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TRADING TOGETHER:

Reviving Middle East and North Africa Regional Integration in the Post-Covid Era

MENA ECONOMIC UPDATE

OCTOBER 2020

WORLD BANK MIDDLE EAST AND NORTH AFRICA REGION

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Abbreviations

AfCFTA	African Continental Free Trade Area
AMDL	Moroccan Logistics Development Agency
AMU	Arab Maghreb Union
ASEAN	Association of Southeast Asian Nations
CGE	Global Computable General Equilibrium
Covid	Corona Virus Disease
DCFTA	Deep and comprehensive free trade agreement
EAP	East Asia and Pacific
ECA	Europe and Central Asia
EU	European Union
FEMISE	Forum Euroméditerranéen des Instituts de Sciences Économiques
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
ICT	Information and Communication Technology
IEA	International Energy Agency
ILO	International Labor Organization
IMF	International Monetary Fund
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GHS	Global Health Security Index
GVC	Global Value Chain
MAGHREB	Algeria, Libya, Morocco, and Tunisa
MASHREQ	Iran, Iraq, Jordan, Lebanon, and Syria
MEFTA	Middle East Free Trade Area
MENA	Middle East and North Africa
MPO	Macro and Poverty Outlook
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries

PSA	Peugeot Société Anonyme
RVC	Regional Value Chain
SDG	Sustainable Development Goal
SE	Social Entrepreneurship
SM	South Mediterranean
SME	Small- and Medium-Sized Enterprise
SSA	Sub-Saharan Africa
STRI	Service Trade Restrictiveness Index
UAE	United Arab Emirates
UNESCO	The United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
WHO	World Health Organization
WITS	World Bank's World Integrated Trade Solution

Executive Summary

The combination of a Covid-19 pandemic and a collapse in oil prices has affected all aspects of the economies in the Middle East and North Africa (MENA). The region's economies are projected to contract by 5.2 percent in 2020, which is 4.1 percentage points below the forecast in April 2020, and 7.8 percentage points worse than that of October 2019, reflecting an increasingly pessimistic outlook for the regional economy. The region is expected to recover only partially in 2021.

The outlook for MENA's current account and fiscal balances also deteriorated sharply. Driven largely by lower oil export revenue, a drop in fiscal revenue, and the large increase in fiscal expenditure required to respond to the health crisis, the region's current account and fiscal balances in 2020 are forecast at -4.8 percent and -10.1 percent of GDP respectively, much worse than the forecasts in October 2019. Public debt is projected to rise significantly in the next few years, from about 45 percent of GDP in 2019 to 58 percent in 2022.

The forecasts are fluid and uncertain. The 2020 growth outlook for the region steadily deteriorated as more information became available—reflecting forecasters' increasingly pessimistic view of the cost of the crisis. The great uncertainty in the outlook is reflected in disagreements among the forecasters. Because of the uncertainty related to the dual pandemic and oil-price shock, high-frequency data assumes an important role in tracking economic activity. High-frequency data for the MENA region as of August indicate that economic activities are stabilizing but at a much lower level than in December 2019.

The pandemic has profoundly affected livelihoods and is causing many citizens in the region to fall deeper into poverty. Early evidence from World Bank phone surveys indicates that the pandemic has disproportionately affected the poor. Poorer households are more likely to be self-employed or work in the informal sector, both areas that have been more affected by the pandemic. As a result, poorer people are more likely to have lost their incomes. The financial situation of poor households is deteriorating rapidly.

Governments in the region have reacted by spending more on social protection. The size and type of support vary by country, with many offering cash transfers. Some are reasonably well targeted, although a large fraction of cash transfers meant for the poor continues to leak to better-off households.

Despite various transfer programs and other coping mechanisms, many households are experiencing a significant decline in their purchasing power. This decline translates into increased poverty and food insecurity. The poorest households are affected most, as data from Tunisia demonstrate. Tunisian households in the poorest quintile are about five times more likely to have reduced their food consumption than households in the top wealth quintile.

In dealing with the Covid-19 pandemic, the top priority is responding to the health crisis while aiming to preserve consumption and production capabilities. If financially feasible, countries should postpone fiscal consolidation until recovery is well underway. Reallocating spending to deal with the immediate impacts of the crisis and making such spending more efficient, for example, by proactively reducing leakages to ensure relief measures reach the intended beneficiaries can help create fiscal space. In the medium run, there is a strong need to boost productivity to restore growth and stabilize the debt. A powerful way to do that would be to pursue profound institutional reforms that would reshape the role of the state, promote fair competition, accelerate the adoption digital technology, and pursue regional integration, which is the focus of this report.

Trade openness can be significant in achieving inclusiveness, provided trade reforms are implemented that are complemented with inclusive growth strategies. Together with complementary sector policies, trade can contribute to lower poverty and empower poor and marginalized groups—mainly youth and women. MENA's trade integration, within the region and with the rest of the world, remains below expectations, for reasons both economic and political. They include the exclusion of agricultural goods and services from association agreements with the European Union, as well as the persistence of high non-tariff trade costs. The low levels of integration among MENA countries are due in part to insufficient reforms of the legal frameworks for investments and lack of convergence of regulations on non-tariff measures (NTMs). Political cooperation has also proven to be problematic, while conflicts and violence also hinder trade and deter economic growth and its potential for inclusiveness.

The business environment and logistics, both important facilitators of trade, impede MENA's integration into regional and global value chains. Despite recent improvements, the MENA region underperforms in access to credit, which is lower than anywhere else in the world. Meanwhile, trading across borders is expensive and time-consuming—it costs, on average, US$442 to comply with border requirements for exporting and takes 53 hours, which is three times more expensive and four times longer than the averages among OECD high-income economies. The lack of a modern insolvency framework, the unpredictability of enforcement, and insufficient labor mobility are also important obstacles to integration. The region also is among the most restrictive regarding trade in services.

The Covid-19 pandemic offers an opportunity for MENA countries to rethink social and economic policies aimed at strengthening trade integration while reducing oil dependency. To stimulate job creation, make economic growth inclusive, and ensure stability in MENA, a new trade integration framework is being proposed—that goes beyond tariff reductions and links trade to sectoral reforms and public goods provision to promote inclusion and reduce possible disparities associated with trade liberalization. To succeed, a coordinated MENA trade integration agenda is necessary to facilitate regional value chains (RVC) and better integration into global value chains (GVC). That agenda is also designed to attract quality investments for a diversified, inclusive, and sustainable regional development strategy. This agenda favors cross-sectoral approaches first. The creation of a common MENA regional digital market could be among them. MENA can improve its digital connectivity with markets in Africa and European countries to increase productivity, coordinate efficient disaster response, thus creating inclusive growth, resiliencet and jobs in the region. Supporting regional connectivity, developing sub-regional infrastructure, and expanding digital trade entail the adoption of new technologies and the provision of "digital public goods," including fast and reliable broadband internet and digital payment solutions. Regional approaches in enhancing skills and strengthening statistical capacity are needed to allow countries to obtain scale benefits and undertake specialization and build comparative advantages—which could be a positive trigger for deepening integration.

