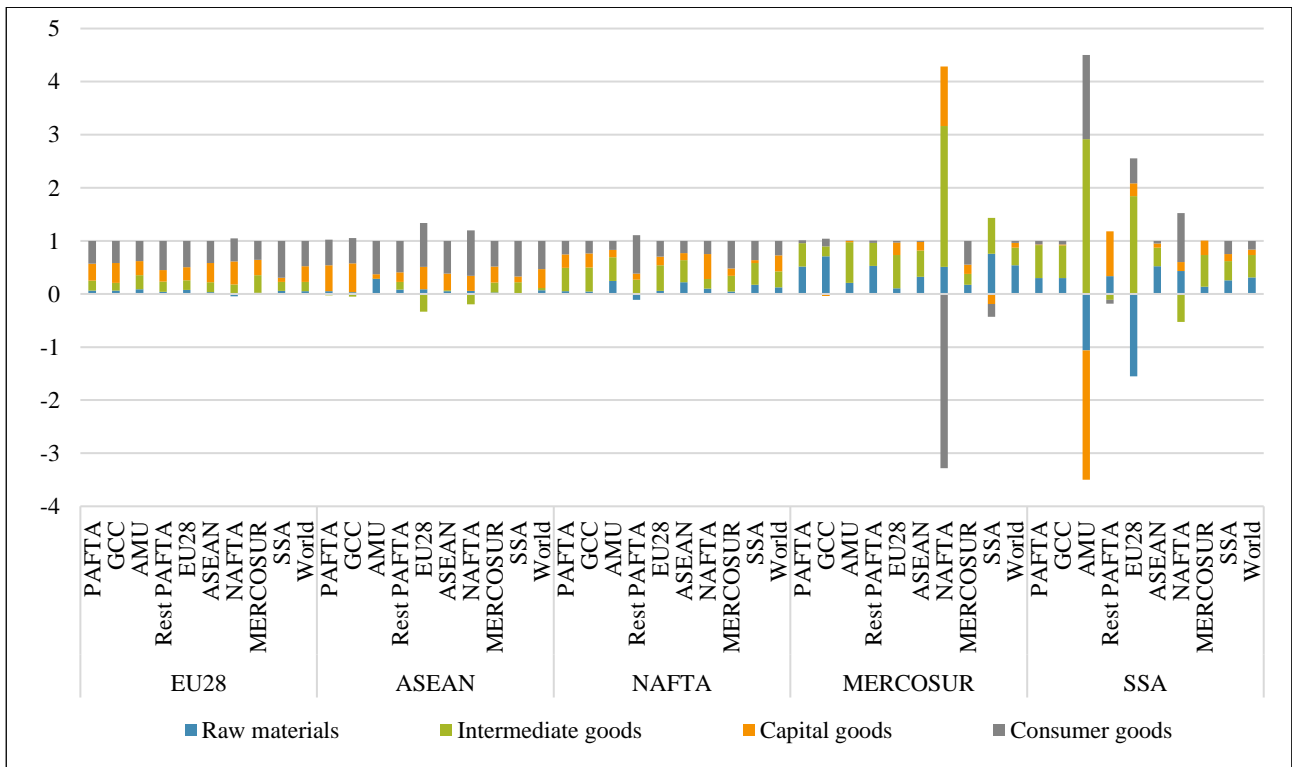
21. The selected blocs and regions are rather different than PAFTA countries in terms of products that drive the change in the value of existing products. For instance, capital goods play a significant role driving the change in the value of existing products exported for more developed blocs such as ASEAN, the European Union and NAFTA and this seems to be the case regardless of the time period considered. For these blocs, raw materials are pretty much irrelevant in terms of leading to a change in the value of existing products. Intermediate and consumer goods, however, are important, with consumer goods becoming even more important as of late. The product groups driving the change in the exports of the existing products of MERCOSUR and sub-Saharan African countries is rather partner specific. For example, the change in the value of MERCOSUR's existing products exported to PAFTA and GCC, in particular, is driven by raw materials, while the change is mostly attributable to intermediate goods vis-à-vis other partners considered (figure 6). As for sub-Saharan African countries, raw materials dominate the change in their exports of existing products between 1995 and 2016 to GCC, AMU and PAFTA. In the case SSA's exports to PAFTA countries excluding GCC and AMU, capital goods drive the change. It is also interesting that even with Arab partners, importance of raw materials in the evolution of existing products appears to be fading and increasingly driven by intermediate goods and capital goods vis-à-vis PAFTA countries, excluding GCC and AMU, as of late.

