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Background Note

Trends in trade and investment policies in the MENA region

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Trends in trade and investment policies in the MENA region

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Executive summary

The Middle East and North Africa (MENA) region accounted for only 5% of global exports and 4.3% of total imports in 2017. Merchandise exports from the MENA region to the rest of the world stood at 893bn USD in 2017 (up from just under 250bn USD at the start of this century). MENA countries are particularly vulnerable to terms-of-trade shocks because of the volatility of their export earnings, caused by the high concentration of exports in primary commodities and exacerbated by the high concentration of export markets. The region can achieve greater economies of scale if each country can better use its comparative advantage through production sharing networks and integration into global value chains.

There has been a significant shift in the region's trade patterns toward Asia over the past few decades. Asia now accounts for about 55% of the region's total trade compared to around 40% in 1999. Regional trade remains dismal at under 10%. MENA oil importers' share of trade within the region remains relatively high: Lebanon (44% of total exports in 2017) Jordan (43%), and Egypt (22%). Maghreb countries export the least within the region (under 10%), with much of their exports going to Europe.

FDI inflows into the region increased between 2000 and 2008, thanks to efforts to improve the business environment and investment climate and to related structural and institutional reforms. Slowdown appeared after the financial crisis in 2008 followed by regional turbulences, with limited recovery. In 2017, investment flows into the GCC were 15.5bn USD, almost 3.5 times lower than in 2008 at their peak. The bulk of FDI inflows into the region have gone into energy, real estate, financial services and consumer products.

Overall, the MENA region remains less regionally integrated in terms of trade and investment flows. The main barriers to growth in trade and investment (including intra-regional) are multi-fold:

- Though average tariffs have reduced over time, they remain very high; non-tariff barriers (e.g. burdensome technical regulations, import authorisation procedures, cumbersome customs clearance and border controls) are obstacles to both regional and global integration;

- MENA's trade facilitation performance – in terms of procedures, harmonisation, transparency, border agency cooperation and so on – leaves much to be desired;

- Though regional trade agreements are in place, their implementation and enforcement are lacking and benefits are not visible;
- Lack of diversification is a serious drawback, given that oil and agricultural products remain by far the most important exports;
- Regional economic integration has seen very little progress due to different factors including weak institutions, the lack of infrastructure and state-owned enterprises;
- Cumbersome licensing processes, complex regulations and opaque bidding procedures create both business and investment barriers;
- Competition legislation is particularly needed in countries where markets are highly concentrated and where barriers to imports are still high;
- Trade has been negatively affected by the wars, sanctions and political barriers in the region; and
- The scarcity of quality data and statistics on both domestic and foreign investment means a lack of evidence-based public policy and increases perceived investment risk.

While the region has undertaken significant reforms to support trade and investment – ranging from lowering tariffs to improving infrastructure to protecting minority investments to institutional investment reforms – it is evident that there is a long way to go for greater trade integration. In this context, it is recommended that the MENA region:

- Invest heavily in trade-related infrastructure and logistics;
- Deepen intra-regional trade through trade facilitation;
- Invest in moving towards greater digital trade facilitation;
- Use GCC countries as engines of economic integration;
- Reflect the shift in trade partners in new trade and investment agreements;
- Improve legal and institutional framework to support private sector growth and diversification

- Make a digital transformation in order to support trade and investment: from transport (electric vehicles), to banking and financial services (Fintech), commerce (e-commerce), to health and agriculture (Agrytech), and the government sector ;

- Ensure the availability, harmonisation and dissemination of regular, timely, comparable and quality statistics, which are essential to conduct sound trade and investment policies.

1. MENA trade and investment in the global context

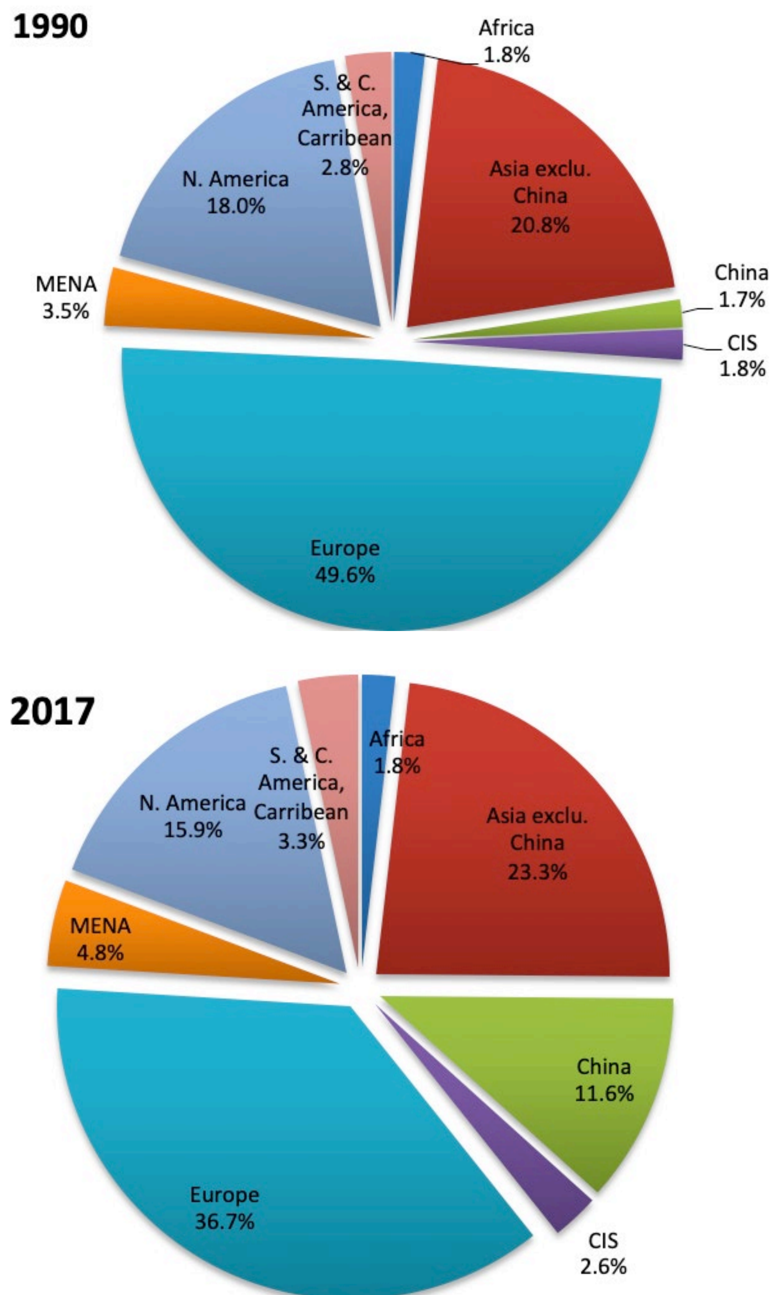
Global trade volume growth in 2017 was the strongest since 2011, driven by a synchronised growth recovery from the 2008 financial crisis leading to rising import demand across regions. But the ongoing and escalating trade tensions threaten to weaken the momentum. Growing policy uncertainty is leading to delays in investment decisions/ spending, and a slowdown in export orders. Nevertheless, there are deep structural, secular trends, and transformations that will drive global and regional trade in the coming decade. Underlying the global recovery are five major trends and stylised facts:

1. There is a **structural shift in global trade and trade patterns towards Emerging Market Economies (EMEs) and Asia** *(Fig. 1.1)* with the turning point being China's entry into the WTO. China's share of global trade stands at 11.6% today (1.7% in 1990), with **Asia at an impressive 34%** (versus around 20% in 1990). This shift in trade reflects the tectonic shift in global production and income towards EMEs. Turning to the Middle East and North Africa (MENA)[1] region, **its share of global trade stood at 3.5%** in 1990 and stagnated at **4.8% in 2017**. Total trade in goods as a percent of GDP (an indicator of openness) was 75.9% in the MENA region (2017), indicating a relatively open regional economy (the figures are around 48% for developing countries and 60% for advanced economies) though there are substantial variations across countries (around 45% in Egypt, 62% in Saudi Arabia and around 173% in UAE, the latter dominated by re-export trade). The region accounted for only 5% of global exports and 4.3% of total imports in 2017 *(Fig. 1.2)*, with both UAE[2] and Saudi Arabia featuring among leading merchandise exporters accounting for 2% and 1.2% of global exports respectively (and excluding intra EU trade, at 2.6% and 1.6% respectively).

[1] The MENA-OECD Initiative covers 19 countries: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

[2] UAE was also the 18th largest importer globally, accounting for 1.5% of global exports (1.9% excluding intra-EU trade).

Fig 1.1. Structural shift in global trade and trade patterns towards emerging markets and China: shares of regions in total trade 2017 vs. 1990



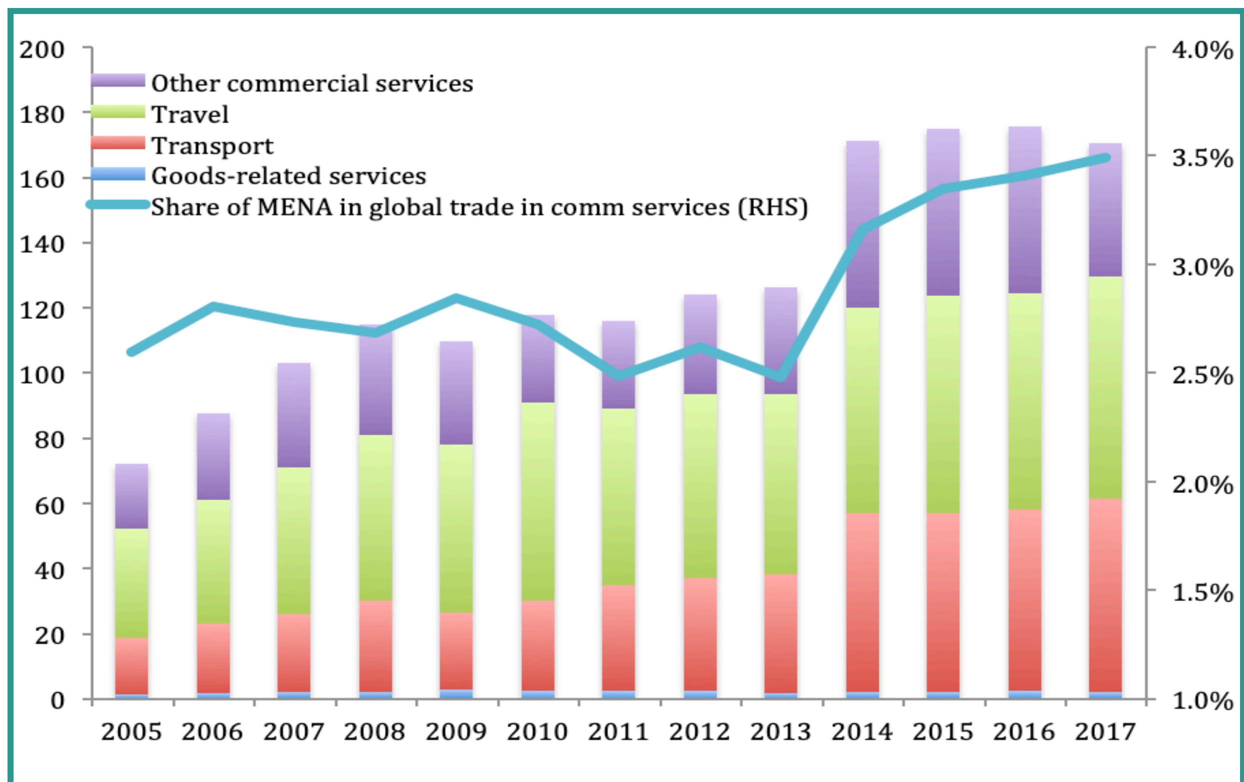
Source: WTO.
Note: Trade values include exports and imports of each region.
Note: MENA region includes Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

Fig 1.2. MENA share of world imports and exports share of MENA region's trade with the world

Source: WTO.