Meanwhile, sector integration can proceed in a coordinated manner. Because the global disruptions caused by the pandemic affect multinational enterprises' decisions about restructuring the geographic and industry scope of their supply chains, policies that enable the region to adjust to possible reconfigurations of value chains are desirable. For example, Morocco and Tunisia (for electrical machinery), Saudi Arabia (for chemicals), and the UAE (for metal and metal products) should be prepared to respond to disruptions of China's exports of intermediate inputs. MENA countries can capitalize on the re-shoring and near-shoring trends in GVCs, that are bringing intermediate input production activities closer to the three main trading regions (European Union, Asia and the Pacific, and North America). The EU's proximity makes it a promising export market for MENA businesses. Post-Covid trade can be driven by sectors that are most sustainable and resilient to economic shocks, and that present an opportunity for MENA's immediate recovery and medium-term transformation. They include health services, food security, and the knowledge economy. Tariffs on essential medical products can be reduced, which could offer predictability on availability of key supplies. In addition, for some MENA countries—such as Jordan, where the pharmaceuticals sector has been a "rising star"—this new focus could create immediate opportunities for regional trade integration. Meanwhile, labor mobility within the

region, particularly through trade in services, can be promoted to facilitate human capital enhancement and skills adaptation. Here, European policies can also help. Talks on a mobility partnership that would further facilitate legal migration to Europe for MENA businesspeople, students, and young workers can be revived. Although negotiations are challenging, such partnership would significantly stimulate trade in goods and services.

MENA's intraregional integration should lead to increased trade flows with European and sub-Saharan African partners. The time is right to revise regional mechanisms for strategic cooperation, particularly in the context of existing trade liberalization agreements. The African Continental Free Trade Area (AfCFTA) offers an opportunity for MENA and sub-Saharan Africa to simplify and harmonize their non-tariff measures—especially the restrictive export-related measures and technical barriers. Real income gains from full implementation of the AfCFTA have been conservatively estimated at 7 percent by 2035. MENA countries directly participating in the AfCFTA, such as Morocco, Egypt and Tunisia, could each gain around 5 percent.

Meanwhile, there are opportunities for cooperation in an EU-MENA-Africa axis. The shift of specific MENA countries toward their African neighbors should be continued, and merits increased attention from the European Union. Trade ties between Maghreb countries and countries in the Sahel and West Africa could help promote stability and support African economic integration—a goal in the EU guidelines for a new EU-Africa strategy. Better infrastructure links between North African countries and the rest of the continent would contribute to the integration agenda.

MENA countries can cooperate on trade within the region and on the broader rules-based multilateral systems. Trade reforms can be "intelligent" by taking into account not only specific technical matters but also political economy considerations, in order to increase regional cooperation and stability. The effectiveness of policies will depend on the role of regional institutions, as well as the involvement of small- and medium-sized enterprises and civil society in decision-making processes.

Overall, leveraging regional integration to enable domestic reforms as a steppingstone to enhance global integration could become a new source of growth, jobs, and stability in the MENA region. To succeed, a new MENA trade integration framework would include the following pillars:

- A balance between political and economic objectives to ensure agreements do not fail.
- Trade liberalization that benefits all sectors, including agriculture and services, with reforms that cover all regulatory areas of mutual interest, including trade facilitation, standards and conformity assessment, investment protection, government procurement, and competition policy.
- Simultaneous behind-the-border reforms pursued with closer collaboration within MENA, but also with Europe and Africa.
- An emphasis on advancing the private sector by exploiting complementarities between trade promotion and private sector development. Technical assistance from MENA partners in the context of South-South exchanges should be explored in the agreements as a means to enhance trust.
- Clear rules and effective implementation. This would require reinforcing supranational institutional mechanisms to regulate, monitor, and implement trade integration provisions.

CHAPTER I: Coping with a Dual Shock in the Middle East and North Africa

Chapter I Takeaways:

- The Middle East and North Africa (MENA) faces both a Covid-19 pandemic and a collapse in oil prices, affecting nearly all aspects of the region's economies.
- The region is projected to contract 5.2 percent in 2020; 4.1 percentage points lower than the growth forecast of April 2020, and 7.8 percentage points lower than that of October 2019. The output losses are expected to recover only partially in 2021. The forecasts, however, remain uncertain.
- The crisis has disproportionately afflicted vulnerable populations. Many will be pushed into poverty. Public assistance helps mitigate the impact.
- In the short-run, countries could consider tailoring policy responses. The priorities include non-therapeutic interventions; support to the private sector and vulnerable households; reducing fiscal leakages; and securing financing. In the medium-run, to restore growth, the priorities include institutional reforms that would reshape the role of the state, promote fair competition, enhance the adoption of digital technology, and regional integration, the focus of this report.

I.1 The Dual Shock

Countries in the Middle East and North Africa (MENA) face both a Covid-19 pandemic and a collapse in oil prices. The novel coronavirus that causes Covid-19—has spread globally. The virus has infected many millions of people and caused more than a million deaths.[1]

The virus spread first to Iran and then widely to other countries in the MENA region (see Table I.1, which contains data as of September 13, 2020). The number of cases per capita in Qatar and Bahrain appear higher than in the rest of the region, but that is partly because the two countries have done much more testing than most others in MENA. The measures of infection are severely limited because they are contingent on testing capability. The low level of infections in fragile countries—such as Libya, Syria and Yemen—is almost certainly misleading, reflecting a lack of testing capability that results in severe underreporting of the spread of the virus. As of mid-September 2020, the rate of new reported cases has gone down for many MENA countries (such as Qatar), but has picked up for others (see Figure I.1).

1 See worldometer.com

Table I.1 Total Covid-19 Cases and Tests per Million People

	Total Cases/ million people	Tests/million people	Cases/Tests (%)
Algeria	1,096	*not available*	*not available*
Bahrain	35,209	731,472	4.81
Djibouti	5,445	72,418	7.52
Egypt	983	1,314	74.82
Iran	4,774	41,954	11.38
Iraq	7,186	46,610	15.42
Jordan	324	95,814	0.34
Kuwait	22,124	157,765	14.02
Lebanon	3,565	94,995	3.75
Libya	3,306	22,856	14.47
Morocco	2,343	60,274	3.89
Oman	17,488	60,252	29.02
Qatar	43,358	246,111	17.62
Saudi Arabia	9,325	163,863	5.69
Syria	201	*not available*	*not available*
Tunisia	560	14,505	3.86
United Arab Emirates	8,017	819,752	0.98
West Bank and Gaza	5,966	66,248	9.01
Yemen, Rep.	67	*not available*	*not available*

Sources: worldmeter.com and World Bank staff calculations. Data are as of September 13, 2020.

The ability to contain the virus depends in part on the strength of public health systems—including testing and contact-tracing capabilities—which tend to be relatively weak in MENA countries. Under these circumstances, the need for transparency and freer information flow is pervasive and the region risks dramatic consequences if it does not expeditiously address both during this health crisis.[2] Countries in the region fare poorly in the Global Health Security (GHS) Index, which measures preparedness for epidemics and pandemics.[3] MENA ranks last among the world's regions in two components of the index that are critical to fighting a pandemic: "epidemiology workforce" and "emergency preparedness and response planning." Many MENA countries have had limited public health financing for decades. According to data from the WHO[4], countries such as Egypt and Iraq spend 5 percent or less of their government budget on health as of 2017, which reflects the effects of significant fiscal constraints on the health sector. Meanwhile, most countries in the region do not have universal public health insurance. Even households with insurance in countries such as Egypt and Morocco face high out-of-pocket medical costs because of a lack of prepaid risk pools—a significant problem during a pandemic. The situation is expected to worsen with Covid-19, as demands on the health sector increase sharply. Nevertheless, there is substantial quality and preparedness in some MENA health systems; those in the Gulf Cooperation Council (GCC)—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates—are much better prepared than others. They have done substantially more testing and are having initial successes in reducing infections.

