ESCWA’s Arab Economic Integration System of Indices

Workshop on "Monitoring and Evaluating Trade Integration toolkits“
Beirut, Lebanon 10-11 July 2018

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The ESCWA’s Arab Economic Integration System of Indices is

- A key diagnosis tool
- Meant to inform evidence-based policy analysis
- A recurrent component of our flagship publication: the Assessing Arab Economic Integration Report

Check the AEIR report for more results and insights on how to use the system.
Outline

Building an Arab Economic Integration evaluation and monitoring system

- **Political economy**: a monitoring and evaluation system *What for?*
- **Analytical framework**: *What difficulties? Measure what? Which analyses?*
- **Final design**: *What* does the monitoring and evaluation system look like?
- **Results**: *How to* use it
Political Economy: What for?
Political economy: Integration is costly

For smoother transition, the system had to be

• Effective diagnosis tool

• **Policymaking tool**: easily readable findings

• **Communication tool**: inform and increase the quality of the political debate for a greater involvement of the civil society, and build credibility
Analytical framework: measure what?
What for? Analytical aspects

The length

- Global
- Regional level
- Country level
Monitoring which regional integration

A process
Agreements
Instrument, Policies
Results (integration)
Final Goals

3 Types

**Functional:** Integration in key regional markets such as Energy, Agriculture, Gas and oil, Etc..

**Economic integration** Trade, Finance, Labour, Etc..

Policies harmonization
Monitoring Systems:

Combinations of STEPS and MODELS of integration

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1 dimension: economic
A model: the market first

A question: Regional
Versus Global

The economies’ potential
Strengths to integrate

1 dimension: Economic
The outcomes

A model: for development
The final purpose

3 dimensions but 1 problem:
agreement implementation
The nature of the integration process

- Promote a model of regional integration: NO
- Solve a particular problem: Arab region encounters difficulties at each stage and heterogeneous so maximum coverage
The scope of the integration process
Final design:
What does the monitoring and evaluation system look like?
**COMPOSITE INDEXES+ SCOREBOARDS**

**Organization of the information**
- Most relevant channels of integration covered by composite indexes and capacity to capture additional financial flows
- Scoreboards cover everything else

**EXPORTS, FDI, Workers’ Remittances**

**Indicators: criteria for choice**
- Clear and strong causality
- Significant impact

**SIMPLE AVERAGE**

**Methodology**
- Simplicity for non-technical audience
- Feasibility, not time-consuming, focus on data gathering and quality
- Versatility: possibility to track progress towards specific goals, benchmarks (regions or countries), ..
Structure: 3 levels

Global

GLOBALIZATION Index
Are Arab countries falling behind the top best performers?
What are the main channels of countries integration?
Is there regional patterns?

Regional

FLOW INTENSITY Index
What are the country(ies) that are engine of economic integration at the regional level?
What linkages between regional and global integration?
What is countries’ level of vulnerability to foreign shocks?
How integration can help as an engine of economic growth?

Bilateral

Bilateral FLOW INTENSITY Index
Is the framework in which countries are operating conducive? Are the obstacles structural or not?
What is the relative intensity of governments’ efforts?
What are the nature, channels, potential for further intra-regional integration?
What is each country comparative advantage?
…
3 SCOREBOARDS

**Enablers**
- **Structure of the economy**
  - Mining VA as % of GDP
  - Fossil fuel energy conso (% total)
  - Gross national savings
  - Lending rates

- **Labor Force quality**
  - Life expectancy at birth
  - Urban to rural pop
  - Literacy rate
  - School enrolment primary, sc, ter
  - Mean years of schooling
  - Ratio of female to male labor force participation rates
  - Apparent productivity of labor (thousands USD/person)

- **Infrastructure quality**
  - Internet bandwidth
  - Electricity production

- **Conflicts**

**Policies**
- **Trade**
  - R&D expenditure (% GDP)

- **Investment**
  - Taxes on goods and services
  - Corporate taxes
  - Chinn-Ito Openness index (0-1)

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

- **Infrastructure**
  - General Gov final conso expenditures (% GDP)
  - Rail lines (total route km)
  - Air transport freight (million ton)
  - Length of total road
  - Length of paved road

**Outcomes**
- **Logistics**
  - Container port throughput (TEU)
  - Liner shipping connectivity index
  - Air transport, passengers carried

- **Trade**
  - Merchandise and services exports and imports (% GDP)

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

- **People**
  - Emigrants and Immigrants, tourists, students

- **Macro convergence**
  - Net ODA
  - Foreign Reserves
  - Inflation
  - GDP per capita
How to use it?