2. **Trade in services is the fastest growing component of total trade** reflecting a near global sectoral shift of production towards services: world exports of trade in commercial services grew by 8% yoy to USD 5.3 trillion in 2017; this was only USD 2.6 trillion in 2005 *(Fig 1.3)*. The MENA region is also making a mark in commercial services trade (mainly travel and transport), with the share of its exports of commercial services rising to 3.5% of global total in 2017 compared to around 2.59% in 2005. UAE accounted for 1.3% of global commercial services exports in 2017, while both UAE and Saudi Arabia feature among top importers of commercial services (at 1.7% and 1% respectively).

Fig 1.3. Trade in commercial services by component in MENA region, USD bn



Source: WTO

3. **Rapid technological change and innovation is leading to rapid growth in e-services**, including e-commerce both domestically and across borders. With rapid technological change and digitisation came the significant growth in digital trade[3]. Global e-commerce is now worth 28 trillion USD, increasing by 44% over the past five years while business-to-business e-commerce makes up more than 86% of this total global e-commerce value.[4] Interestingly, a recent study (Wu, 2017) identified 69 RTAs with an e-commerce chapter or article dedicated to e-commerce.[5] However, as policymakers adapt to the rapidly changing technologies in digital trade and cross-border data flows, regulators are grappling with data protection issues (EU's GDPR rollout and potential ePrivacy regulation[6]) and other protectionist measures like placing restrictions on data flows, data localisation requirements, cloud computing restrictions, requiring technology transfers and source code disclosures, etc. often justified on national security grounds. The MENA region has lagged in e-commerce and digital trade, in part due to less-developed digital infrastructure, government dominance of the telecoms sector and the lack of a supportive

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[3] Measurement and typology of digital trade is still in its formative stages, and is further complicated by new business models (like Airbnb, Uber): the OECD-IMF undertook a stocktaking survey in 2017 and the report is available at: https://www.imf.org/external/pubs/ft/bop/2017/pdf/17-07.pdf

[4] World Trade Report2018 https://www.wto.org/english/res_e/publications_e/world_trade_report18_e.pdf

[5] More than 30 members of the World Trade Organization first agreed to one of these RTAs with the United States, Singapore, or Australia.

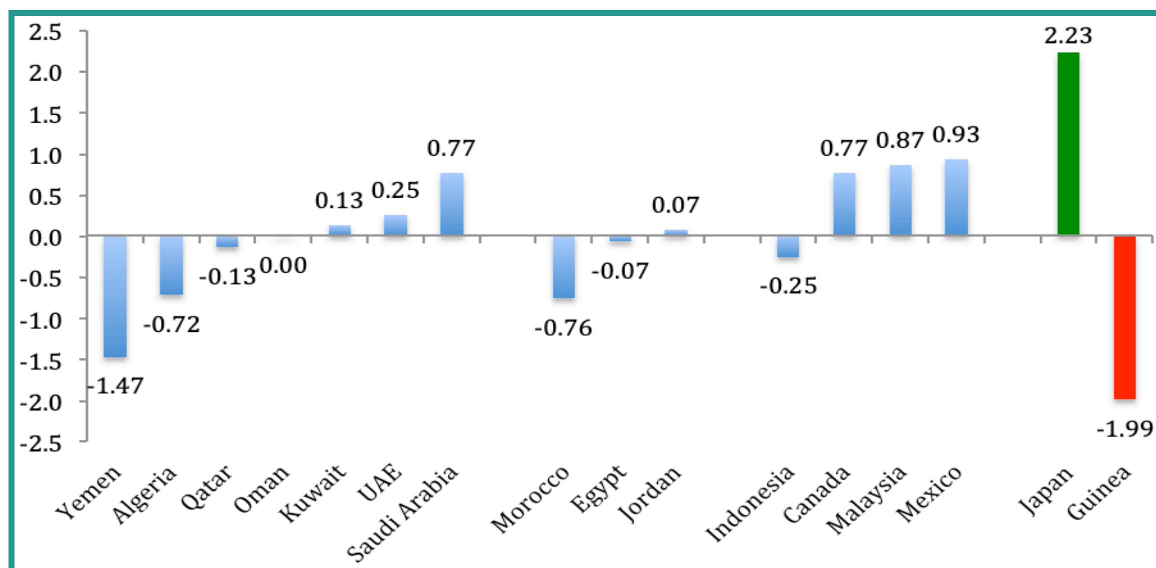
[6] https://ec.europa.eu/digital-single-market/en/proposal-eprivacy-regulation

legal and regulatory framework. As a few countries in the region (such as UAE, Saudi Arabia, Lebanon, Jordan) begin to embrace e-commerce and adopt Blockchain and AI (artificial intelligence) technologies in mainstream activities, it is propitious to support the growth of digital trade by instituting an enabling legal and regulatory environment, and which can be incorporated in future regional and bilateral trade agreements.

4. Globalisation, facilitated and supported by technological change and innovation, has led to a sharp decline in transport and related logistics costs, engendering **Global Value Chains (GVCs)** and rapid **growth of trade in intermediate goods and inputs**. As economies grew more interconnected, GVCs[7] have been growing in importance. The MENA region, however, lags behind here as well: intra-regional GVC participation remains low at below 10% (OECD, 2015). Especially for the oil-exporting nations, the share of foreign value added in exports remains significantly low. For greater integration into GVCs, the MENA region nations need "improvement in technological capacity, greater efficiency in production, higher technical and managerial skills, and competitive wages" (IMF, 2016). A related matter is the growing complexity of goods and products being traded. Increasingly, the products exported by high and some middle-income countries are complex, incorporating a multitude of parts and inputs – think of computers, airplanes, cars, smart phones, industrial machines – and incorporating knowhow, skills and knowledge. **Economic complexity** is a useful tool in the context of understanding trade behaviors and patterns, with greater economic complexity strongly associated with economic development and higher value-added in trade. An Economic Complexity Index tracks both the 'diversity' of products in the export basket (i.e. the number of products a country can export competitively), and the 'ubiquity' of products in the export basket (i.e. the number of countries that are able to export a product competitively). Among the MENA region, the economic complexity index is lower in oil-exporters than in many emerging markets and even other commodity exporters; the over-reliance on oil and oil-related exports have meant that there is very limited value added and transformation, hence creating less "complex" products; there are successful examples of more diversified oil exporters like Canada, Malaysia and Mexico that come much higher ranked in the economic complexity index, supported by greater diversification *(Fig 1.4)*.

[7] Global Value Chains (GVCs) have become a key feature of the trade and investment landscape, with over half of world goods imports consisting of intermediates. Today, a single finished product often results from manufacturing and assembly in multiple countries, with each step in the process adding value to the end product. Participation in GVCs can lead to increased job creation and economic growth.

Fig 1.4. Economic Complexity Indices

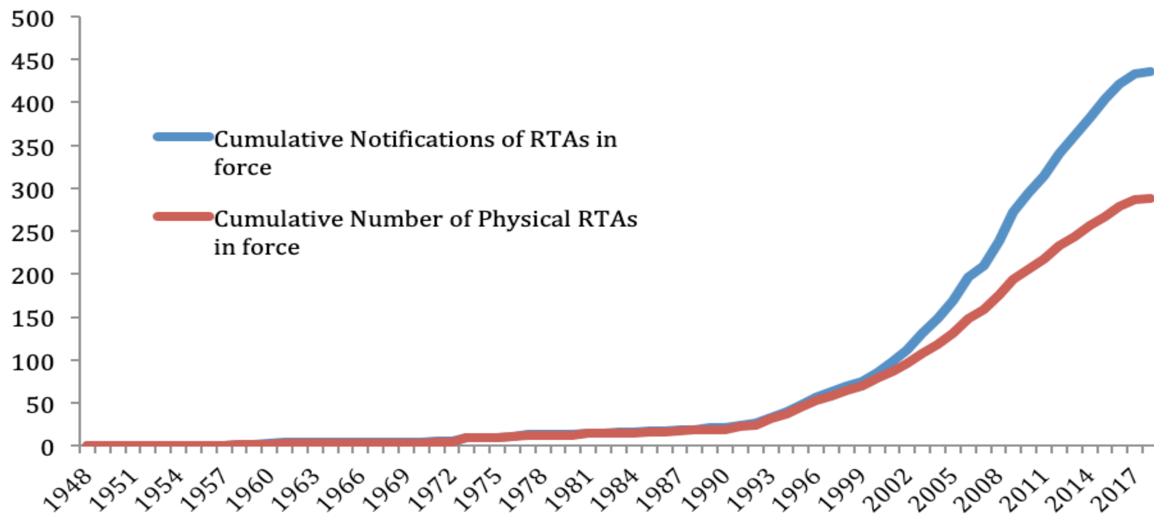


Source: The Observatory of Economic Complexity (https://atlas.media.mit.edu/en/rankings/country/eci/)

*Note: **Economic Complexity Indices are calculated** based on the measurement of 1. Economic Diversity – which measures how many different products a country can produce & 2. Economic Ubiquity – which measures how many countries are able to make those products. Diversity is the different things a country can make; high ECI countries have good diversity. Ubiquity is how many countries can make a product; ubiquitous products are simple products. Countries that are able to sustain a diverse range of productive know-how, including sophisticated, unique know-how, are found to be able to produce a wide diversity of goods, including complex products that few other countries can make. Japan is the top ranked and Guinea the lowest.*