2 See Arezki and others (2020) for documentation of the lack of transparency and data disclosure and its economic and social impact in the MENA region.

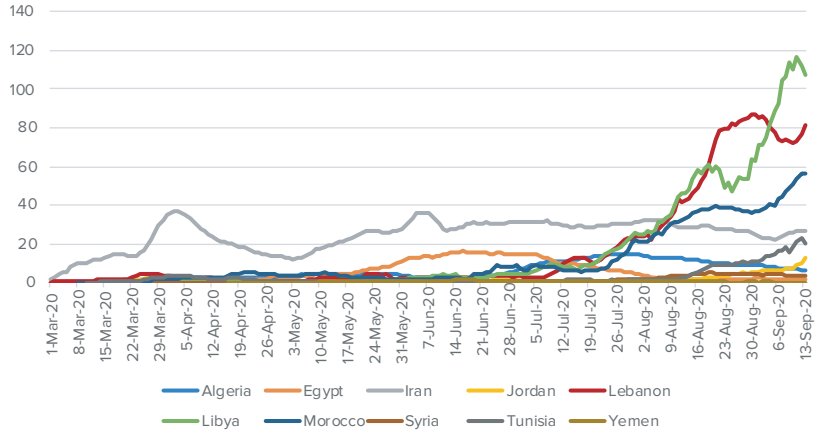
3 The index was jointly developed by the Nuclear Threat Initiative, the Johns Hopkins Center for Health Security, and the Economist Intelligence Unit. Data were released in 2019. The index consists of six categories: prevention; detection and reporting; rapid response; health system; compliance with international norms; and risk environment.

4 WHO Global Health Expenditure Database: https://apps.who.int/nha/database/ViewData/Indicators/en.

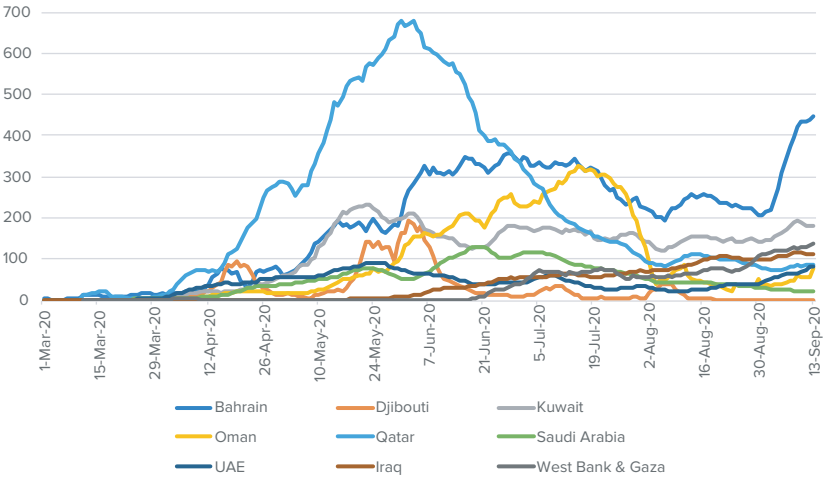
Figure I.1 Daily New Cases in MENA

(Number of daily new cases per million people using a 7-day moving average)

Panel A: Countries with a Smaller Number of New Cases per Million People



Panel B: Countries with a Larger Number of New Cases per Million People



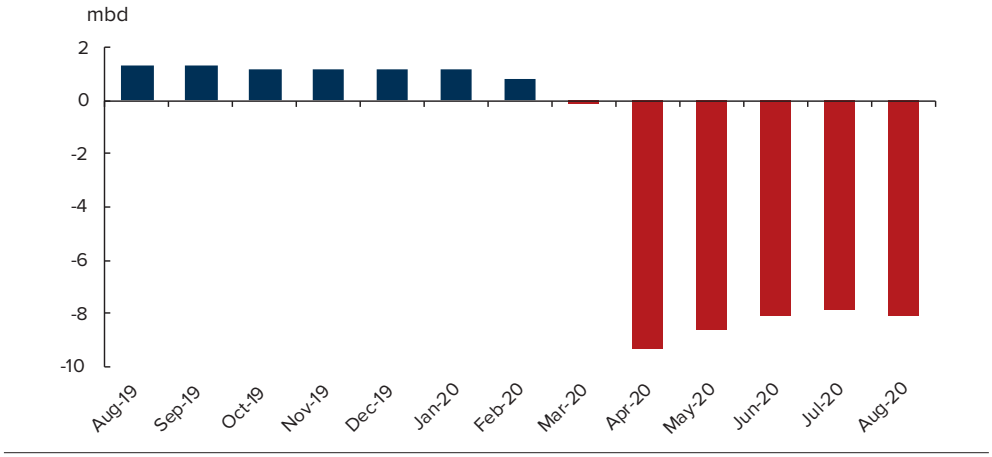
Sources: Johns Hopkins University, the Center for Systems Science and Engineering, and World Bank staff calculations. Data are as of September 13, 2020.

The virus not only claims lives. Its spread confronts MENA countries with both a negative supply shock and a negative demand shock (Baldwin and Weder di Mauro, 2020). The negative supply shock comes first from a reduction in labor—directly because workers get sick with Covid-19 and indirectly from travel restrictions, quarantine efforts, and workers staying home to take care of children or sick family members. Supply is also affected by a reduction in materials, capital, and intermediate inputs due to disruptions in transport and businesses in MENA countries. The negative demand shock is both global and regional. Economic difficulties around the world and the disruption of global value chains reduce demand for the region's goods and services—most notably oil and tourism. Regional demand also declines as a result of the abrupt reduction in regional business activity and concerns about infection—both of which reduce travel. In addition, *uncertainty* about the spread of the virus and the level of aggregate demand impede the region's investment and consumption. Collapsing oil prices further depress demand in MENA, where oil and gas is the most important sector in many economies. Finally, financial market volatility can also disrupt aggregate demand.

Because of the importance of oil and gas exports, a collapse in the prices of petroleum-related products is likely the most significant channel through which effects of Covid-19 are felt in MENA countries. Since the discovery of the new virus at the end of 2019, oil prices have declined sharply, reflecting a large drop in global oil demand associated with social distancing and other pandemic-related measures and a supply glut.

The Brent crude oil price plummeted to a multi-year low of $20 per-barrel in April, when a world-wide lockdown hammered oil demand and an oil output surge by the Organization of the Petroleum Exporting Countries (OPEC) created a global supply glut. On May 1, following a deal struck in April, OPEC and allied producers began cutting oil production by a record 9.7 million barrels-per-day (mbd). Later in May, Saudi Arabia announced an additional unilateral cut of 1 mbd, and Kuwait and United Arab Emirates (UAE) said they would follow suit. As a result, oil production by OPEC dropped sharply in the second quarter of 2020. The production cuts, combined with the easing of lockdowns in some parts of the world, helped the Brent crude oil price to climb over $40 per-barrel as of late September.

