



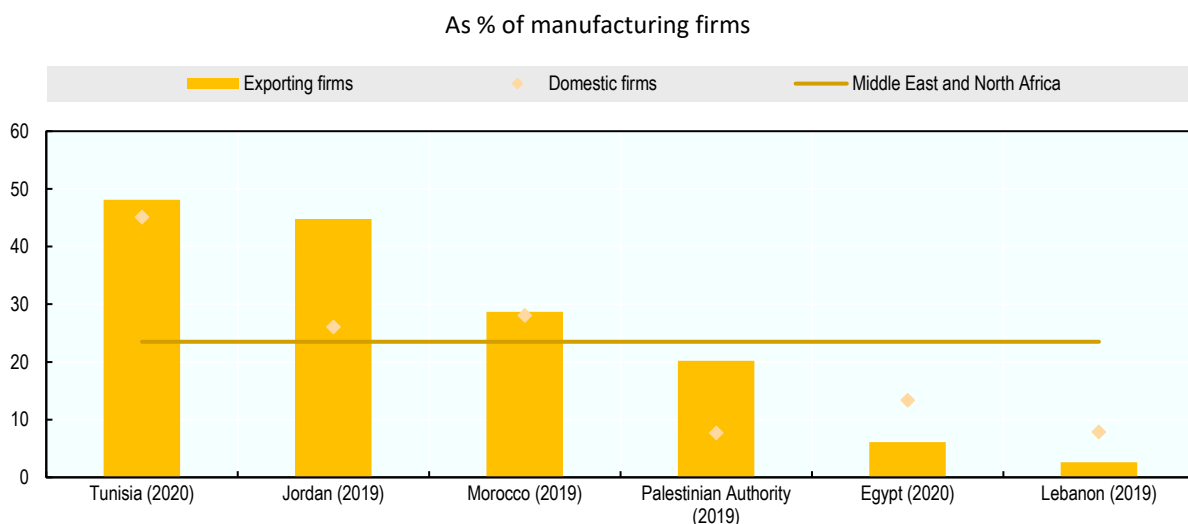
## MENA-OECD Government-Business Summit 30-31 March 2021

### Session 2: Enhancing connectivity and value chain participation

Over the past decades, global value chains (GVCs) have contributed to economic growth, job creation, innovation and skills development in both emerging and advanced economies. The production of goods and services is increasingly scattered within regions and across countries to create 'global factories' in the most cost-efficient and strategically important locations around the world. Investments in transport infrastructure and connectivity, which reduce barriers to intra-regional trade and investment, have facilitated this process.

Enhancing connectivity and value chain participation is important for many economies in the MENA region aiming to strengthen their position as a gateway to African, European and Asian markets. The region has made progress in attracting FDI to establish export-oriented industries, but many countries remain on the sidelines of global businesses' production networks (OECD, 2021a). Indeed, the poor quality of trade-related infrastructure connectivity is a major constraint for the manufacturing sector. Bottlenecks in logistics and transport infrastructure in the MENA region are a major constraint to more trade and investment, limiting the growth of manufacturing firms in particular (OECD, 2021b). In a number of MENA economies, firms identify transport issues as a major constraint to their business operations (**Figure 1**). Firms that export often face higher transport constraints than firms operating only in the domestic market.

**Figure 1. Exporting firms in selected MENA economies identifying transport costs as a major constraint**



*Note:* Exporting firms include firms with direct exports with 10% or more of sales; domestic firms include non-exporters. The MENA average excludes Algeria and Libya due to an absence of data.

*Source:* World Bank Enterprise Surveys for 2019 and 2020

The Covid-19 pandemic has driven policymakers' attention to the importance of enhancing Euro-Mediterranean integration and the potential of developing regional value chains as well as deepening the process of industrial diversification in MENA countries to enter higher-value

segments of supply chains. Indeed, the pandemic crisis may affect multinational enterprises' (MNEs) decisions to reorganise the geographical and sectoral spread of their production activities, providing possible opportunities for the MENA region. MNEs in the Euro-Mediterranean could decide to shorten their supply chains and reduce the distance between suppliers and clients (nearshoring), or chose to move manufacturing activities back to the home country (reshoring). Similarly, some companies may diversify their supply networks in order to increase resilience to shocks, which will involve divestments from some locations but expansion in others (OECD, 2020).