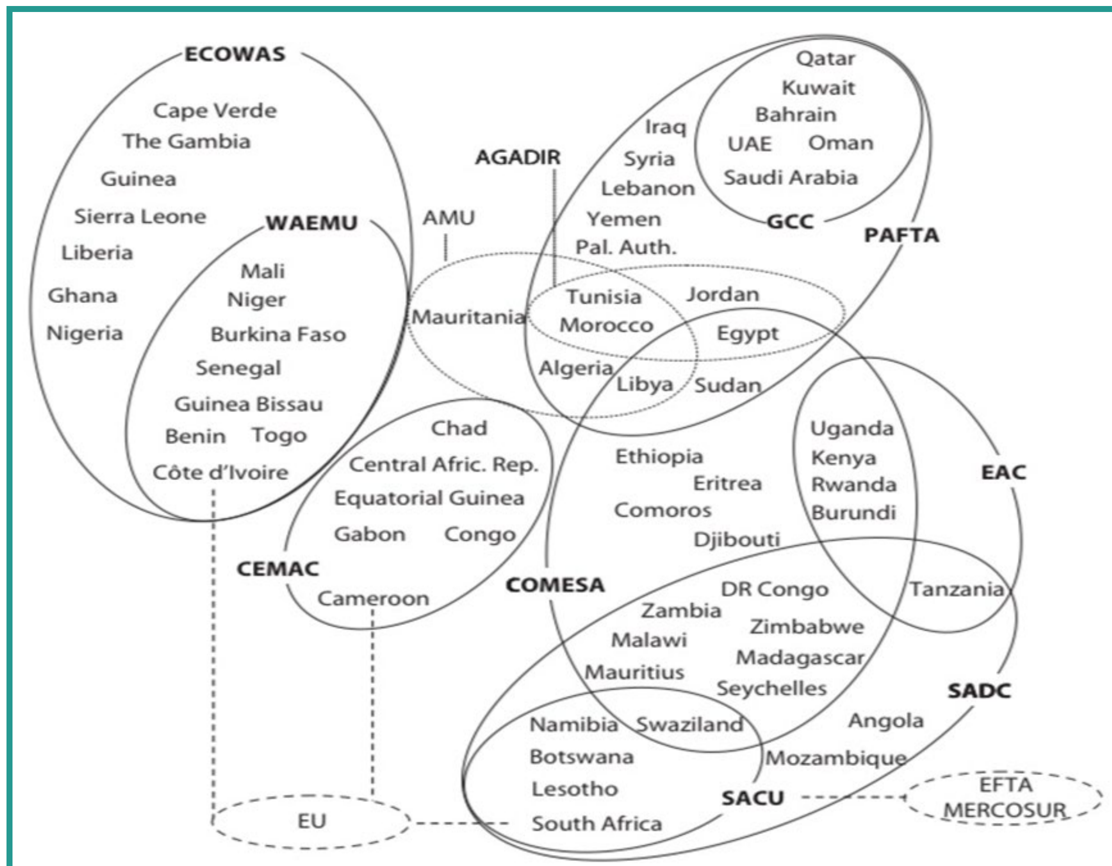
5. Reflecting the greater complexity of goods and services and new products, the world is shifting away from global, multilateral trade agreements and increasingly towards **deeper and more comprehensive bilateral and regional agreements**. Regional trade agreements (RTAs) have risen in number globally *(Fig 1.5)*. As of May 2018, 287 RTAs were in force, almost double the number in 2000; these agreements cover over half of all international trade. The MENA region has close to 25 existing agreements including multiparty agreements like the Gulf Cooperation Council (GCC), GCC-Singapore, and the Pan-Arab Free Trade Area (PAFTA) *(Fig 1.6)*. It is important to distinguish between *de jure* and *de facto* trade agreements. Despite existing *de jure* agreements, intra-regional trade among the MENA economies remains dismal (around 9% of total MENA trade), and with the bulk being oil and related products. By contrast, intra-EU trade accounts for over two-third of overall trade of EU countries. The disappointing results of integration efforts are likely a result of the narrow focus in terms of preferential trade coverage on industrial goods, total neglect of services trade, insufficient political commitment to live up to the spirit of the agreements, and administrative challenges of implementation and other non-tariff barriers.

Fig 1.5. The rise in Regional Trade Agreements overtime



Source: WTO. Note: All but three MENA economies (Algeria, Libya and Lebanon, the latter having observer status) are members of the WTO

Fig 1.6. Network of regional groupings in Africa and the Middle East

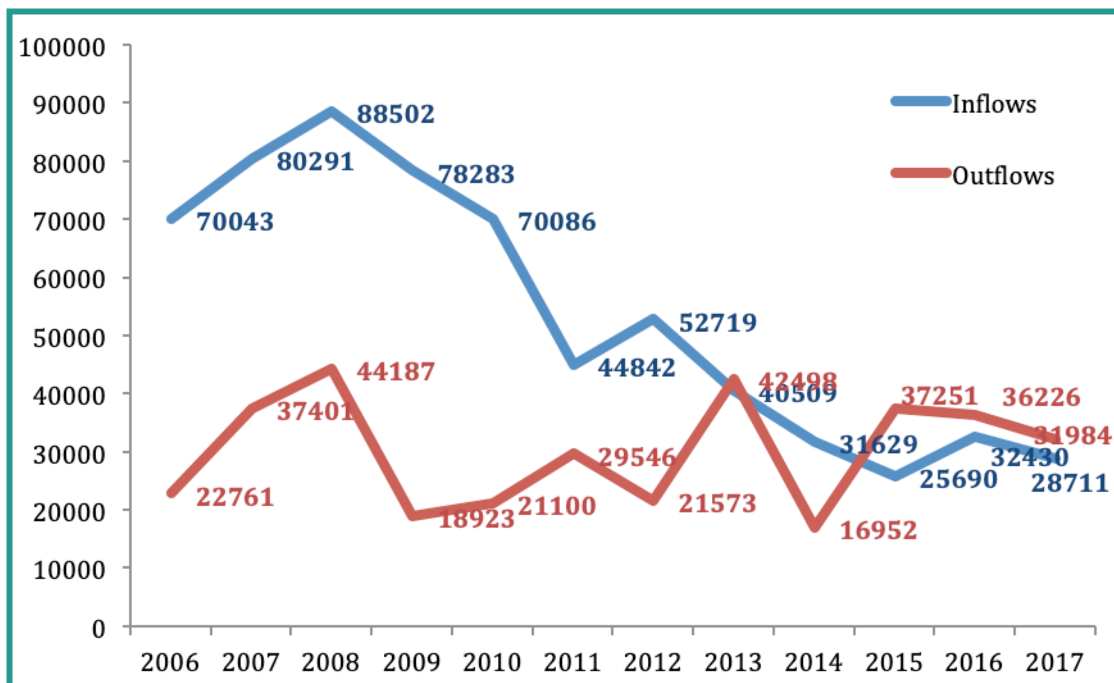


Source: Acharya et.al (2011): "Landscape" In Handbook on Preferential Trade Agreements.

The new generation trade agreements are no longer only about tariffs and market access. Increasingly agreements are 'deeper' also include rules on investment, services, intellectual property, public procurement, harmonisation of product standards, state-owned enterprises, soundness of domestic regulations, competition policy transparency, SMEs, environmental regulation and labour movements and standards.

Free trade agreements have an impact on foreign direct investments: greater trade integration is associated with and builds markets that attract FDI flows. However, the relation has not been as direct in the region, as factors like political stability, the dominance of energy-related investments, commercial agency arrangements and other factors affecting the overall investment climate also determine FDI flows. FDI inflows into the Arab region saw a sharp decline in 2009-10 (after a strong decade) a result of the financial crisis and regional turbulences (the Arab "Spring"), and hit an all-time low in 2015 along with the decline in oil prices which discouraged energy investments. **Regional FDI flows accounted for only 1.3% of total FDI flows in 2017**, and compares to 32.8% in developing economies. *(Fig 1.7)*.

Fig 1.7. FDI inflows into and outflows from the Middle East and North Africa (USDmn)



Source: Annual Investment Climate 2018 report, The Arab Investment & Export Credit Guarantee Corporation (Dhaman). Countries tracked by Dhaman, and included under MENA are Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, UAE and Yemen

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As the global trade and investment landscape continues to evolve – GVCs, growing trade in inputs and intermediate products and value-added-trade, digital trade, economic complexity, regional agreements – amidst opposing calls for greater protectionism, it is important to recall that economic openness (of trade, capital and labour mobility) is a major enabler if not determining driver of growth, job creation and poverty reduction. However, openness also needs to be accompanied by greater competitiveness (i.e. productivity-enhancing reforms in the home country) to fully reap the benefits. What needs to be done to ensure increased international competitiveness alongside greater openness?

- macroeconomic stability with investor and trade-friendly policies and regulations;
- good governance (that leads to efficient public administration, timely decision-making, impartial enforcement of property rights and contracts, lowering corruption, greater business integrity etc.)
- investments in hard and soft infrastructure, all enabling trade and investment facilitation.

2. MENA trade and investment: trends and patterns

The Middle East and North Africa region comprises economies that are resource-poor but labour-abundant, resource-rich and labour-abundant, and resource-rich and labour-importing, each displaying its own idiosyncrasies. With about two-thirds of MENA nations dependent on natural resources, economic diversification (production, and export and government revenue) is a major development challenge. In contrast, over time, resource-poor and labour-abundant countries have become significantly more diversified in their economic structure and exports. Over the past two decades MENA's economic growth has largely been driven by the oil-rich Gulf Cooperation Council (GCC) countries, and inextricably linked to the region's foreign trade in natural resources, a trend that has persisted despite the geopolitical unrest in the region and ongoing wars in Syria and Yemen. MENA economies maintained an average growth rate of around 4% over the 2000-17 period (with growth significantly lower in the last three years as the region adjusted to the New Oil Normal), with per capita income increasing more than 40% (adjusted for purchasing power differences). During the last decade, total exports in the MENA region expanded by 1.1 times to just under 1 trillion USD. The direct impact of the recent trade tensions is likely to be small in the region, though an escalation could result in larger indirect effects (given impact on major trade partners).

2.1. Main characteristics of trade in the MENA region

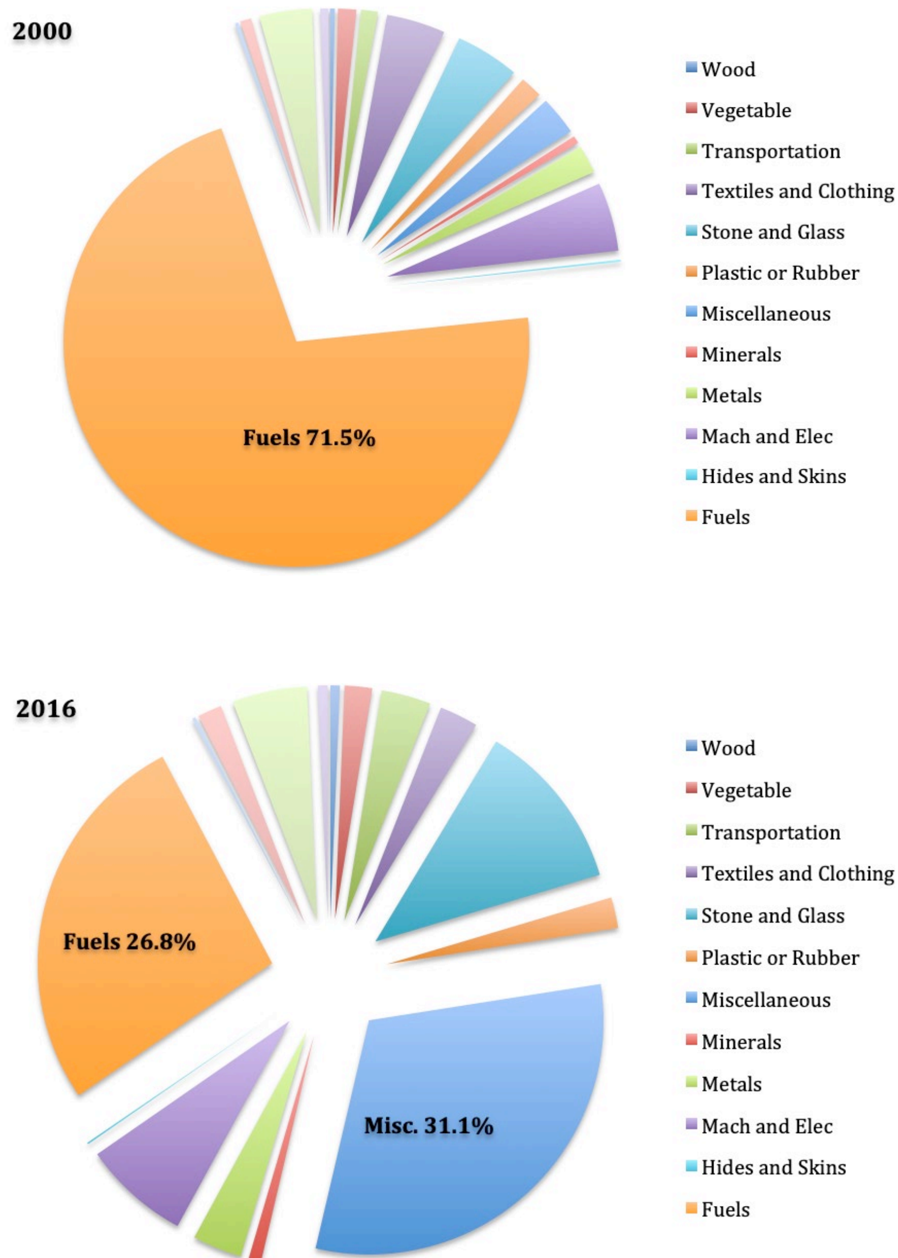
The main characteristics of MENA trade can be summarised as follows:

1. Merchandise exports from the MENA region to the rest of the world stood at USD 893bn in 2017 (from just under USD 250bn in the start of this century). There has been a **significant shift in the region's trade patterns toward Asia** over the past few decades. Asia now accounts for about 55% of the region's total trade compared to around 40% in 1999. Asia has eaten into the shares of North America and Europe, which had together accounted for 35% in 1999 and collapsed to just under 20% in 2017.