Figure I.2 2020 Global Oil Demand Growth, by Forecast Month



Source: International Energy Agency

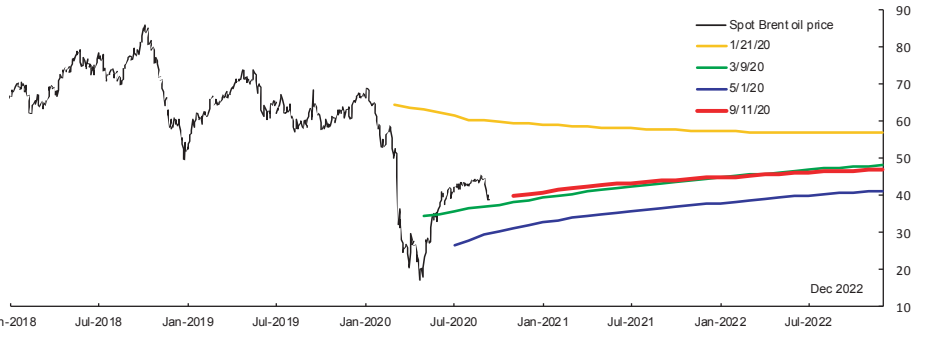
The outlook for oil price remains largely dependent on the global economy and the OPEC alliance. Oil demand is not expected to recover to pre-pandemic levels any time soon,[5] amid considerable uncertainties to the global economy. In August 2020, the International Energy Agency (IEA) expected global oil demand in 2020 to contract by 8.1 mbd compared with 2019 (see Figure I.2) (IEA, 2020). The futures curve suggests that the market expects oil prices to remain below $50 per-barrel through the end of 2022 (see Figure I.3).

I.2 Macroeconomic Consequences

Economies in MENA countries have been hit hard by the dual shock. Trade volumes are estimated to have fallen sharply. Preliminary data for April from the United Nations Conference on Trade and Development suggests a roughly 40 percent decline in trade for the region. The downturn is expected to accelerate in sectors with strong value chains, particularly in electronics and automotive products. Sectors such as autos in Morocco, Tunisia, and Iran, and textiles in Jordan and Egypt are also hard hit by the weakening of the global logistics industry. Covid-19 transport and travel restrictions directly affect the services trade, including tourism. Available high-frequency data indicate that tourism and air traffic in the region collapsed in April (see Figure I.4). Tourism is an important source of income for many MENA countries. For example, it was the equivalent of 25 percent of exports in Egypt and 41 percent in Jordan in 2018 (World Development Indicators). In addition, foreign direct investment (FDI) has dropped sharply, due to social distancing measures but also investors' wariness about the regional economies. FDI inflows from January to June 2020 were half of what they were during the same period in 2019 for GCC countries, and a quarter of the year earlier period for non-GCC MENA countries (see Figure I.5).

Figure I.3 Spot and Forecasts of the Price of Brent Oil

Brent Oil Prices and Futures
(U.S. dollars per barrel; expiration dates on x-axis)

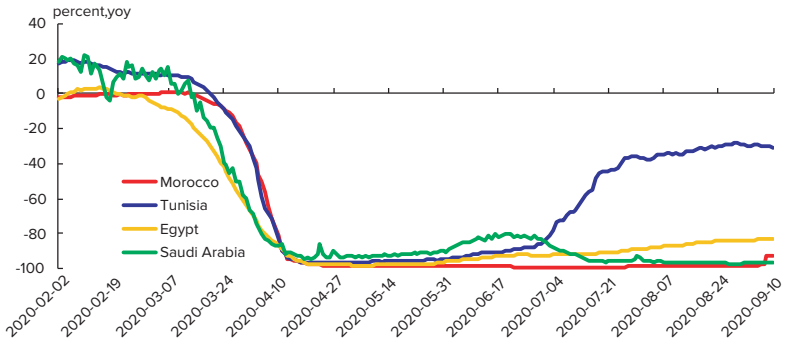


Sources: World Bank MENA Chief Economist Office; and Bloomberg, L.P.
Note: The black line indicates spot price of Brent crude oil. The colored lines illustrate the futures prices of Brent crude oil on, respectively, September 25 2019, when October 2019 MENA Economic Update was produced; January 21, 2020, when the first case of coronavirus was reported in the United States; March 9, 2020 after the disintegration of the OPEC+ alliance; and the latest closing as of September 11, 2020.

5 The International Air Transport Association expects passenger traffic to remain below pre-crisis levels until at least 2023 (CNBC News)

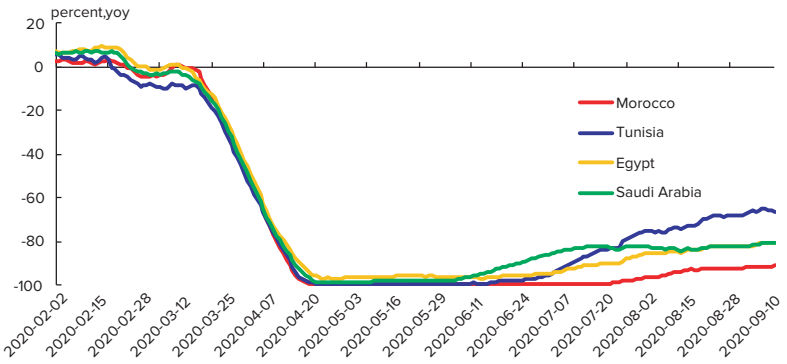
Figure I.4 Covid-10 Has Severely Affected Travel and Tourism in MENA

Panel A: Change in Hotel Occupancy



Source: QuantCube
Note: QuantCube's Tourism Index tracks the evolution of hotel occupancy rates in real-time. The lines show year-on-year changes of the indices for selected MENA countries.

Panel B: Change in Air Traffic



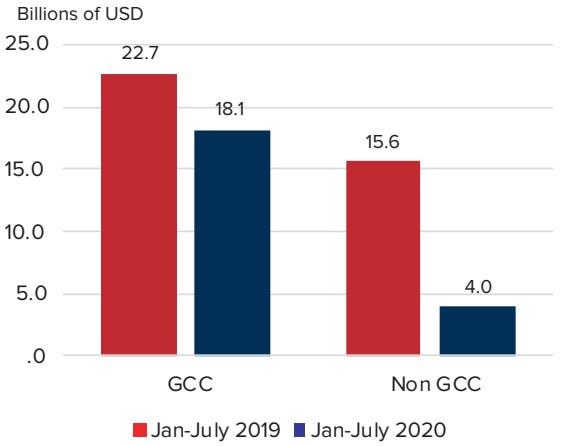
Source: QuantCube
Note: The QuantCube Air Traffic Index is a daily indicator that track the evolution of air traffic. The lines show year-on-year changes of the indices for selected MENA countries.