Figure 6. Composition of existing products by stage of processing in major trading blocs and regions

A. Between 1995 and 2016



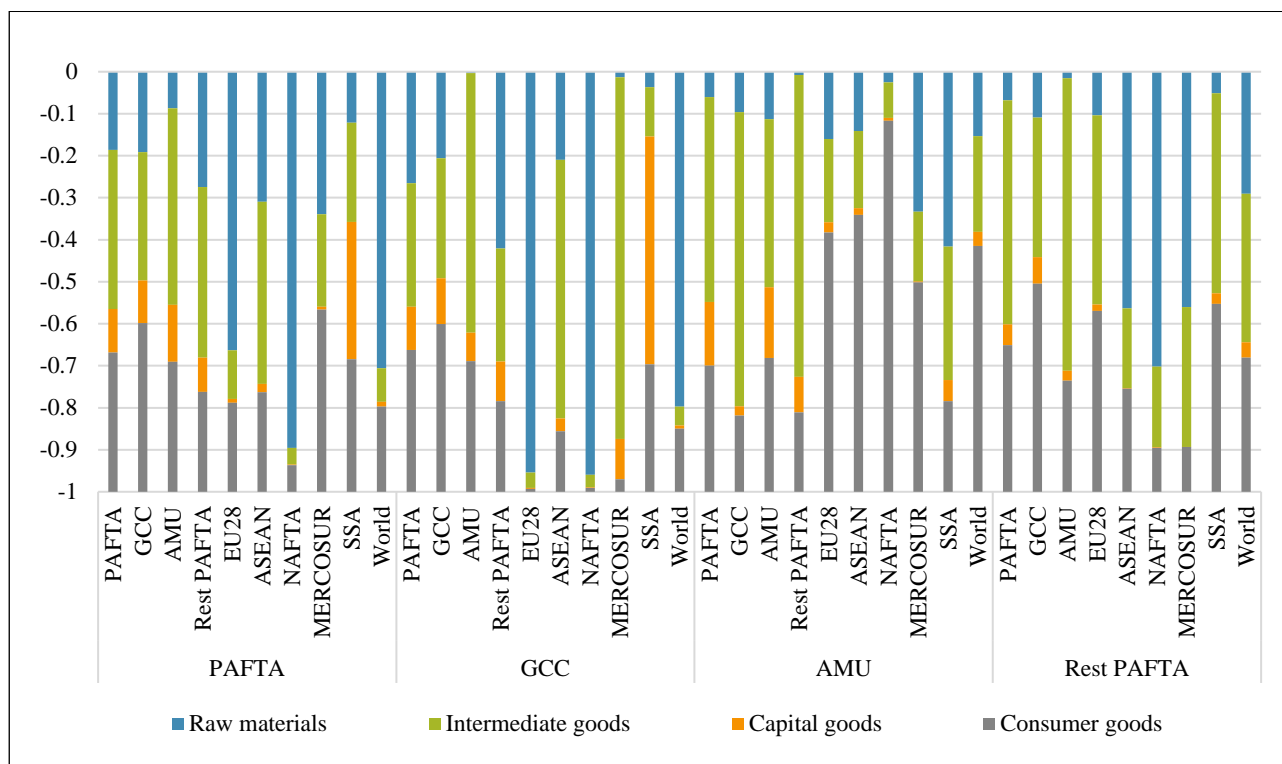
B. Between 2005 and 2016