2. Overall, there is **limited diversification of MENA's exports markets**: MENA countries are vulnerable to terms-of-trade shocks because of the volatility of their export earnings caused by the **high concentration of exports in primary commodities and exacerbated by the high concentration of export markets**. MENA exports are largely oil and gas (56% of all exports in 2017), and though most countries have undertaken diversification policies, the level remains quite low compared to other resource-rich countries (e.g. Malaysia, Norway, Canada). For Kuwait and Saudi Arabia, oil exports still account for 90.5% and 80% of total exports respectively. In addition, the oil sector cannot be a sustainable source of jobs to absorb the growing workforce of the demographically young populations of the energy-exporting countries: the energy industry is typically highly capital intensive and generates fewer jobs than other sectors. Economic diversification is

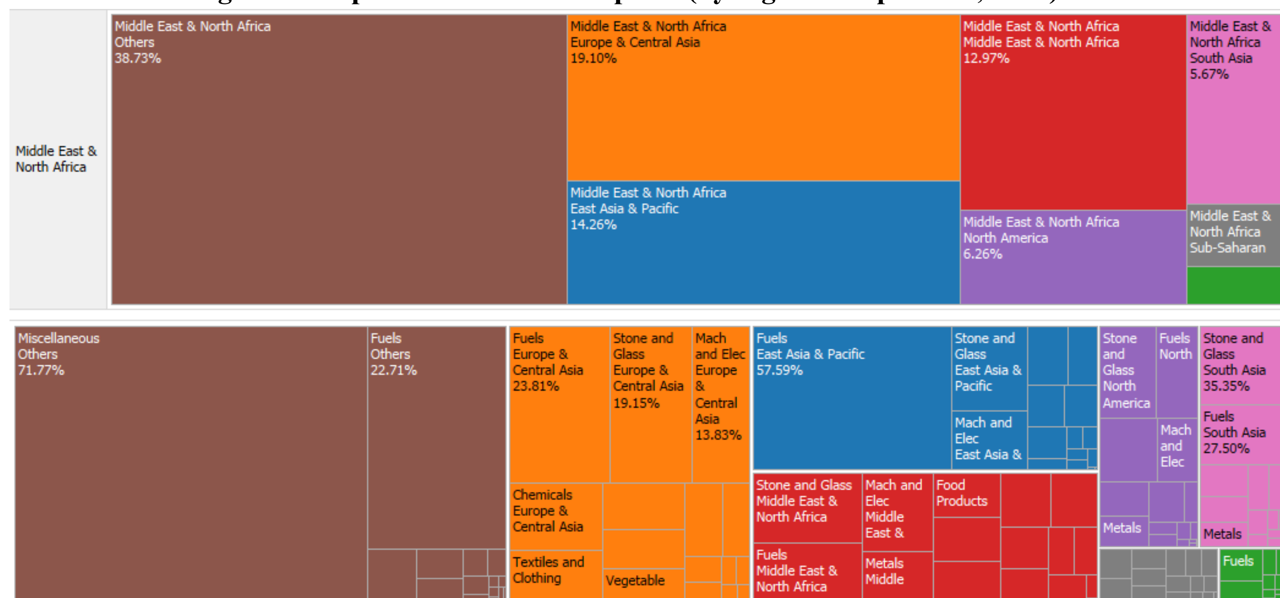
therefore a policy imperative for job creation (especially in the context of rising youth unemployment). MENA exports have mainly concentrated in primary and consumer goods, and less so in high value-added, complex products, high technology, intermediate and capital goods *(Fig 2.1 & 2.2)*. Only 4.2% the region's manufactured exports are classified as high technology, compared with about 24.5% in East Asia & Pacific nations.

Fig 2.1. Evolution of the composition of MENA exports (by product)



Note: Miscellaneous includes optical, photo; Clocks and watches and parts thereof; Musical instruments, parts and access of such; Arms and ammunition, parts and accessories; Furniture; bedding, mattress, matt support; Toys, games & sports requisites; Miscellaneous manufactured articles; Works of art, collectors' pieces and antiques.

Fig 2.2. Composition of MENA exports (by region and product, 2016)



Source: World Integrated Trade Solution; http://wits.worldbank.org/visualization/detailed-regional-trade-analysis-visualization.html

3. **Regional trade remains dismal** at under 10%. MENA oil importers' share of trade within the region remains relatively high: Lebanon (44% of total exports in 2017) Jordan (43%), and Egypt (22%). Maghreb countries export within the region least (under 10%), with much of their exports going to Europe.

2.2. Consequences of export concentration and dependence

Export dependence increases an economy's vulnerability to external shocks and the size of the loss in trade revenue depends on each country's mix of exports and main trading partners (i.e. on its degree of export concentration). Table 1 below tracks the change between 2000 and 2016 in the **product concentration index** i.e. the degree to which exports and imports of individual economies or of groups of economies are concentrated on a few products rather than being distributed in a more homogeneous manner among several products. It shows that, when compared to 2001, all MENA countries have become mildly less "concentrated" or more diverse in their export products, but many of the oil-producing nations still export a narrow range of products.

For most oil-producing countries, export diversification means moving away from oil & gas. Given the dominance of energy, even if some diversification effort is undertaken, it will still be overwhelmed by the effects of oil. If oil exports are excluded, the products with the next highest contribution to export growth among the GCC nations are largely oil derivatives, petrochemicals, or products like aluminium (Bahrain, Saudi, UAE) that are dependent on low energy costs. For example, countries like Qatar and Saudi Arabia export plastics, aluminium and fertilisers. Oman and UAE are relatively more diversified (i.e. products with an export share above 5%): vehicle parts form around 10% of Oman's exports while in the UAE's exports and re-exports include gold, diamonds, and a variety of machinery, equipment and electrical appliances.

The diversification index is computed by measuring the absolute deviation of the trade structure of a country from world structure: a value closer to 1 indicates greater divergence from the world pattern. , which can be seen among the oil exporters in the below table. Tunisia, UAE, Lebanon, Egypt and Jordan are moderately diversified. Among oil exporters, UAE is the most diversified, with its focus on the non-oil sector including trade *(see Box 1 on UAE as a re-export hub)* and tourism, promoting the development of industrial zones, and the restructuring of industrial sectors.

Table 2.1. Concentration and diversification indices in MENA: 2000 vs. 2016

	2000			2016		
	Number of products	Concentration Index	Diversification Index	Number of products	Concentration Index	Diversification Index
Tunisia	190	0.207	0.668	215	0.134	0.519
UAE*	253	0.515	0.669	259	0.227	0.543
Egypt	225	0.26	0.646	238	0.154	0.581
Lebanon	187	0.126	0.638	232	0.113	0.586
Syria	168	0.616	0.781	198	0.165	0.648
Jordan	211	0.173	0.604	213	0.164	0.651
Palestine	135	0.178	0.608	156	0.185	0.675
Morocco	202	0.176	0.72	225	0.175	0.677
Bahrain*	188	0.414	0.792	214	0.32	0.678
Oman*	179	0.804	0.788	212	0.506	0.753
Yemen	120	0.86	0.844	129	0.349	0.77
KSA*	245	0.687	0.808	252	0.593	0.78
Algeria*	101	0.515	0.835	93	0.489	0.816
Kuwait*	172	0.642	0.847	223	0.627	0.823
Libya*	80	0.764	0.815	113	0.542	0.832
Qatar*	151	0.604	0.842	160	0.4	0.834
Iraq*	79	0.955	0.832	119	0.937	0.909

*Source: UNCTAD. * Denotes an oil producer and exporter*
Note: For the diversification index, the value ranges between 0 to 1: a value of zero means the country's exports match the world average. Higher values indicate the country's dependence on a small number of products.. Concentration index, also named Herfindahl-Hirschmann Index (Product HHI), is a measure of the degree of product concentration. An index value closer to 1 indicates a country's exports or imports are highly concentrated on a few products. On the contrary, values closer to 0 reflect exports or imports are more homogeneously distributed among a series of products.

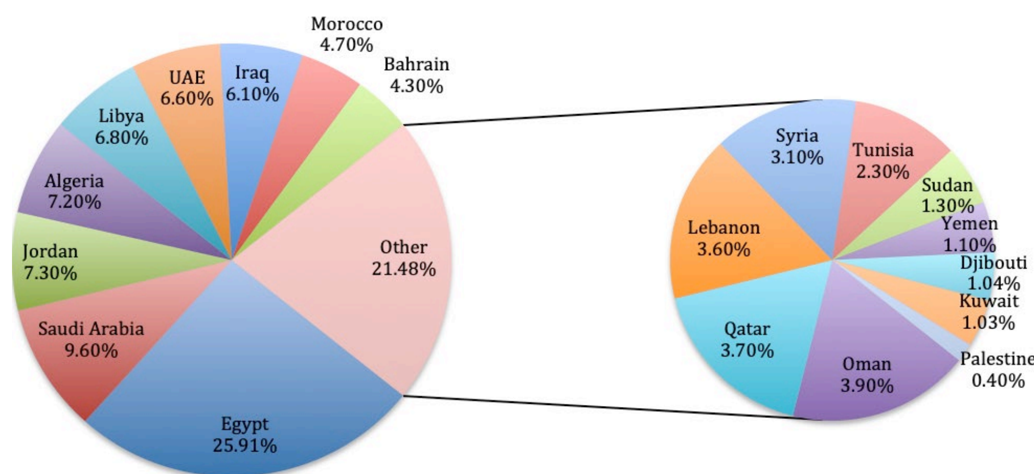
Exports of commercial services (mainly travel and transport) amounted to about USD 207 billion last year, 3.9% of the world total (countries like Egypt and Morocco account for around 0.3% each of total world commercial services export). These numbers do not include remittances, though its importance is paramount to some of the oil importers that are also labour exporters. Remittance inflows to the MENA region grew rapidly in 2017: Egypt received about USD 14.5bn from the GCC, comprising 73% of total inward remittances into the country. UAE, Kuwait, Qatar and Bahrain are among the top 10 destinations for international migrants (foreign nationals in the UAE and Qatar are close to 90% while it is close to 50% in Bahrain). Hence GCC witnessed an outflow of about USD 86 billion of remittances in 2017 (around 23% of global remittance outflows).

2.3. MENA investment flows

FDI inflows increased between 2000 and 2008, thanks to efforts to improve the business environment and investment climate and to related structural and institutional reforms. Slowdown appeared after the financial crisis in 2008, with limited recovery. In 2017, investment flows into the GCC were USD 15.5bn, almost 3.5 times lower than in 2008 at their peak. Much of the inflows in 2017 were concentrated in UAE and Egypt (which accounted for around 37% and 27% of inflows into the region), followed by Morocco (9.5%), Lebanon (9.4%) and Oman (6.7%) – from a decade ago in 2007 when Saudi Arabia, UAE and Egypt together accounted for close to two-thirds of the inflows into the region. The bulk of FDI inflows into the region have gone into energy, real estate, financial services and consumer products *(Source: Dhaman, FDI Markets)*. In addition, sovereign wealth funds from the region became global investors (and more recently regional investors), recycling their petrodollars: this led to net financial outflows from the GCC to triple since 2005.