World Bank economists forecast the region's output to contract 5.2 percent in 2020 (see Table I.2) because of the dual shock. This is 7.8 percentage points lower than the growth forecast published in October 2019 (Panel A, Table I.3). The growth downgrade is arguably a measure of the expected cost of the dual shocks, because they are the dominant developments since October 2019. Note that the current growth forecast is 4.1 percentage points below the most recent forecast in April 2020 (see Panel B of Table I.3), suggesting the increasingly pessimistic view of the cost of the dual shock. Among the affected sectors, results from a global computable general equilibrium (CGE) model suggest that domestic services and tourism services are most affected (see Box I.1)

The outlook for MENA's current account and fiscal balances also has deteriorated sharply. Driven largely by lower oil export revenue, the region's current account in 2020 is forecast at -4.8 percent of GDP, significantly down from 1 percent forecast in October 2019 (see Table 1.2 and Figure I.6, Panel A). Driven by both a sharp drop in fiscal revenue and a large rise in fiscal expenditure to respond to the Covid-19 crisis, the region's fiscal account in 2020 is forecast at -10.1 percent of GDP, down from the -4.7 percent forecast in October 2019 (see Table 1.2, Table I.3, Panel A and Figure I.6, Panel B). Compared to the April 2020 forecasts, the current account forecasts is adjusted upward by 2.4 percentage points, while fiscal account balance forecasts is lowered by another 0.4 percentage points (see Table I.3, Panel B). Public debt is projected to rise significantly for all MENA country groups (Figure I.7)..

The region's output is not expected to recover soon to its 2019 level. We compute the GDP-level losses in 2020 and 2021 implied by the differences between the current growth forecasts and those of October 2019. MENA's 2020 GDP level is downgraded by 7.8 percentage points (see Figure I.8). The largest downgrade is for developing oil exporters, where the level is 8.0 percentage points lower than what was implied by the forecasts in October 2019, For the GCC, the downgrade is 7.9 percentage points and for developing oil importers it is 6.6 percentage points. These downgrades can be interpreted as the

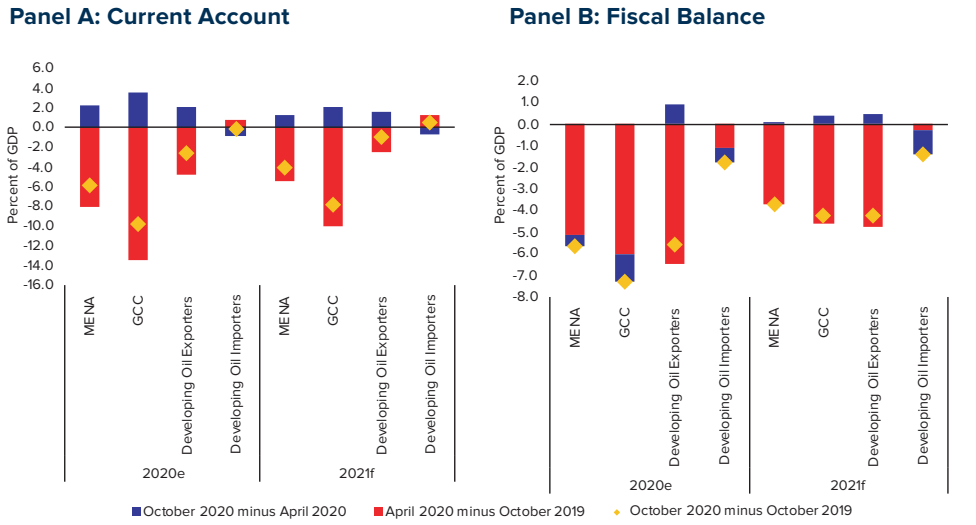
Figure I.5 FDI Inflows to MENA Dropped Sharply in 2020



Sources: Financial Times, fDi Markets, and World Bank staff calculations.
Note: GCC countries=Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates. Non GCC countries=Algeria, Djibouti, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia.

expected macroeconomic costs of the dual shock in 2020 as a percent of MENA's 2019 GDP. In addition, MENA's output level in 2021 is forecast to be 8.7 percentage points below the counterfactual output of no dual shock, indicating additional costs of the dual shock in 2021. The forecast recovery in output level (compared to the output forecast in October 2019) is not V-shaped.

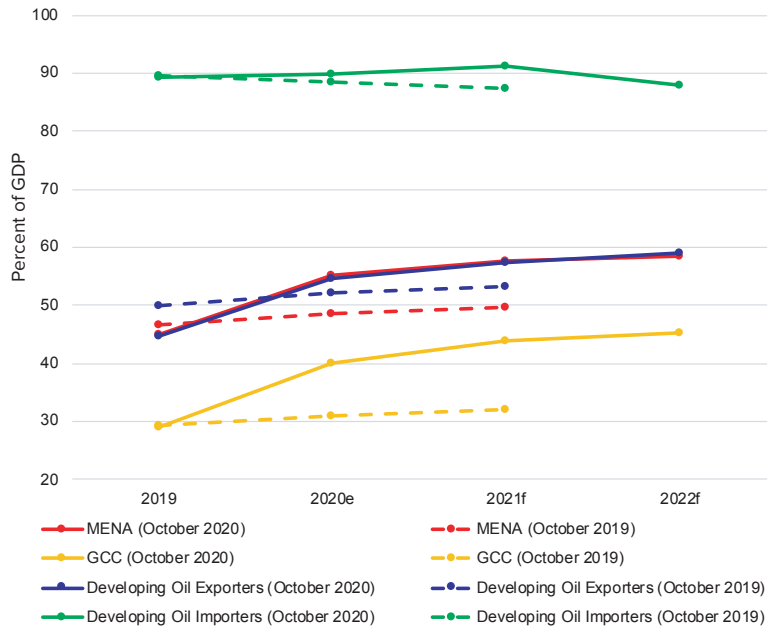
Figure I.6 Downgrades in Current Account and Fiscal Balances (August 2020 minus December 2019 forecasts)



Source: World Bank Macro and Poverty Outlook.
Note: Country classification follows Table I.2. Data for Egypt correspond to its fiscal year (July-June). Libya, Syria and Yemen are not included in the regional and sub-regional averages due to lack of reliable data.

The severity of Lebanon's crisis stands out. In 2020, its output is forecast to contract 19.2% (Table I.2). Multiple shocks have afflicted the country. They include a debt crisis that started before the Covid-19 pandemic, social unrest, and a massive explosion at the Port of Beirut in August. It is difficult to overstate the severity of the ongoing crisis in Lebanon.

Figure I.7 Public Debt Dynamics Forecasts (forecasts in October 2019 and in October 2020)



Source: World Bank Macro and Poverty Outlook.
Note: Country classification follows Table I.2. Data for Egypt correspond to its fiscal year (July-June). Libya, Syria and Yemen are not included in the regional and sub-regional averages due to lack of reliable data.

We examine whether the World Bank's growth downgrades correlate with a country's exposure to oil exports—measured as net crude oil exports as a fraction of GDP in 2019—and a country's Global Health Security (GHS) index—which captures its capability to prevent and mitigate epidemics and pandemics[6]. Fifteen countries are included.[7] Overall, growth downgrades for year 2020 between October 2020 and October 2019 are positively correlated with the GHS Index and not significantly correlated with oil export exposure. In other words, for countries with a stronger capability to prevent and mitigate pandemics, the costs of the dual shock are smaller than for countries not so well situated (see the partial correlation scatterplots in Figure I.9). The fact that the downgrades are not significantly correlated with oil export exposure implies strong economic connectedness between MENA oil exporters and oil importers.

6 The index was jointly developed by the Nuclear Threat Initiative, the Johns Hopkins Center for Health Security, and the Economist Intelligence Unit. Data were released in 2019. The index consists of six categories: prevention; detection and reporting; rapid response; health system; compliance with international norms; and risk environment (see https://www.ghsindex.org/).