Findings
GLOBALIZATION

A size effect.

A natural-resource rich effect.

A catching up effect.

To better understand globalization drivers, countries have been ranked for each indicator used to compute the globalization index.
GLOBALIZATION: Arab countries

Oil-exporting, natural-resource rich countries: Volatile performances

Middle ranked diversified countries improved. But might be because others fell into the rankings

Arab LDCs improved markedly.

Questions:
Does globalization contribute to improve Arab countries economic prospects? What are the risks of such a strategy?

Is intra-Arab integration a building block? a shock absorber? Who are the leaders and channels of intra-Arab integration? Which prospects?
Relevance: The analyze covers a large part of the flows

**The GCC and oil exporting foster intra-regional integration**
- The UAE, Saudi Arabia and Iraq
- Through FDI and also
- WR which is key to poverty but impact on economic growth is not straightforward

**No impact of the various RTAs, meager for the GCC**

**Few Arab countries very successful and geography matters**
- Global and regional integration, no clear intra-regional preference

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THANK YOU!
Arab intra-regional integration: Channels

**Labor**

Traditionally effective integration channel
Flow stable, provide hard currency
Countercyclical

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

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

**Reforms needed:**

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

**Main contributors**

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

**Cost of sending money**

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

Source: The World Bank, 2015, Remittances prices worldwide, issue no.13, March
Arab intra-regional integration: Channels

Trade

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

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

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

GDP growth comparison, 2001-2013
Arab intra-regional integration: Channels

FDI

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

FDI inflows to LAS, share by country, 2013

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

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

But poor data quality, flow largely informal, relationships are certainly closer
THANK YOU!
Global level
- Recorded the greatest improvement of all Arab countries between 2000 and 2005. Gains reverted in 2008-2013
- Main channels: FDI and WR
- Rank high in intensity of flow index compared to globalization, dependence from foreign countries, pressure on the external accounts

Regional level
- Strong and strengthening ties with EU, GCC, Turkey, Arab LDCs
- Highly vulnerable to foreign shocks

Bilateral level
- Geography matters: close to Saudi Arabia, Jordan, Libya, Kuwait and the UAE
- Main channels: FDI, WR
- Trade: ground lost since 2008
Structural feature: Labor force quality:
- Low literacy and
- female participation rates (improving)
- hinder effective use of available human resources

Policies
- Gvt exp. in education decreased from 13.3%, in 2003 to 9.9%, in 2008
- Gvt exp. in health stagnating around 6%

Vietnam spends 21.4% of its revenues on education=6.3% GDP= 50% higher than Egypt

Outcomes
Labour productivity increased (* 2) but at slow pace
- Jordan: 6.1 in 2000, vs. 16.7 in 2012 * 2.7
- Malaysia: 9.9 in 2000 vs. 23.7 in 2012 * 2.4
- Thailand: 3.6 in 2000 vs. 9.9 in 2012 * 2.75

Negative impact on competitiveness
Tax policy
- Increased corporate taxes in 2012.
- In 2015, corporate profits tax reduction from 25 percent to 22.5 percent and high incomes tax cuts better investors protection measures and the establishment of a one-window system for business creation

Outcomes
- Should have positive impact on investment, credibility of the gvt’s will to reform
- Moody’s upgraded Egypt sovereign rating from B2 to B3 stable
- 12.5 billions financial support from GCC and 38 billions signed investment contracts

Financial integration policies
- Chinn-Ito index of financial openness decreasing since 2008 greater restriction to international financial flows free circulation
- Stable and high lending rates 13-12 percent. Jordan: 11.8%, Morocco: 13.3%, Malaysia 7.7%, Singapore, 5.83%, Thailand, 7.87%
- Rank low in Doing Business