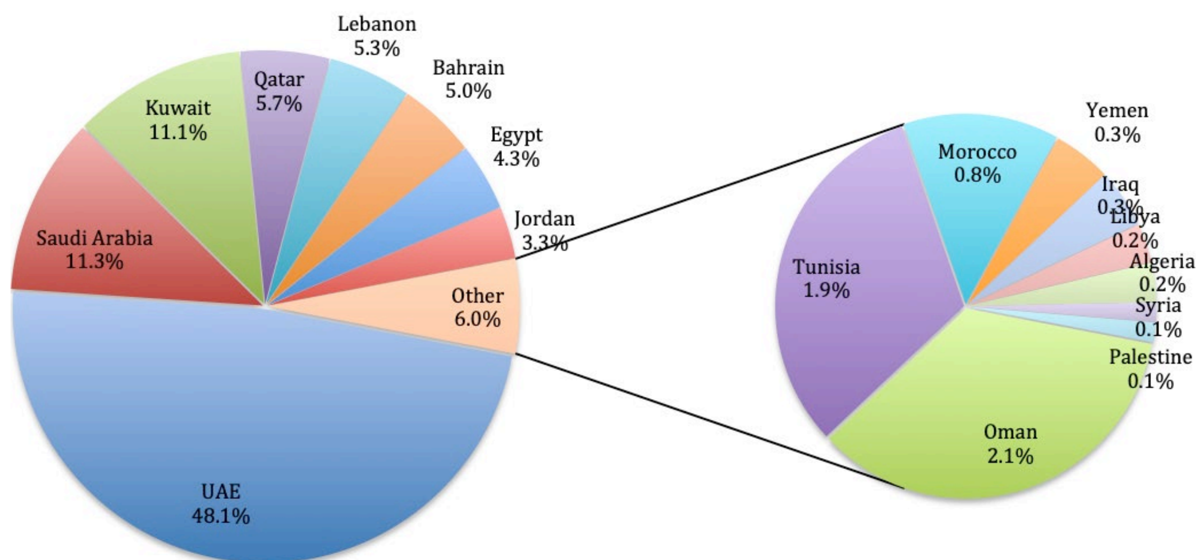
Intra-MENA FDI however remains quite low and the projects in 2017 were focused on real estate (59% of total value of projects), food and tobacco (8.2%), and renewables (7.5%). Intra-regional FDI excluding outflows from GCC is persistently low, despite the existence of a variety of preferential and regional trade agreements and bilateral investment treaties in the region. The top 4 FDI recipient nations - Egypt, Saudi Arabia, Jordan and Algeria - received half the investments flowing into the region during 2003-2017; the UAE alone accounts for half of the number of projects in the region during this period, followed closely by the other GCC nations *(Fig 2.3 & 2.4)*. Iraq, Libya and Syria are nations that will need reconstruction in the short- to medium-term, and is likely to witness investment flows.

Fig 2.3 Distribution of total inter-Arab investment projects (cumulative value total – USD 337bn, by recipient country, 2003-2017)



Source: Annual Investment Climate 2018 report, The Arab Investment & Export Credit Guarantee Corporation (Dhaman)

Fig 2.4 Total Arab investment projects (number of projects - total 2724, by investing country, 2003-2017)



Source: Annual Investment Climate 2018 report, The Arab Investment & Export Credit Guarantee Corporation (Dhaman)

The Special Economic Zones (SEZs) and Free Trade Zones (FEZs) in MENA have facilitated inflows of FDI due to the liberalisation of the rights of establishment and access to competitive infrastructure, transport and logistics facilities and services. When successful, SEZs generate significant local employment, increase exports, and accelerate economic growth. UAE, with more than 45 free zones, has been a relatively successful case (especially given its 100% foreign ownership policy in these free zones). Covering a wide range of sectors including financial services, trade, logistics, and industrial activity, free zone trade accounts for a little more than one third of UAE's non-oil economy and 88% of non-oil exports. However, the performance of SEZs across the region has been quite varied: there have been reports of multiple issues including working conditions, lack of spill over into the local economy, along with governance and regulatory environment issues.

From the patterns so far, it is evident that the GCC plays an important role in MENA's trade and investment. The GCC accounted for around 72% of total MENA trade to the world in 2017; this has increased from 60% in 2000 *(Source: WTO)*. FDI also follow the same pattern: the GCC nations attracted about 55.5% of total FDI inflows into the region in 2017 (lower compared to 2007 when the share was above 60%). GCC aid and investment flows have gone into countries like Egypt and Jordan in the recent years, after each implemented austerity measures and reforms to support growth. Similarly, the oil-importing, labour-exporting Arab countries are heavily reliant on the GCC for worker remittances, aid, investment and tourism revenue (e.g. Egypt, Jordan and Lebanon).

Box 1.1 UAE as a re-export hub

- Re-exports formed 47.4% of UAE's total trade last year
- Re-exported goods include imports from abroad that go through customs, which are then re-exported by a third party without being processed
- Active development as a logistics & transportation hub: The Jebel Ali Free Zone and the Dubai International Airport & Dubai World Central act as "hubs" for the wider region including Asia and Africa
- UAE ranks 11th globally and highest in the Arab region as per the World Bank's Logistics Performance Index 2018.
- Dubai Logistics Corridor: only one permit is required for sea-air transshipment. As the seaport and airport are embedded in this one customs free zone, no customs clearance is required for goods-in-transit arriving by sea and departing by air.
- Enabling Trade Index 2016 ranks UAE 23rd among 136 nations, performing well due to its overall infrastructure (ranked 6th globally)

3. Main barriers to trade and investment

As discussed in the previous chapters, though the MENA region is relatively open to the global economy, it remains less regionally integrated in terms of trade and investment flows. The lack of regional and global integration diminishes MENA growth prospects and is a main drawback to attracting FDI and technology. Studies find that limited integration results in 1-2% lower GDP growth[8]. As the region struggles with high youth unemployment rates (29.7% in the Middle East and 28.6% in Northern Africa), greater regional integration could be a major enabler and factor driving higher productivity and economic growth, attracting FDI and thereby increasing job creation.

What hampers growth in trade and investment (including intra-regional) in the region? What are the barriers?

(a) **Trade and non-tariff barriers (NTBs)**: Average tariffs in the MENA region have been reduced and are converging to global levels, but they remain high and their spread across countries and products is large. Trade costs (including transportation costs, time delays, impact of border controls etc.) constitute 20-40% of the final delivered price for MENA's non-oil exports. Additionally, NTBs (e.g. burdensome technical regulations, import authorisation procedures, cumbersome customs clearance and border controls) are obstacles to both regional and global integration. More obstacles that are significant include factors such as technical and health standards, the lack of uniform standards and harmonisation, along with pervasive red tape and corruption, all of which hinders both international and regional trade, investment flows and the pipe dream of the creation of an Arab Common Market.

Nor is it easier for trade in services, the world's fastest growing segment. Although the region has made some progress in liberalising trade in goods, it is considered as one of the most restrictive regions in services trade. The MENA region is home to inefficient and non-competitive services markets impeding productivity and growth in sectors using services intensively as well as trade in services. For example, protectionism and restrictiveness in telecoms and banking services has direct and negative spill-over on all other sectors and importantly on the digital economy and trade.

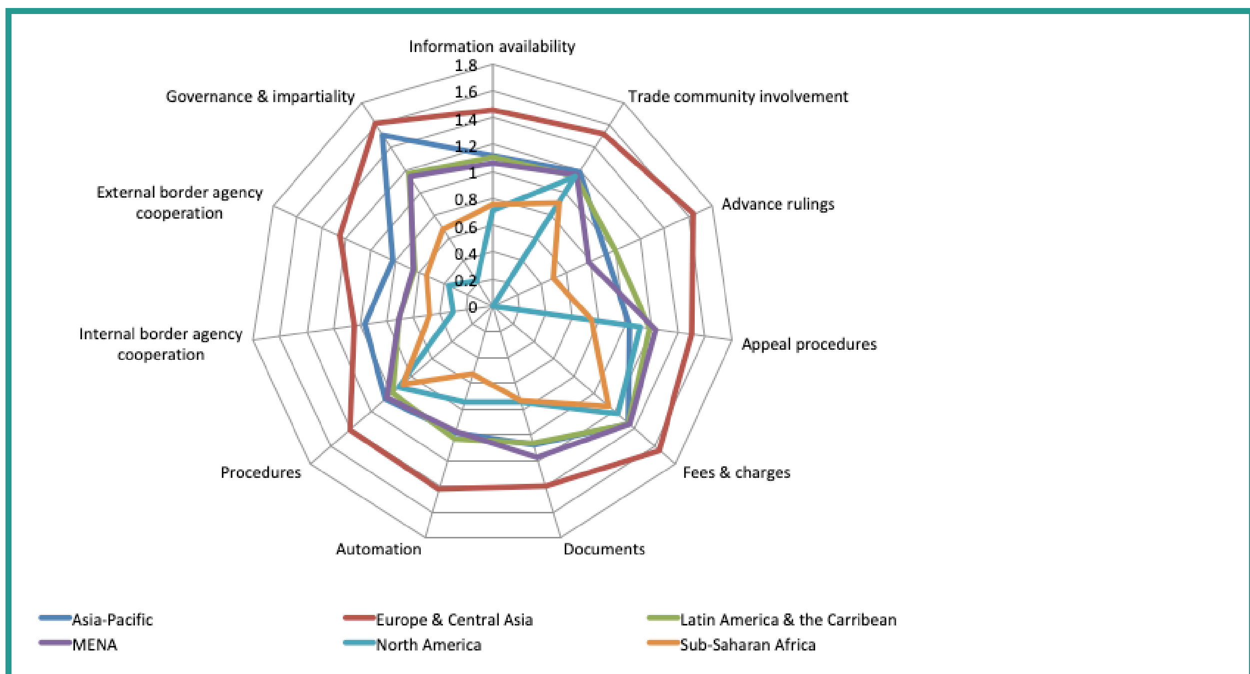
(b) **Trade facilitation**: Trade facilitation, in its narrow scope, focuses on improving administrative procedures at the border (simplification, harmonisation and transparency), while its broad scope includes changes

[8] http://www.worldbank.org/en/news/feature/2010/03/23/trade-integration-in-the-middle-east-and-north-africa

to behind-the-border measures, such as NTBs and access to infrastructure (WTO, 2015).

The performance of the MENA region in terms of trade facilitation is reflected both in the OECD Trade Facilitation Indicators (*Fig 3.1 below*) and the World Bank's Ease of Doing Business Indicators (in particular, the Trading Across Borders Indicators). Though the MENA region performed better than the developing and poorer countries of South Asia and Sub-Saharan Africa in this sub-category, the dispersion is quite wide *(Table 3.1)*. Morocco and Oman were the best performers in the region. The longer the time to comply with border inspection and documentation requirements, the higher the trading cost faced by MENA's exporting and importing firms is. MENA also remained the third best region at enabling trade (WEF's Global Enabling Trade Report 2016), accompanied **by a reduction in the average tariff rate**[9].