7 The Global Health Security Index is not available for West Bank and Gaza. Oil export data are not reliable for Libya.

Table I.2. Uncertain Forecasts: World Bank's Growth, Current Account and Fiscal Balance Forecasts

	Real GDP Growth (percent)				Real GDP per capita Growth (percent)				Current Account Balance (percent of GDP)				Fiscal Balance (percent of GDP)			
	2019	*2020e*	*2021f*	*2022f*	*2019*	*2020e*	*2021f*	*2022f*	*2019*	*2020e*	*2021f*	*2022f*	*2019*	*2020e*	*2021f*	*2022f*
MENA	**0.2**	**-5.2**	**1.9**	**3.1**	**-1.3**	**-6.7**	**0.3**	**1.8**	**2.0**	**-4.8**	**-3.2**	**-1.5**	**-4.1**	**-10.1**	**-7.9**	**-5.7**
Developing MENA	**-0.5**	**-4.6**	**2.1**	**3.5**	**-1.7**	**-6.2**	**0.5**	**2.0**	**-2.8**	**-5.7**	**-4.6**	**-3.6**	**-4.8**	**-9.6**	**-8.7**	**-7.4**
Oil Exporters	**-0.5**	**-5.8**	**1.9**	**2.8**	**-2.0**	**-7.4**	**0.2**	**1.6**	**3.8**	**-4.6**	**-2.8**	**-0.8**	**-3.4**	**-10.6**	**-7.9**	**-5.5**
GCC	**0.8**	**-5.7**	**1.8**	**2.7**	**-0.9**	**-7.1**	**0.1**	**1.7**	**6.2**	**-4.0**	**-1.9**	**0.6**	**-3.4**	**-10.6**	**-7.1**	**-4.0**
Bahrain	1.8	-5.2	2.2	2.5	1.8	-5.2	-4.2	2.5	-3.0	-7.9	-6.4	-5.3	-10.6	-13.4	-10.0	-8.7
Kuwait	0.4	-7.9	1.0	2.9	-0.8	-9.1	-0.4	1.5	16.4	-5.3	-0.9	2.2	-9.6	-27.7	-23.0	-15.4
Oman	-0.8	-9.4	0.5	7.9	-4.2	-12.0	-1.8	7.9	-4.6	-14.4	-12.7	-6.2	-7.1	-18.1	-16.6	-10.8
Qatar	1.4	-2.0	3.0	3.0	-0.4	-3.7	1.2	1.3	2.6	-1.0	0.9	1.9	1.8	-3.6	-3.7	1.2
Saudi Arabia	0.3	-5.4	2.0	2.2	-1.4	-7.0	0.4	0.7	6.6	-4.8	-4.5	-1.7	-4.2	-10.0	-7.9	-5.7
United Arab Emirates	1.7	-6.3	1.2	2.5	0.2	-7.6	0.0	2.5	6.5	-1.5	2.9	4.9	-1.0	-8.0	-0.5	1.7
Developing Oil Exporters	**-2.7**	**-6.2**	**2.1**	**3.1**	**-3.8**	**-7.7**	**0.4**	**1.4**	**-0.8**	**-5.7**	**-4.4**	**-3.4**	**-3.5**	**-10.7**	**-9.5**	**-8.2**
Algeria	0.8	-6.5	3.8	2.1	-1.2	-8.2	2.0	0.3	-10.0	-13.4	-15.7	-14.6	-9.6	-15.8	-12.9	-9.6
Iran	-6.8	-4.5	1.5	1.7	-7.7	-5.4	0.6	0.9	0.9	-0.6	0.5	0.7	-3.7	-6.6	-6.7	-6.9
Iraq	4.4	-9.5	2.0	7.3	3.5	-12.6	-1.5	3.6	2.7	-12.2	-8.0	-4.5	1.3	-16.8	-13.9	-10.4
Developing Oil Importers	**3.2**	**-2.2**	**2.1**	**4.3**	**1.7**	**-3.6**	**0.6**	**2.8**	**-5.6**	**-5.6**	**-4.7**	**-3.9**	**-6.7**	**-8.2**	**-7.5**	**-6.4**
Djibouti	7.5	-1.0	7.1	7.2	5.9	-2.5	5.5	5.6	18.5	15.9	16.3	16.6	-0.5	-2.3	-3.0	-2.2
Egypt	5.6	3.5	2.3	5.8	3.7	1.7	0.6	4.1	-3.6	-4.1	-4.4	-3.3	-8.1	-8.2	-8.4	-6.9
Jordan	2.0	-5.5	3.8	2.2	0.5	-6.4	3.1	1.9	-2.3	-7.5	-6.4	-5.2	-4.6	-8.2	-5.6	-4.9
Lebanon	-6.0	-19.2	-13.2	-3.0	-6.5	-19.6	-13.6	-3.4	-22.4	-4.4	4.4	-0.2	-10.6	-14.5	-14.8	-14.3
Morocco	2.5	-6.3	3.4	3.6	1.4	-7.2	2.3	2.4	-4.1	-9.9	-6.5	-5.2	-3.6	-7.6	-5.3	-4.2
Tunisia	1.0	-9.2	5.9	2.0	-0.5	-10.2	4.8	0.9	-8.8	-7.1	-6.3	-6.4	-3.6	-8.1	-5.6	-4.8
West Bank & Gaza	0.9	-7.9	2.3	2.4	-1.6	-10.2	-0.3	-0.4	-8.7	-9.3	-10.1	-10.1	-4.6	-4.4	-4.3	-4.1
Memorandum																
Libya	2.5	-40.9	-3.6	8.2	1.0	-41.7	-4.8	6.9	11.6	-52.6	-63.0	-19.9	9.9	-59.3	-31.6	-1.2

Sources: Authors' calculations based on data from World Bank Macro and Poverty Outlook.
Note: e=estimate, f=forecast and NP=not presented. Data are rounded up to a single digit. Data for Egypt correspond to its fiscal year (July-June). Libya, Syria and Yemen are not included in the regional and sub-regional averages due to lack of reliable data.

Table I.3. Changing Costs of the Dual Shock

Panel A Costs of the Dual Shock: October 2020 Forecasts minus October 2019 Forecasts						
	Real GDP growth		Current Account Balance		Fiscal Balance	
	2020e	*2021f*	*2020e*	*2021f*	*2020e*	*2021f*
MENA	**-7.8**	**-0.9**	**-5.7**	**-4.1**	**-5.5**	**-3.6**
Developing MENA	**-7.7**	**-1.0**	**-1.4**	**-0.3**	**-3.8**	**-2.9**
Oil Exporters	**-7.9**	**-0.4**	**-7.1**	**-5.2**	**-6.5**	**-4.1**
GCC	**-7.9**	**-0.9**	**-9.8**	**-7.9**	**-7.2**	**-4.3**
Bahrain	-7.3	-0.1	-4.5	-2.7	-5.7	-2.4
Kuwait	-10.4	-1.8	-13.9	-9.8	-21.8	-17.3
Oman	-12.9	-3.5	-5.4	-5.7	-8.7	-9.6
Qatar	-5.0	-0.2	-6.4	-3.9	-5.6	-6.4
Saudi Arabia	-7.0	-0.2	-11.9	-12.4	-5.5	-3.8
United Arab Emirates	-8.9	-1.8	-7.6	-2.8	-7.0	0.1
Developing Oil Exporters	**-8.0**	**0.4**	**-2.3**	**-0.8**	**-5.3**	**-4.0**
Algeria	-8.4	1.6	-2.8	-3.2	-8.6	-5.8
Iran	-4.6	0.5	-0.1	0.8	-0.7	-0.7
Iraq	-14.6	-0.7	-8.2	-4.0	-13.5	-10.8
Developing Oil Importers	**-6.6**	**-2.5**	**-0.2**	**0.5**	**-1.8**	**-1.4**
Djibouti	-8.5	-0.9	-3.0	-6.1	-1.7	-3.8
Egypt	-2.3	-3.6	-1.5	-1.7	-0.6	-1.4
Jordan	-7.8	1.3	-1.3	0.0	-5.8	-3.6
Lebanon	-19.5	-13.6	17.0	25.7	-4.8	-5.0
Morocco	-9.8	-0.2	-6.2	-3.2	-4.0	-1.9
Tunisia	-11.4	3.3	3.6	3.8	-3.1	-0.9
West Bank & Gaza	-6.8	2.7	0.5	-0.4	7.5	7.1