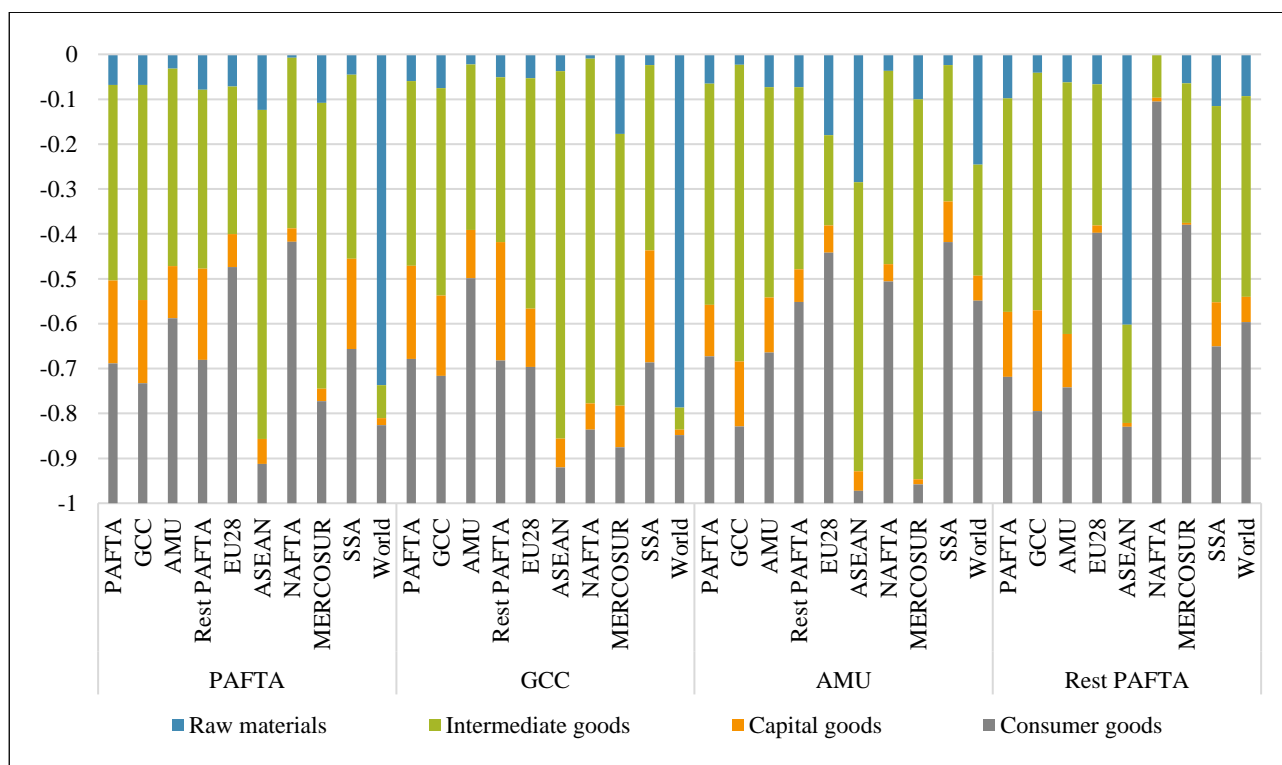
Source: Authors' calculations based on UN Comtrade data (accessed on January 2019).

Figure 7. Composition of discontinued products by stage of processing in Arab region and subregions