Fig 3.1. OECD Trade Facilitation Indicators



[9] *Saudi Arabia still has one of the highest tariffs (trade-weighted average tariff applied rate) when exporting to the rest of the world – at 4.5%.*

Table 3.1. Enabling Trade Indicators

	Trading across Borders rank	Time to export: Border compliance (hours)	Cost to export: Border compliance (USD)	Time to export: Documentary compliance (hours)	Cost to export: Documentary compliance (USD)	Time to import: Border compliance (hours)	Cost to import: Border compliance (USD)	Time to import: Documentary compliance (hours)	Cost to import: Documentary compliance (USD)
Algeria	173	80	593	149	374	210	409	96	400
Bahrain	77	71	47	24	100	42	397	60	130
Djibouti	145	72	605	60	95	118	1055	50	100
Egypt	171	48	258	88	100	240	554	265	1000
Iraq	181	85	1118	504	1800	131	644	176	500
Jordan	74	53	131	6	100	79	206	55	190
Kuwait	159	96	602	72	191	89	491	96	332
Lebanon	150	96	480	48	100	180	790	72	135
Libya	128	72	575	72	50	79	637	96	60
Mauritania	141	62	749	51	92	69	580	64	400
Morocco	62	11	156	26	107	65	228	26	116
Oman	72	52	261	7	107	70	394	7	124
Qatar	97	25	382	10	150	48	558	72	290
Saudi Arabia	158	50	363	60	105	228	779	90	390
Syria	178	84	1113	48	725	141	828	149	742
Tunisia	101	50	469	3	200	80	596	27	144
UAE	98	27	462	6	178	54	678	12	283
Yemen	189	No practice	No practice	No practice	No practice	No practice	No practice	No practice	No practice

Source: Doing Business 2019, World Bank

Logistics are a critical component and enabler of trade facilitation: this includes the availability and quality of trade-related infrastructure (ports, airports, roads, railroads), as well as the development and quality of logistics services such as trucking, warehousing, shipping, etc. The World Bank's Logistics Performance Index measures logistics efficiency and the latest index 2018 ranks UAE 11th globally and the highest in the MENA region *(Table 3.2)*. For the lower ranked economies, logistics competence, infrastructure and customs are the main obstacles.

Table 3.2: Logistics Performance Index, MENA vs. top 3 (scores out of 5)

Country	LPI Rank	LPI Score	Customs	Infrastr ucture	Intl shipment s	Logistics competence	Tracking & tracing	Timeliness
Germany	1	4.2	4.09	4.37	3.86	4.31	4.24	4.39
Sweden	2	4.05	4.05	4.24	3.92	3.98	3.88	4.28
Belgium	3	4.04	3.66	3.98	3.99	4.13	4.05	4.41
UAE	11	3.96	3.63	4.02	3.85	3.92	3.96	4.38
Qatar	30	3.47	3	3.38	3.75	3.42	3.56	3.7
Oman	43	3.2	2.87	3.16	3.3	3.05	2.97	3.8
Saudi Arabia	55	3.01	2.66	3.11	2.99	2.86	3.17	3.3
Bahrain	59	2.93	2.67	2.72	3.02	2.86	3.01	3.29
Kuwait	63	2.86	2.73	3.02	2.63	2.8	2.66	3.37
Egypt	67	2.82	2.6	2.82	2.79	2.82	2.72	3.19
Lebanon	79	2.72	2.38	2.64	2.8	2.47	2.8	3.18
Jordan	84	2.69	2.49	2.72	2.44	2.55	2.77	3.18
Djibouti	90	2.63	2.35	2.79	2.45	2.25	2.85	3.15
Tunisia	105	2.57	2.38	2.1	2.5	2.3	2.86	3.24
Morocco	109	2.54	2.33	2.43	2.58	2.49	2.51	2.88
Algeria	117	2.45	2.13	2.42	2.39	2.39	2.6	2.76
Syria	138	2.3	1.82	2.51	2.37	2.29	2.37	2.44
Yemen	140	2.27	2.4	2.12	2.21	2.26	2.16	2.43
Iraq	147	2.18	1.84	2.03	2.32	1.91	2.19	2.72
Libya	154	2.11	1.95	2.25	1.99	2.05	1.64	2.77

Source: LPI data, World Bank. https://lpi.worldbank.org/international

High trade costs and poor logistics performance in MENA negatively impact both regional and international economic integration and trade. A World Bank study found that the cost of trade between neighbours is twice as high among the MENA economies compared with those of Western Europe. The Maghreb countries had lower trade costs with Europe than between themselves!

(c) **Trade and investment agreements**: Regional trade agreements are in place, but implementation and enforcement are lacking and benefits are not visible. They are, in Arabic idiom, just “ink on paper”. Hopes of growth through increased economic integration and trade based on common history, culture, language and contiguity have been stymied by instability, wars, violence, political rivalry and lack of a common vision. The primary, short-term objective of RTAs is to increase trade and investment as a result of providing access to a larger market. But given that many countries participate in various RTAs with different degrees of liberalisation, they may create additional complexity and, ironically, may adversely affect trade relations. A relevant example is the 1980 Arab League Agreement on Investment that was revised in 2013: the amendment however has been ratified only by a few countries, setting in

place two regimes none being fully implemented notably in terms of regional facilitation and institutions (e.g. the Arab Investment Court).

Also, bilateral and regional trade agreements typically exclude services as a result of protectionist stances leading to difficult negotiations. Similarly, licensing, controls, permits, regulatory and a variety of other NTB barriers impede cross-border services and the movement of labour.

(d) **Lack of diversification**: Oil & gas and agricultural products remain by far the most important commodities exported by the region, but with limited value added. Such a natural resource-base and production structure, the lack of diversification and economic complexity of goods limit the scope for regional trade, while international trade is concentrated in energy products and a limited range of Mediterranean agricultural products that face competition from EU producers of similar products.

(e) **Low regional integration**: Regional economic integration has seen very little progress – even at the GCC level, where the Customs Union has failed to be realised despite years of deliberations. Many reasons have been cited as to why integration has been slow and inconsistent. Weak institutions and infrastructure, prevalence of state-owned enterprises operating in sectors that would benefit from regional economies of scale, protectionist structures (such as commercial agency laws and restrictions) resulting in limited or no competition are some of the most commonly cited factors. Outside the GCC, levels of cooperation are even lower with economies signing trade and investment agreements with Europe rather than negotiating with immediate neighbours, The result has been a diversion of trade and investment flows to Europe rather than contiguous countries. In addition, initiatives, like the Union for the Mediterranean (UfM) or the Agadir Technical Unit, aimed at *inter alia* supporting trade, increasing competition and creating value chains in the region, have not yet led to substantive results.

(f) **Business and investment barriers**: The region is burdened with cumbersome licensing processes, complex regulations and opaque bidding and procurement procedures, particularly for public procurement. The time and financial costs of regulatory and administrative barriers and deficiencies of judicial systems, rule of law and protection of property rights are major obstacles to conducting business. Multiple legal and regulatory barriers affect the MENA investment climate. These include sector-specific restrictions (e.g. oil and gas, electricity, telecoms…), limits to foreign ownerships of businesses and access to land (other than in the free zones), requirements for local sponsors/intermediaries, and import restrictions (in particular in GCC countries). The OECD's FDI Regulatory Restrictiveness Index also shows how restrictive certain sectors in the region are with Egypt closer to being "closed" vis-à-vis "open" Morocco (*Table 3.3*). The lack of a modern insolvency framework (with the exception of recent laws passed in the UAE and Saudi) facilitating corporate restructuring has also hindered investments: the MENA region compares poorly with other regions in the complexity and time needed to resolve insolvency and initiate and complete a legal

claim. Unpredictability of enforcement is also a serious problem. *(Tables 3.4 and 3.5 below)*

Table 3.3. OECD FDI Regulatory Restrictiveness Index

	Egypt	Jordan	Morocco	Saudi Arabia	Tunisia
Agri & forestry	0.075	0.125	0.050	0.212	0.200
Mining & Quarrying (inclu. Oil)	0.000	0.145	0.000	1.000	0.000
Manufacturing	0.000	0.045	0.000	0.212	0.004
Electricity	0.009	0.045	0.000	0.212	0.000
Construction	0.550	0.545	0.000	0.212	0.375
Distribution (wholesale, retail)	0.000	0.573	0.000	0.242	0.575
Transport (surface, water,air)	0.271	0.562	0.267	0.551	0.167
Hotels & restaurants	0.000	0.225	0.000	0.212	0.000
Media	0.000	0.412	0.025	0.606	0.010
Financial services	0.017	0.178	0.033	0.267	0.223
Real estate	0.333	0.800	0.000	1.000	0.333
Total FDI Index	0.066	0.243	0.028	0.369	0.171

Source: OECD

Note: The FDI Regulatory Restrictiveness Index (FDI Index) measures statutory restrictions on foreign direct investment across 22 economic sectors. It gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI: 1) Foreign equity limitations; 2) Discriminatory screening or approval mechanisms; 3) Restrictions on the employment of foreigners as key personnel and 4) Other operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership by foreign-owend enterprises. Restrictions are evaluated on a 0 (open) to 1 (closed) scale. The overall restrictiveness index is the average of sectoral scores.

Table 3.4. Resolving insolvency in the MENA region

Economy	Resolving Insolvency rank	Recovery rate (cents on the dollar)	Time (years)	Cost (% of estate)	Strength of insolvency framework index (0-16)
Algeria	76	50.8	1.3	7.0	7
Bahrain	93	42.2	2.5	9.5	7
Djibouti	48	37.6	2.3	11.0	13
Egypt	101	23.4	2.5	22.0	9.5
Iraq	168	0.0	No practice	No practice	0
Jordan	150	27.3	3.0	20.0	5
Kuwait	115	32.4	4.2	10.0	7
Lebanon	151	31.7	3.0	15.0	4
Libya	168	0.0	No practice	No practice	0
Mauritania	168	0.0	No practice	No practice	0
Morocco	71	28.5	3.5	18.0	12
Oman	100	38.0	4.0	3.5	7
Qatar	120	30.2	2.8	22.0	7
Saudi Arabia	168	0.0	No practice	No practice	0
Syria	163	10.2	4.1	16.0	5
Tunisia	67	51.3	1.3	7.0	8.5
UAE	75	28.4	3.2	20.0	11
West Bank and Gaza	168	0.0	No practice	No practice	0
Yemen	157	19.1	3.0	15.0	5
MENA	121	26.3	2.8	13.8	5.9

Source: Doing Business 2019, World Bank

Table 3.5. Enforcing contracts in the MENA region

Economy	Enforcing Contracts Score	Enforcing Contracts rank	Time (days)	Cost (% of claim value)	Quality of judicial processes index (0-18)
Algeria	54.78	112	630	21.8	5.5
Bahrain	51.75	128	635	14.7	2.5
Djibouti	48.43	140	695	34	5.5
Egypt	42.75	160	1010	26.2	5.5
Iraq	48.02	143	520	28.1	1.5
Jordan	55.56	108	642	31.2	8
Kuwait	59.58	77	566	18.6	6.5
Lebanon	49.85	135	721	30.8	6
Libya	48.41	141	690	27	4
Mauritania	60.43	72	370	23.2	5
Morocco	60.93	68	510	26.5	8
Oman	60.02	73	598	15.1	6.5
Qatar	52.79	122	570	21.6	3.5
Saudi Arabia	63.41	59	575	27.5	10.5
Syria	42.58	161	872	29.3	4
Tunisia	59.33	80	565	21.8	7
UAE	75.88	9	445	21	14
West Bank and Gaza	52.51	123	540	27	4
Yemen	48.52	139	645	30	4
MENA	55.04	105	622	24.7	6.1

Source: Doing Business 2019, World Bank

(g) **Competition policies as a barrier to trade and investment**: Competition legislation is particularly needed in countries where markets are relatively small in size, non-contestable, highly concentrated and where barriers to imports are still high, which is the case in many MENA countries. Such policies insulate certain firms and sectors from foreign competition, provide unequal access to credit and land, and also create incentives that discourage domestic firms from competing in international markets. Often, the benefits are limited to a privileged few with political connections. In the GCC and other countries, a commercial agency legal framework is set out in law protecting local agents (i.e. commercial agency activities can be carried out only by the nationals or companies wholly owned by nationals or simply put, foreign companies will need to operate with a local partner). Oman, Kuwait and Qatar have recently made changes to their legislative frameworks following WTO obligations. To overcome this trade barrier, the region needs a strong, well-organised public administration to implement critical policy changes, such as an effective competition law, an independent competition authority, appropriate procurement laws and implementation, and an independent judiciary.