Source: Authors' calculations based on data from World Bank Macro and Poverty Outlook.
Note: Libya, Syria and Yemen are not included in the regional and sub-regional averages due to lack of reliable data. The changes are in percentage points.

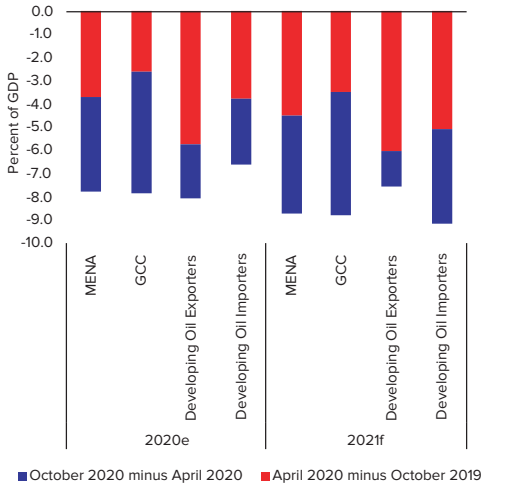
Panel B: Changing Costs of the Dual Shock: October 2020 Forecasts minus April 2020 Forecasts

	Real GDP growth			Current Account Balance			Fiscal Balance		
	2020e	*2021f*	*2022f*	*2020e*	*2021f*	*2022f*	*2020e*	*2021f*	*2022f*
MENA	**-4.1**	**-0.2**	**0.3**	**2.4**	**1.4**	**1.9**	**-0.4**	**0.1**	**1.3**
Developing MENA	**-2.8**	**-0.2**	**0.4**	**1.1**	**0.6**	**1.3**	**0.4**	**-0.1**	**0.6**
Oil Exporters	**-4.2**	**0.2**	**0.5**	**3.2**	**2.0**	**2.5**	**-0.3**	**0.5**	**1.8**
GCC	**-5.3**	**0.0**	**0.2**	**3.6**	**2.1**	**2.3**	**-1.3**	**0.3**	**1.9**
Bahrain	-2.7	-0.8	0.2	1.3	0.9	0.0	3.2	2.5	1.5
Kuwait	-7.9	-0.6	0.7	1.1	4.3	5.2	-2.1	-3.2	-0.7
Oman	-5.9	-2.2	5.4	0.8	-1.3	1.5	-0.2	-2.1	1.2
Qatar	-2.4	1.5	0.6	-1.0	-1.0	-0.9	-0.6	-2.7	1.2
Saudi Arabia	-5.6	-0.1	-0.4	5.5	0.9	3.6	-2.5	-1.5	0.7
United Arab Emirates	-5.2	0.0	0.2	4.2	5.4	1.0	-1.0	5.0	4.7
Developing Oil Exporters	**-2.3**	**0.7**	**1.2**	**2.6**	**1.7**	**2.5**	**1.2**	**0.7**	**1.6**
Algeria	-3.5	2.7	0.3	5.4	1.3	2.4	0.5	3.6	5.2
Iran	-0.8	0.2	0.2	1.9	2.6	2.6	-0.1	0.1	0.2
Iraq	-4.5	0.1	4.6	-0.1	-2.1	1.2	2.6	-1.6	1.0
Developing Oil Importers	**-2.8**	**-1.2**	**-0.2**	**-0.8**	**-0.7**	**-0.2**	**-0.6**	**-1.1**	**-0.5**
Djibouti	-2.3	-2.1	-1.0	-0.6	-2.1	-1.8	0.6	-0.9	-0.2
Egypt	-0.2	-1.5	0.0	-0.4	-1.0	0.0	0.0	-1.1	-0.4
Jordan	-2.0	1.8	0.0	-3.6	-2.7	-1.9	-3.8	-1.5	-1.5
Lebanon	-8.3	-6.9	0.4	2.6	10.9	7.3	-2.4	-3.4	-2.3
Morocco	-4.6	-2.1	-0.6	-2.4	-2.3	-2.0	-1.6	-2.0	-1.1
Tunisia	-5.2	1.7	-0.2	0.1	0.7	0.4	-3.1	-1.8	-1.9
West Bank & Gaza	-5.4	0.2	0.0	-2.0	-3.8	-4.1	1.7	-0.4	-0.3

Sources: Authors' calculations based on data from World Bank Macro and Poverty Outlook.
Note: Libya, Syria and Yemen are not included in the regional and sub-regional averages due to lack of reliable data. The changes are in percentage points.

Nevertheless, the forecasts remain fluid. Figure I.10 (Panel A) presents downgrades by private sector forecasters at a monthly frequency. The 2020 growth downgrades for the region increased as more information became available. The 2020 growth downgrade for MENA by private sector forecasters, was 0.5 percentage points in March 2020 but gradually grew to 7.5 percentage points by September 2020 (compared to the baseline forecasts in December 2019). This trend reflects forecasters' increasingly pessimistic view of the cost of the crisis. In addition, current forecasts are subject to still great uncertainty. Figure I.10 (Panel B) presents the mean and standard deviation of 2020 growth adjustments by private sector forecasters in September 2020. The standard deviation of the downgrades reflects disagreements among the forecasters and hence is a good proxy for uncertainty. The standard deviations are large, especially for Lebanon, which is experiencing unprecedented economic, political and social crises.