A. Between 1995 and 2016



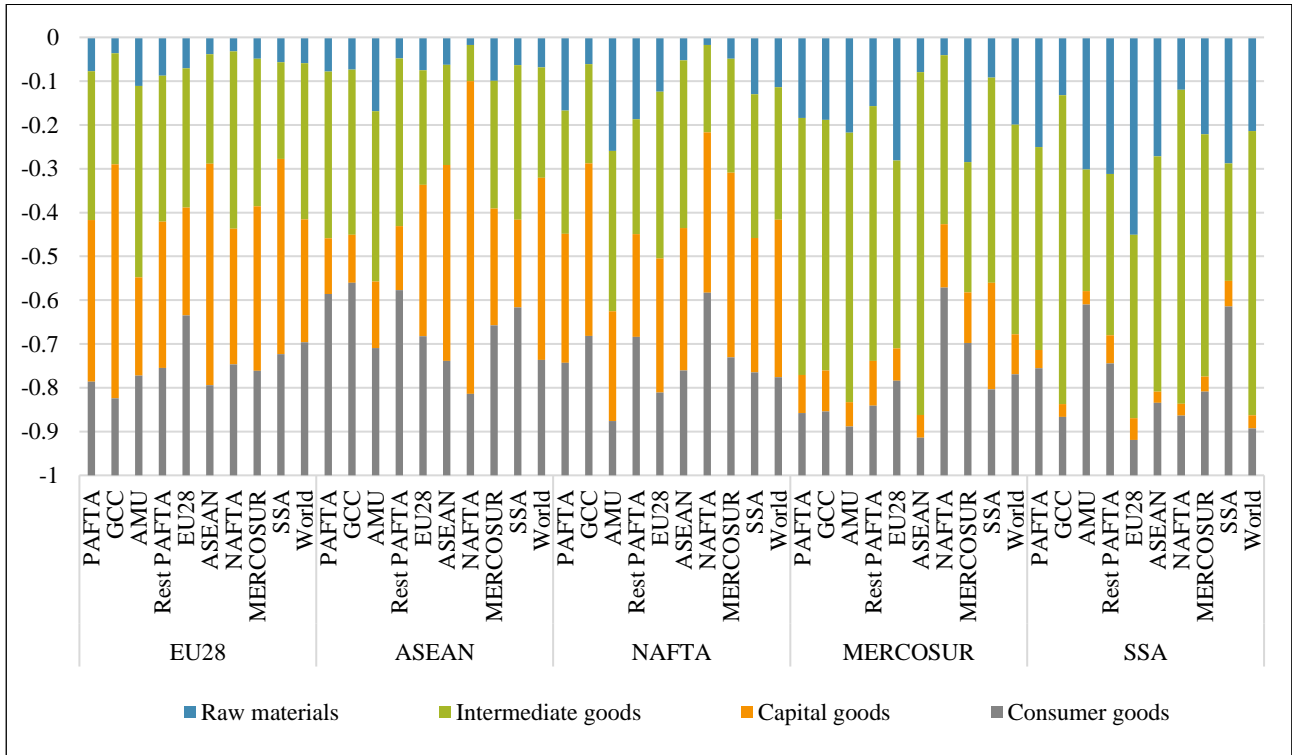
B. Between 2005 and 2016



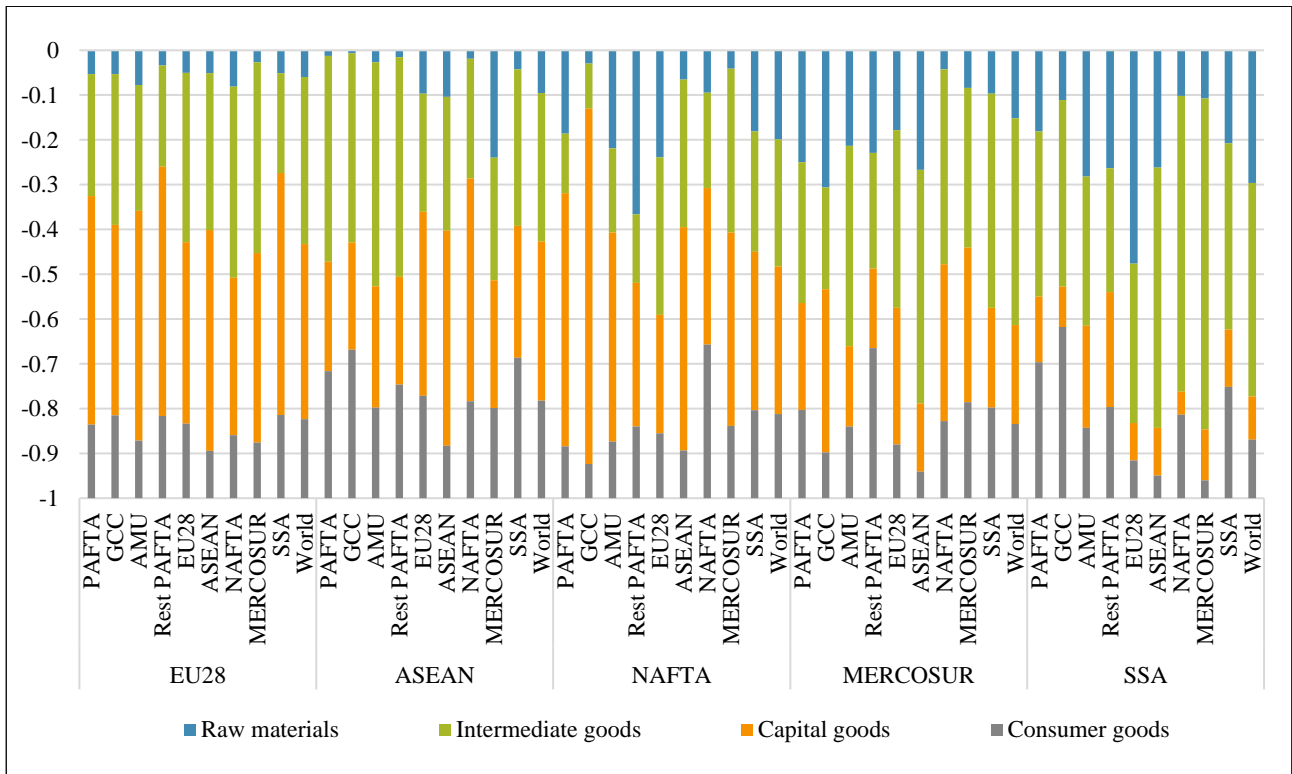
Source: Authors' calculations based on UN Comtrade data (accessed on January 2019).

Figure 8. Composition of discontinued products by stage of processing in major trading blocs or regions

A. Between 1995 and 2016



B. Between 2005 and 2016



Source: Authors' calculations based on UN Comtrade data (accessed on January 2019).

22. It is also rather illustrative to decompose what kind of products discontinued goods consist of. For PAFTA as a whole, discontinued products in intraregional exports are mainly intermediate goods, regardless of the time period considered. The share of capital goods in discontinued products in intra-PAFTA trade is non-negligible. Considering the rising importance of consumer goods in new products in intraregional trade as pointed out above, which implies that consumer goods increasingly replace intermediate goods in intra-PAFTA trade, the extent of production sharing within the region appears to be waning, from an already limited scope.

23. With respect to extraregional partners, the composition of discontinued products is highly partner and time period specific. Discontinued products in PAFTA exports to the European Union and NAFTA concentrated in raw materials between 1995 and 2016, but in intermediate goods between 2005 and 2016. In the case of ASEAN, intermediate goods dominate discontinued products in both time periods and this seems to have intensified as of late. While discontinued products in PAFTA exports to MERCOSUR were primarily consumer goods between 1995 and 2016, intermediate goods have come to dominate between 2005 and 2016. As for PAFTA exports to sub-Saharan African countries, capital goods left their domination to intermediate goods in the latter time period.