(h) **Wars, sanctions and political barriers:** Conflicts have affected countries of the MENA region, on average, for over one-quarter of the period since the end of World War

II, compared to only one-fifth of that time in the rest of the world.[10] Trade has been affected by these conflicts: research shows that severe civil wars can decrease external trade by up to 40%. Currently, the region has two on-going wars in Syria and in Yemen, plus other proxy wars as a result of political tensions. Similarly, trade sanctions have impeded the flow of trade and investment in the region. The direct impact of the recent hike in trade tariffs (by the US) is largely on aluminium, though an escalation in trade wars with China could result in lower economic growth (in China) and indirectly affect the region (given lower demand on oil).

(i) **Statistics:** there is no regional standardisation or exchange of information especially for FDI statistics. Often collected and calculated by multiple domestic bodies (central banks, ministries of economy or commerce, or investment promotion agencies), they do not follow the same definitions and/or data collection methods (such as the OECD Benchmark Definition of FDI), thereby making cross-country comparisons difficult. The scarcity of quality data and statistics on both domestic and foreign investment means a lack of evidence-based public policy and increases perceived investment risk.

[10] See discussion in IMF's staff discussion Note titled "The Economic Impact of Conflicts and the Refugee Crisis in the Middle East and North Africa", published Sep 2016. https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/The-Economic-Impact-of-Conflicts-and-the-Refugee-Crisis-in-the-Middle-East-and-North-Africa-44228

4. Recent reforms

The MENA region have introduced and implemented multiple reforms over the past decade to reduce the costs of doing business, facilitate trade as well as lower barriers to investment.

Many reforms were implemented in the past decade to lower the **cost of starting of a business**: removing or reducing minimum capital requirements (Algeria, all GCC countries, Jordan, Morocco), streamlining registration procedures (Egypt, Iraq, UAE), building online platforms to aid registrations and payments (Kuwait, Morocco, Saudi Arabia), and setting up one-stop shops (Egypt, Kuwait, Oman, Qatar). Syria however made starting a business more difficult last year by increasing the time for company registration and more costly by increasing fees for post-registration procedures.

Reforms enabling trade revolve around two issues: (a) reducing time via lowering documentation requirements e.g. single window systems; (b) trade facilitation measures including investment in transport infrastructure (Qatar, Djibouti, Tunisia, Jordan, Algeria, Morocco, Egypt). However, trade costs remain a key barrier for greater trade integration: none of the MENA economies reduced the costs to export or import (in the past four years). There have even been some reversals: Egypt imposed a cap on foreign exchange deposits and withdrawals for imports (when it undertook its devaluation).

MENA countries also undertook **investment reforms** to offer a more open and predictable environment for investors. GCC countries' reforms in the recent years include updating investment and company laws, allowing entry of foreign investors into equity markets (Saudi Arabia), and opening up key sectors to foreign participation (which were previously protected and/or operated by large SOEs). Saudi Arabia is drafting new investment laws allowing 100% ownership in specific (non-strategic) sectors, while the UAE issued its FDI Law in late October 2018. Saudi Arabia has introduced a 'Green Card' residence plan for investors and skilled persons, while the UAE recently announced 10-year investor visa (details to be issued). Qatar is raising foreign ownership limits in state-owned firms like Qatar Industries and QNB, while Kuwait is allowing licenses for 100% investment in many sectors such as infrastructure, tourism, IT and housing. Saudi Arabia opened retail, wholesale trade and engineering sectors to 100% ownership and permitted non-resident institutional investors to invest directly on the Tadawul exchange. These liberalisation measures point to a move away from the previously imposed barriers of licensing and partially closed sectors and equity markets. In addition to lowering entry requirements, governments also need to activate investment promotion agencies with greater participation by the domestic private sector, and streamline tax structures affecting foreign investment.

Other economies have undertaken both legislative and institutional reforms to attract and retain FDI. Egypt undertook a spate of reforms over the past few years: it introduced a new industrial licensing law,[11] investment law, bankruptcy law, amendments to

[11] Previously, businesses had to get approvals from 11 agencies (which could take up to 600 days) to get a license. The new licensing law gave the Industrial Development Authority the sole

companies law, and established a movable collateral registry. In Jordan, several reforms were geared towards supporting SMEs: creation of a new credit bureau, a new insolvency law, and facilitated access to finance through the enactment of a secured transactions law. Jordan also revised its investment law in 2014 and reviewed its list of investment restrictions. Morocco, with the establishment of the National Committee for the Business Environment in 2009**,** has seen the introduction of multiple horizontal reforms aimed at improving the business and investment climate in the country. It includes streamlining procedures, strengthening good governance and transparency, modernising the legal environment of business, and enacting a new bankruptcy law. However, the Investment Charter has been under revision for several years and yet to be issued. The region has also actively negotiated bilateral investment treaties and double taxation treaties, adopting standards of treatment and international practices. The MENA region have also been active signatories of bilateral investment treaties (BITs), having signed 779 BITs out of 2957 BITs signed globally (2358 out of which are in force).

Table 4.1 Bilateral Investment Treaties in the MENA region

	BITs in force	BITs Total
Algeria	30	46
Bahrain	25	31
Djibouti	4	10
Egypt	72	100
Iraq	2	6
Jordan	48	56
Kuwait	67	84
Lebanon	42	50
Libya	23	37
Mauritania	9	21
Morocco	51	68
Oman	27	34
Palestinian Authority	2	5
Qatar	23	54
Saudi Arabia	19	24
Tunisia	36	55
U.A.E	37	61
Yemen	23	37
Total	**540**	**77**

Source: OECD, UNCTAD Investment Policy Hub.

Measures protecting minority investors in the MENA – a major concern for foreign investors, were adopted in the past few years. Reforms to improve protection of shareholder rights have been implemented in Algeria, Egypt, Jordan, Saudi Arabia and UAE), in addition measures barring subsidiaries from acquiring shares issued by their parent company (Egypt, UAE) and introducing greater corporate transparency and disclosure requirements. However, resolving insolvency has been the least reformed area in the region: UAE adopted an insolvency law which introduces a reorganisation procedure while Djibouti made resolving insolvency easier through its new commercial code. Saudi Arabia introduced a bankruptcy law in August 2018. Though many of these economies have updated their bankruptcy and insolvency frameworks, the actual test will be on implementation.

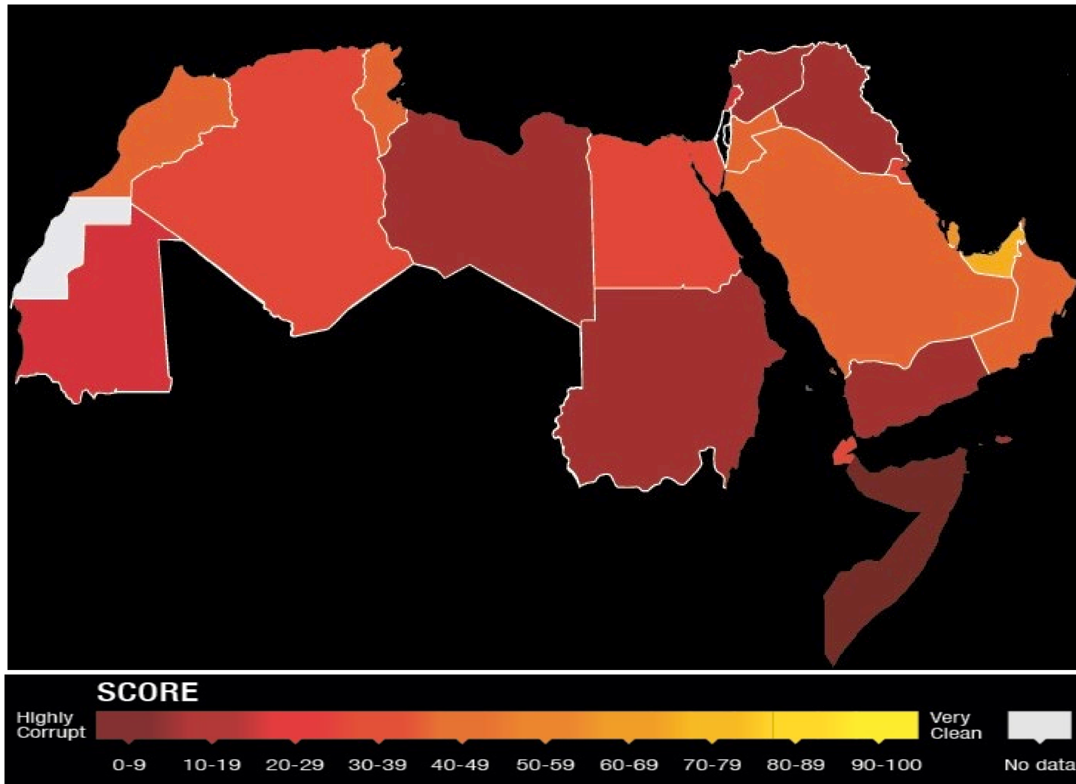
Institutional investment reforms also took place. Most MENA countries have established investment promotion agencies (IPAs) and conducted reforms to improve their efficiency and services to both national and foreign investors. The majority of these agencies set up one-stop shop to facilitate investors' procedures. Some countries also decided to merge their export agency with their IPA to improve cross-fertilisation between trade and investment promotion functions. Notably Morocco and Jordan have recently conducted such a reform.

Privatisation and Public-Private-Partnerships (PPP) policies have also been announced by several MENA countries, mainly in the Gulf in an effort to facilitate and finance diversification reforms. Programmes range from the delayed Aramco IPO to Egypt's plans to offer stakes in 23 state companies. The aim is not only to attract capital but also support state-run firms to improve their performance and become home grown globally-recognised MNEs (multinational enterprises). Many countries have also enacted public-private partnerships laws to support project implementation notably for long-term infrastructure investments. However, implementation of privatisation and PPP plans is relatively slow and has not yet produced expected results.

In addition to sound business and investment-friendly regulations and investors protection measures, the MENA region also needs to be mindful of **corruption** as a hurdle to attracting FDI inflows and stimulating trade activities. The vast majority of MENA countries covered in the Transparency International's 2017 Corruption Perceptions Index score below 50 *(Fig 4.1)*. With the exception of the UAE (21) and Qatar (29), which rank higher on the index compared to previous years, other MENA economies rank low: Saudi Arabia (57), Jordan (59), Oman (68) and Tunisia (74). The worst performing countries in the index – Iraq, Libya, Syria, and Yemen – suffer from weak public institutions, internal conflicts and deep instability. Strengthening anti-corruption laws and rigorous enforcement would support a system of good governance, and add to investors' confidence.