Outcomes
- Pound depreciation
- Increases cost of imported inputs
- Access to funding for entrepreneurs
Logistics

- Wider road network
- Air freight increased

Outcomes

- Higher LPI scores from 2.37 in 2007, to 2.97 in 2014
- improved in each of the areas covered by the index, namely customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness between 2007 and 2012
- tremendous improvement in liner shipping connectedness: the index rised from 47.6 to 57.5 between 2010 and 2013
- Egypt is one of top ten countries which performances improved most: moved from the 97th to the 57th rank for infrastructure quality and efficiency of its international shipments

But

- relies on the major transshipment function so which impact on economic growth, labor allocation effectiveness and value creation
- boost competitiveness of exporting sector
Trade
- Weighted mean of Egyptian tariffs on all products has been steadily declining since 2000: 24% in 2002, 13% in 2005, 8% in 2009.
- Between 2000 and 2012, imports of goods into Egypt more than tripled, from $15 billion in 2000 (16% of 2000 GDP) to $52 billion in 2012 (20% of 2012 GDP).
- Member of the GATT since 1970 and of the WTO since its creation in 1995.
- RTAs covering essentially goods with all its main trading partners.
- Qualifying Industrial Zones with the US.

But
- Exports = 7.4 percent of GDP namely far below the 20 percent plus recorded by Arab diversified economies such as Jordan, Morocco or Tunisia (for Jordan, imports account for 48 percent of the GDP).
- Low complementarity with Arab countries.
The EU absorbs 29.7% of Egypt’s exports in 2012 which is still 10 percentage points below the levels reached prior to the 2008 global crisis.

strengthening relationships with China, India, Japan and Korea. In 2000, ASEAN+3 was counting for 6.9% of Egypt exports while, in 2012, against 14.8% of the total.

Egypt five main Arab trading partners, namely Saudi Arabia, Libya, the Sudan, Lebanon and Jordan account for 7.5% of total exports in 2000, vs. 16.2% in 2012.

The weight of the ASEAN and Arab regions roughly doubled.

Comparison of trade shares and complementarity index shows:

Eastward shift fuelled by good and improving complementarity.

Geographical closeness matters in the case of Arab countries.
THANK YOU!
Building an Arab Economic Integration evaluation and monitoring system

**What** is it that we want to monitor and evaluate?
Monitor evolution of the context and the process of increased integration and globalization

The context of integration is changing:
production fragmentation, firm networks, trade in tasks, outsourcing

Affects challenges and opportunities: The current global context increases competition among countries to reaping the gains of global integration
Analytical introduction and background to economic integration in the Arab region

• International context: international crisis, GVC, regionalism rather than globalization
• Regional trends: change of incentives and urgent need for job creation and an improvement in economic well-being

Need to ensure buy-ins as costly process and Make commitment towards regional integration credible as a mean to foster development

ESCWA contribution:
• Monitoring systems to ensure the buy-ins
• Effective evaluation of impacts to inform choices
Regional integration as a tool for structural transformation and economic growth:

- Various types of integration and engines for change
- Agreement provisions versus actions/programmes

Main output: comprehensive view of the potential gains
Chapter 5 – Focus Chapter of the 2015 AREI Report

In the coming years the thematic chapter may focus on:

• Trade in services
• The potential impact of the Doha round to be concluded by end of 2017
• Etc..
What Will It Look Like?

Buy-ins inside and outside ESCWA

Indicators: criteria for choice
- Clear and strong causality between policies and indicators
- Significant impact

Methodology
- Simplicity for non-technical audience: Feasibility

Political economy

Political Economy
- Promote a model of regional integration: NO
- Solve a particular problem: Arab region encounters difficulties at each stages so maximum coverage
- Track progresses towards specific goals: YES, development
1st innovation: Tool for evidence-based policymaking and to inform the debate

2nd innovation: **COVERAGE** through 5 dimensions

- 3 types of integration: Functional, economic, policies harmonization
- AND Final goals: development
- AND Potentialities
- AND Regulatory Framework (specific to the region)

3rd innovation: **VERSATILITY**

- Wide range of questions beyond regional integration
- Various benchmarks, for example

4th innovation: Development of **NEW indicators**