24. Although composition of discontinued products differs across PAFTA subregions and their partners, there are some common tendencies. For GCC, between 1995 and 2016, discontinued products exported were primarily raw materials and intermediate goods, with the notable exception of capital goods in the case of sub-Saharan Africa. This has changed somewhat and, between 2005 and 2016, intermediate goods are featured more prominently in discontinued products vis-à-vis all the partners considered. For AMU, importance of consumer goods in discontinued products is notable vis-à-vis some extraregional partners and intermediate goods vis-à-vis intraregional partners. The latter point suggests that, along with the fact that most new products in AMU intraregional exports are consumer goods, AMU is likely to have been disintegrating, rather than integrating more, from regional supply chains and production networks. For PAFTA countries, excluding GCC and AMU, intermediate goods make up a rather high share of intra-PAFTA exports, but there is a major difference setting this subregion apart from the AMU case. Intra-PAFTA exports of this subregion is rather dynamic in intermediate goods segment as such products are also prominently featured among new products introduced to the export basket. The subregion's exports of raw materials to some traditional markets such as ASEAN, NAFTA and MERCOSUR appear to be dwindling.

25. In terms of the composition of discontinued products, developed countries appear to be somewhat distinct from developing blocs. For European Union, ASEAN and NAFTA, intermediate and capital goods make up most of the discontinued products in value terms vis-à-vis practically all selected partners and the share of capital goods is on the rise. Given that intermediate and capital goods make up most of the new products for European Union, ASEAN and NAFTA, these products are more dynamic and there is a fair bit of moving to different products, possibly higher value added, within these groups of products. In the case of MERCOSUR and sub-Saharan Africa, intermediate goods are dominant and the share of raw materials in discontinued products is significant.

III. CONCLUSION AND RECOMMENDATIONS

26. In this study, we explore how the exports of PAFTA and Arab subregions vis-à-vis a number of selected blocs or regions as partners evolve in terms of markets served and products exported, or in other words along intensive and extensive margins. To benchmark the results for PAFTA countries, we also carry out the exercise for a diverse set of developed and developing blocs. Some interesting findings emerge, including:

- Across PAFTA countries and Arab subregions, new products to existing markets dominate the change in bilateral merchandise exports vis-à-vis most partners;
- Interestingly, exports to non-Arab partners seem more dynamic with a greater share of new products or markets;

- More developed blocs appear to have relatively high shares of existing products destined to existing markets. A possible explanation is that they tend to have well-established export baskets and relations;
- Sub-Saharan African countries on the hand are very dynamic vis-à-vis most of partner blocs we considered;
- New products are dominated by intermediate and consumer goods for PAFTA as a whole and Arab subregions with the notable exception of AMU, for which consumer products are dominant;
- Discontinued products in intra-PAFTA exports are mainly intermediate goods.

27. A striking finding is that even though Arab countries are rather dynamic, yet not to the same extent as sub-Saharan Africa, in terms of introducing new products and expanding into new markets in general, intraregional and intra-subregional exports are not as dynamic as extraregional exports. This is even more interesting considering that a number of regional and subregional trade agreements have been introduced and entered into force during the period of the analysis. This finding provides another piece of evidence on the prevalence of factors that impede regional trade despite the removal of tariff barriers. These factors notably range from the pervasiveness of non-tariff barriers, to unduly restrictive rules of origin, to relatively limited scope of PAFTA that covers merchandise trade only, to overlapping trade agreements.²

28. A major avenue to deepen PAFTA is through extending it to services, which could offer new opportunities to the region. In this regard, Arab countries should follow through with the agreement on the liberalization of trade in services among Arab States and ensure that commitments are fulfilled. Deep and Comprehensive Free Trade Agreement with the European Union represents another chance through which the involved Arab countries could tap into financial resources and technical expertise of their partners to liberalize services.

29. In view of the panoply of trade agreements that Arab countries are parties to, extending trade integration with other regions should be based on a comprehensive development strategy. This remains an important challenge, especially considering that important continental trade initiatives and a trade war are under way.

30. Another important finding from the perspective of intra-Arab trade is the rising importance of consumer goods in new products in intraregional trade. Along with the finding that discontinued products in intra-PAFTA trade are predominantly and increasingly intermediate goods, consumer goods replace intermediate goods. This indicates that the extent of production sharing within the region appears to be waning, from an already limited scope. In this regard, formulating policies both at the regional and national levels to encourage building and scaling up regional value and supply chains remains a key challenge.

² E/ESCWA/EDID/2015/4.