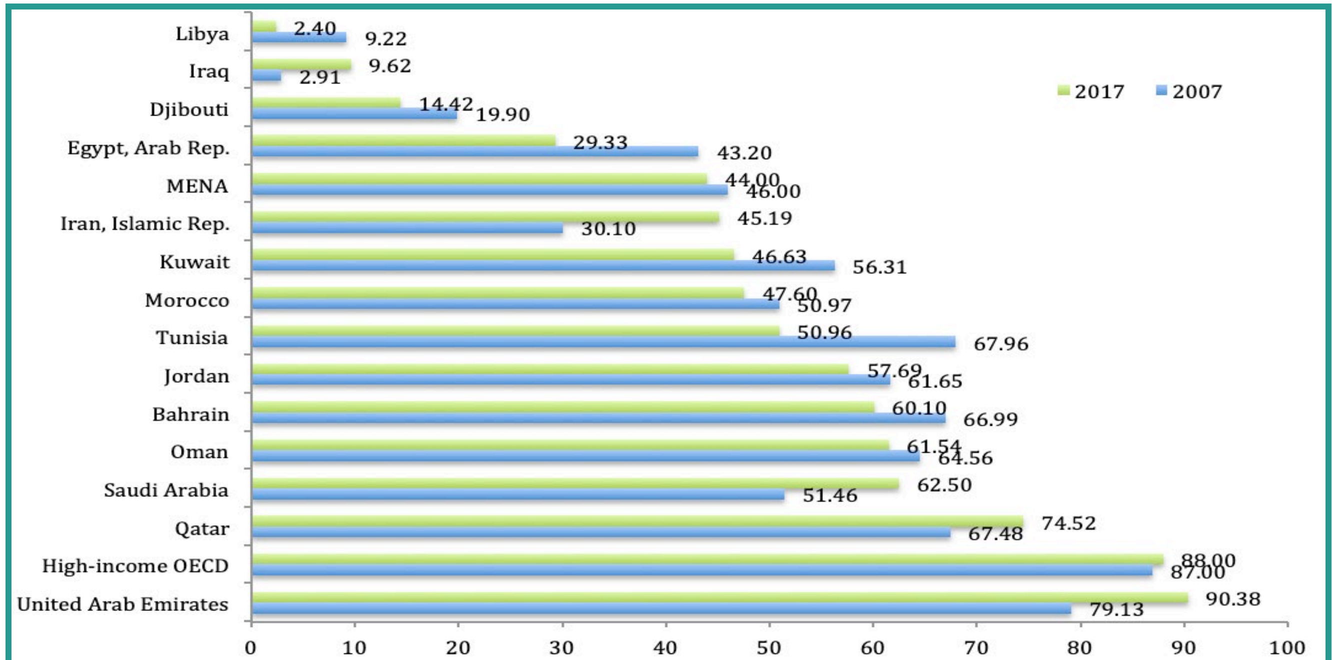
Governance performance also needs significant improvements. According to the World Bank's Worldwide Governance Indicators, the perception of government effectiveness – the reach and quality of public services, the professionalism and independence of the civil service, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies – has declined in most MENA nations between 2007 and 2017. Furthermore, firms that responded to the World Bank's Enterprise Surveys complain of inconsistent and unpredictable implementation of rules and regulations. E-government initiatives to improve transparency, governance and the rule of law remain weak and are difficult to implement in MENA countries with large public sectors.

Fig 4.1 Corruption Perceptions Index 2017



Source: Transparency International

Fig 4.2 Government effectiveness in most MENA economies (Percentile ranks)



Source: World Governance Indicators, 2017. http://info.worldbank.org/governance/wgi/#home

5. Key takeaways

The previous chapters have reviewed the trade and investment landscape of the MENA countries and recent developments and reforms. The review and analysis highlight some key takeaways and suggest a number of policy recommendations.

1. **MENA countries should invest heavily in trade-related infrastructure and logistics**. A massive investment infrastructure, transport and logistics programme – mainly in the non-GCC countries – would support diversification into non-resource intensive activities, such as manufacturing and services, as well as cut delays and improve market access. The quality of trade infrastructure plays a major role in improving trade corridors and connectivity. Increasingly, international economic integration is embedded in global supply chains and requires investment in both physical and "soft" infrastructure to break down physical barriers and reduce the costs of communication, transport and logistics. Effective transport and ICT infrastructure serve as major trade enabling factors. This is an opportunity to involve the private sector through effective public-private partnership (PPP) frameworks. GCC countries would benefit by assisting other MENA economies in integrating trade-related infrastructure and logistics in order that ports, airports and supply chains are also linked to GCC trade infrastructure and facilities.

2. **Deepen intra-regional trade through trade facilitation**. Reducing the cost of trading across borders will increase the efficiency of border-crossings, including the harmonization of custom procedures. The OECD estimates that that full implementation of the WTO's Trade Facilitation Agreement[12] (which came into force in Feb 2017) will reduce trade cost in the MENA region by 10.5% (OECD, 2013). The measures that contribute most to trade cost reduction are automation of formalities (2.6% reduction), involvement of the trade community (1.8% reduction) and streamlining of procedures (1.3% potential reduction). A low-hanging fruit could be the implementation of a cross-border paperless trading system.

3. **Invest in moving towards greater digital trade facilitation**. Most regional trade agreements now feature one or more measures for electronically exchanging trade-related data and information. The simplification and digitalization of trade procedures, or digital trade facilitation, is essential to reducing trade costs. Singapore, with its Single Window initiative, reduced processing times from four days to 15 minutes and lowered the cost of submission per document by 71%. When they did study for Asia Pacific. Greater cooperation among the regional peers to implement digital trade facilitation measures simultaneously would be a win-win: these could range from the creation of an electronic single window, or registration of information online, or the implementation of a cross-border paperless trading system.

[12] More details: https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm#II

Box 2:1 Technology- potential to change global and regional trade

Technological advancements and its absorption and implementation in long-standing trade practices can not only facilitate trade and reduce trade costs, but also enable more secure trade, and help combat illicit trade. This could range from the use of AI and/or machine learning for shipping routes optimization or managing vessel and truck traffic to using Blockchain to support tracking supply chains. Other use-case scenarios exist in supporting trade finance and fighting finance of crime and terrorism. Some of the global applications explored below could be replicated in the region to boost trade amid lower costs.

Distributed Ledger Technologies (DLT) & Blockchain: **Trade finance** stands to gain immensely from DLT, due to the traceability, transparency, and operational efficiency it offers. In the short term, banks are reducing their reliance on antiquated manual processes and digitizing key trade documents, like Letters of Credit (LOCs), to reduce cost and improve efficiency. Some examples of such Blockchain consortia are Voltron (using Microsoft's Azure platform), We.trade (targeted at SMEs in Europe, using IBM's Hyperledger Fabric), and Hong Kong Trade Finance Platform (led by the HK Monetary Authority). In the region, Dubai's Blockchain strategy to go paperless by 2020 stands out: it is expected to reduce 25mn work hours annually, boosting productivity and efficiency in the public sector.

Blockchain can also be used in the **global supply chain**. For example, maritime logistics can use DLT to increase the speed of international trade, while also boosting transparency and reliability into the container shipping industry. In 2017, Walmart, Kroger, Nestle, and Unilever, among others, partnered with IBM to use blockchain to improve food safety through improved supply chain tracking (https://www.ibm.com/blockchain/solutions/food-trust).

AI and machine learning: Using AI (artificial intelligence) and machine learning can help companies understand supply and demand of products: it is estimated that companies misspent between USD470 and USD630 billion due to oversupply or lack of inventory. **Inventory management and driving routes optimization** are already used by companies. Reducing freight costs, improving supplier delivery performance, and minimising supplier risk are just a few examples of the ways machine learning is improving relationships in shipping networks. AI/ML can also be used to optimise trade shipping routes, **manage vessel and truck traffic at ports**.

Technology can also help **combat illicit trade and the finance of crime and terrorism**. Technologies such as tax fiscal stamps, and track and trace features can be of great assistance to government

authorities, and consumers, in combatting illicit trade. Applying Machine Learning techniques in anti-money laundering processes have already shown benefits: it is able to identify completely new risk segments and patterns that might point to money laundering or other types of illicit activity; it has generated alerts that would have remained undetected under the traditional rules-based approach, as well as an increase of alerts that warrant investigating.

Digital platforms and "trading" services: Current internet technology and cloud computing creates a digital identity, enabling one to trade services across the globe, creating a "global citizen".

4. **GCC countries as engines of economic integration**. GCC economies can be a driving force towards greater regional and international economic integration. At a time when the MENA region is in turmoil and transition, the GCC countries can be the engine of growth for the region and seize the opportunity to take a leadership role and move the region towards greater trade and financial integration, notably through investments and a series of bilateral trade and investment agreements. This would be a win-win strategy for the GCC and its MENA economic partners, encourage job creation and lead to more inclusive growth. The GCC nations have historically supported MENA economies with economic and humanitarian aid, with Egypt and Jordan as recent examples. It is time to re-think this model to underscore aid as "Aid for Trade" i.e. aid that is used to build trade capacity, targeted at solving the supply-side and trade-related infrastructure obstacles, and/or targeted at trade-related projects. The GCC should invite other MENA economies to join its free trade area, either as full members or through economic association agreements that would promote trade, investment and labour mobility. The agreements should be comprehensive, facilitate direct investment and include trade in services. This would be an effective policy instrument to help restore growth, create jobs and reduce geostrategic risk for the GCC from the turmoil in the region. A GCC-anchored free trade agreement would enable the region to negotiate international trade agreements as a bloc, strengthening its negotiating power.

5. **New trade and investment agreements to reflect the shift in trade partners**. Global economic geography has shifted towards emerging economies and Asia, dominated by China and India. The MENA economies need to "pivot east and South" and develop their bilateral and multilateral relations with Asia and China, but also with Africa. The cornerstone would be a GCC-China free trade agreement and with the ASEAN plus Six (Australia, China, Japan, India, New Zealand and South Korea). Economic policy should focus on building the "New Silk Road", the new global demand and supply chains emerging from China and its partners whose tendrils are growing into Asia, Africa, the Middle East and Latin America. Similarly, the GCC and other MENA economies should seek to develop free trade and investment agreement with Africa, notably the COMESA economies (of which Egypt is also a member state) and the newly signed African Continental Free Trade Area.

6. **Non-trade policy reforms**. An ambitious trade and investment agenda should comprise reduction of regulatory barriers, removal of restrictions and lowering of distortions in support of a business- and investor-friendly environment. In parallel to trade and investment facilitation, the legal and institutional framework regulating competition, insolvency, contract enforcement, dispute resolution, and protection of minority investors should provide businesses and investors the confidence to operate in the region, thereby supporting private sector growth (and diversification). Increasing the efficiency of government administrations is another critical step. Only few governments have established e-government and more efforts are needed in this direction with stronger and better institutional co-ordination. Reforms in other policy areas should support a sound and dynamic trade and investment environment: measures to fight against corruption and promote business integrity; encouragement to entrepreneurship and SMEs – including their integration into GVCs and business linkages; strategies and programmes to boost innovation; human capital policies and skills improvement to ensure a better match between market demand and available competences; review of tax policies to ensure transparency and equitability; financial markets improvements; sectoral strategies in support of diversification and productivity. Environmental and social dimensions should also support trade and investment policy coherence to achieve sustainable and inclusive development. Job creation should remain the core goal of the reforms, while ensuring respect of labour standards and inclusion for all segments of the society, notably women. An improved dialogue between the public and private sectors is also key to orient policies and should be led by efficient business associations and clear policy advocacy mechanisms.

7. **Digital trade**. MENA countries need to prioritise their transformation into digital economies. Technological change and innovation is rapidly transforming major sectors of modern economies from transport (electric vehicles), to banking and financial services (Fintech), commerce (e-commerce), to health and agriculture (Agrytech), and the government sector (digital government services). MENA economies should develop and implement digital laws to provide the 'soft infrastructure' underlying digital trade and e-services.

8. **Statistics for policy and decision making.** Availability, harmonisation and dissemination of regular, timely, comparable and quality statistics are essential to conduct sound trade and investment policies and evidence-based policies. The region needs to not only vastly improve methods of data collection but also to share them publicly. The quality of statistics has to improve in order to serve the needs of policy makers, investors, the business community and the public. Trade data should capture value added, product complexity given their direct link to economic development and diversification, as well as shifts in companies' behavior. The data would provide governments with the information and tools for evidence-based policy, for trade and investment negotiations, for identification of trade and investment barriers with a view to design economic diversification strategies and policies.

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