*The way forward: What policies to improve connectivity and participation in global value chains will be key to the post-pandemic recovery?*

- **Developing new strategies to adapt to evolving global value chains dynamics.** Policies could aim at attracting industrial investments in targeted sectors. In this context, investment promotion agencies could play an important role in making a location more attractive for GVC activities. This also requires policies to strengthen human capital, education, innovation and research, intellectual property rights, deepen capital markets, and facilitate the movement of people at the national and regional levels.
- **Investments in trade-related infrastructure connectivity.** The Covid-19 pandemic has revealed the need to invest more in ports and airports and the associated logistics to better integrate into global value chains. Yet, many countries do not have the capacity to invest and there is a need to involve the private sector. Better connectivity can facilitate the movement of goods, capital and information, which depend largely on services. Therefore, removing restrictions on services related to infrastructure is necessary.
- **Deep trade agreements with and beyond the region could offer more stability and certainty for trade and investment.** These could include new generation trade agreements, including with investment provisions that would make products and processes more stable and predictable. In this context, the implementation of the African Continental Free Trade Area (AfCFTA), which entered into force in May 2019, could also be an opportunity for the MENA region to enhance participation in GVCs and promote more trade and investment with the rest of Africa.
- **Under the right conditions, special economic zones (SEZ) can contribute to attracting FDI, allowing economies to diversify their export potential and create job opportunities.** SEZs have been at the heart of successful export-led development strategies of emerging economies for many decades, providing better infrastructure facilities, additional services and efficient procedures. Yet, they can also present numerous risks, potentially facilitating illicit trade, creating externalities detrimental the overall national development of an economy, and undermining the fiscal space of governments. In order for SEZ policies to be successful and avoid these risks, they should not be done in isolation and instead should be an integral part of the overall national development strategies of economies in the region.

***Key questions for Discussion:***

- What actions are needed to support the development of regional value chains that include businesses in MENA countries?
- What opportunities exist for shortening supply chains through nearshoring and reshoring manufacturing activities to the MENA region?
- How can labour mobility in the Euro-Mediterranean and Africa regions contribute to build regional value chains?
- What are the specific challenges of connectivity in MENA countries and what recent initiatives have been taken to promote it?
- How can cooperation across MENA economies be enhanced to ensure that the outcomes of connectivity reflect social, economic and environmental sustainability?

### *References:*

OECD (2021a), Middle East and North Africa Investment Policy Perspectives, OECD Publishing, Paris, <https://doi.org/10.1787/6d84ee94-en>.

OECD (2021b), Union for the Mediterranean Regional Integration Report (Forthcoming).

OECD (2020), OECD Policy Responses to Coronavirus (COVID-19): Investment in the MENA region in the time of COVID-19. <http://www.oecd.org/coronavirus/policy-responses/investment-in-the-mena-region-in-the-time-of-covid-19-da23e4c9/>

### *For further reading:*

McKinsey (2020), “Risk, resilience, and rebalancing in global value chains”, McKinsey Global Institute, 6 August 2020, <https://www.mckinsey.com/business-functions/operations/our-insights/risk-resilience-and-rebalancing-in-global-value-chains?sid=38c47e33-f6d3-43f8-84b1-e678f3aa8463>.

OECD (2020a), Foreign direct investment flows in the time of COVID-19. OECD Policy Hub <https://www.oecd.org/coronavirus/en/>

OECD (2020b), COVID-19 and Responsible Business Conduct. OECD Policy Hub <https://www.oecd.org/coronavirus/en/>

OECD (2020c), OECD Policy Responses to Coronavirus (COVID-19): COVID-19 and global value chains - Policy options to build more resilient production networks. <http://www.oecd.org/coronavirus/policy-responses/covid-19-and-global-value-chains-policy-options-to-build-more-resilient-production-networks-04934ef4/>