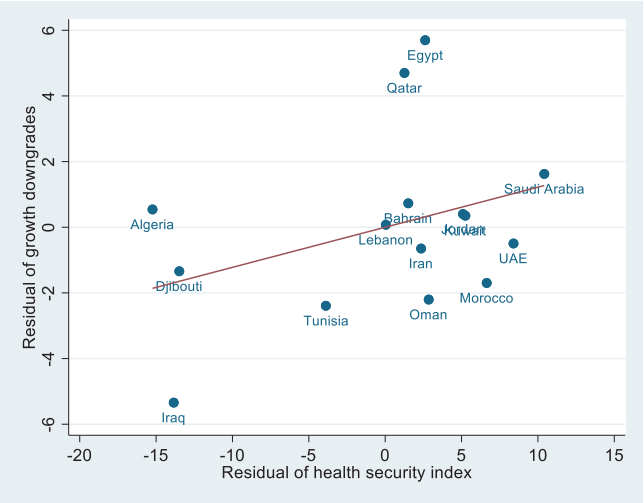
Figure I.8 Expected Losses in GDP level due to the Dual Shock



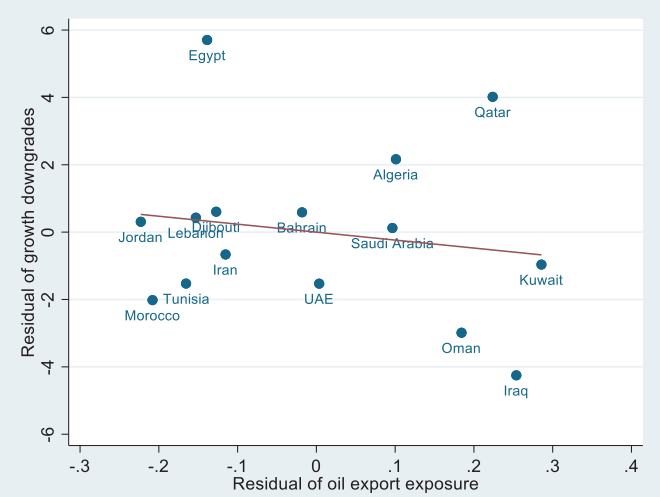
Source: World Bank Macro and Poverty Outlook.
Note:Country classification follows Table I.2. Data for Egypt correspond to its fiscal year (July-June). Libya, Syria and Yemen are not included in the regional and sub-regional averages due to lack of reliable data.

Figure I.9 Growth Downgrades, Oil Export Exposure and the Global Health Security Index

Growth Downgrades and Health Security Index



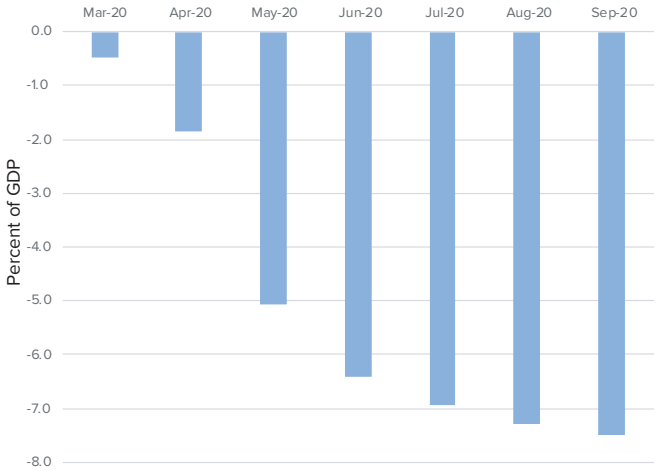
Growth Downgrades and Oil Export Exposure



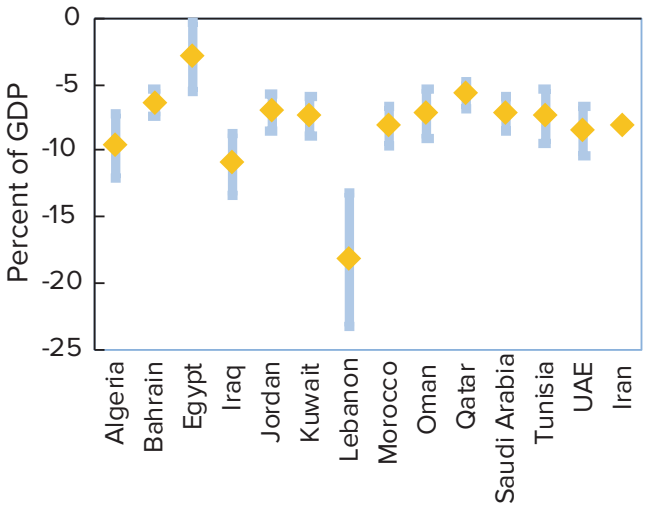
Source: Authors' calculations based on data from World Bank Macro and Poverty Outlook

Figure I.10 Growth Forecasts are Fluid and Uncertain

Panel A: 2020 Growth Downgrade for MENA by the Month of Forecasts



Panel B: Mean and Standard Deviation of 2020 Growth Downgrades (August 2020 minus December 2019 forecasts)



Source: Focus Economics (2020)
Note: Panel A: MENA=Algeria, Bahrain, Egypt. Iran, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, Yemen. The downgrade is the difference in growth forecast for MENA between the month of forecasts and the baseline in December 2019. Data for Egypt correspond to its fiscal year, running from July 1 to June 30 in Egypt. Panel B: The yellow diamonds represent the average downgrades. The blue bars represent one standard deviation above and one standard deviation below the average downgrades. Only forecasts from forecasters participating in both December 2019 and August 2020 rounds are included. Because Iran forecast is available only from Focus Economics, standard deviation of the forecast is not available. For Egypt, the private sector forecasts are for FY2021, which runs from July 2020 to June 2021.

Box I.1. Quantifying the Economic Impacts of Covid-19 on MENA, Based on an Envisage Global Computable General Equilibrium Model

In this box, we provide an assessment of the economic impacts of the Covid-19 crisis in the MENA region. The total effects of a global pandemic disease such as SARS or Covid-19 go beyond the immediate health challenges affecting the sectors of the disease-inflicted country. This is because any economic shock to one country quickly spreads to other countries through trade and financial linkages. The total costs from a global pandemic disease exceed the direct damages affecting the disease-affected country. Therefore, we attempt to quantify the potential impact of the pandemic on MENA economies' GDP, sectoral GDP, and trade. Our empirical estimates of the economic effects of the Covid-19 epidemic rely on an Envisaged global computable general equilibrium (CGE) model that was simulated for the global economy and specifically for the East Asia and Pacific (EAP) countries (World Bank 2020c). In the study, the real impact of China's virus outbreak and the global Covid-19 pandemic on individual countries in the EAP region is quantified. Other developing regions, including the MENA region, are treated separately in blocs throughout the simulation.

The channels through which the real economic impact is likely to be felt in the MENA region depend on the country's exposure to China and the world through global value chains and trade. These transmission channels include imports of crude oil, supply chains, investment, tourism, and other travel-related services. Countries exposed to the disruption of China's imports of crude oil include the Gulf Cooperation Council Countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates), Iran, Iraq, and some other oil exporters in the region. Countries that are exposed to the interruption of exports of intermediate inputs are primarily Morocco and Tunisia (in particular for electrical machinery), Saudi Arabia (chemicals), and the United Arab Emirates (metal and metal products).

The global CGE model is simulated under two scenarios; "baseline global pandemic" and "severe global pandemic." The assumptions and simulation results are based on information obtained at the onset of the global Covid-19 pandemic and prior to the recent growth forecasts. The characteristics, scenarios and detailed analysis are presented in Annex B. The main points of the analysis are:

- The economic, financial, and social costs of Covid-19 are substantial for the global economy but even costlier for the MENA region. Simulation results suggest a sharp decline in global growth as well as for MENA under both scenarios. The pandemic affects nearly every sector of the MENA economy, including agriculture and non-tradable and tradable services, where most of the low-wage workers and women in the region are employed.
- The most significant percentage drops are recorded in the services sector in the MENA region under the "severe spread" scenario. In the services, the biggest negative shock is to the output of domestic services affected by the pandemic and traded tourist services. The poorest and the most vulnerable would be significantly affected because they are employed in travel, tourism, retail, accommodation services, and food and beverage services activities (see Figure IB1.1).

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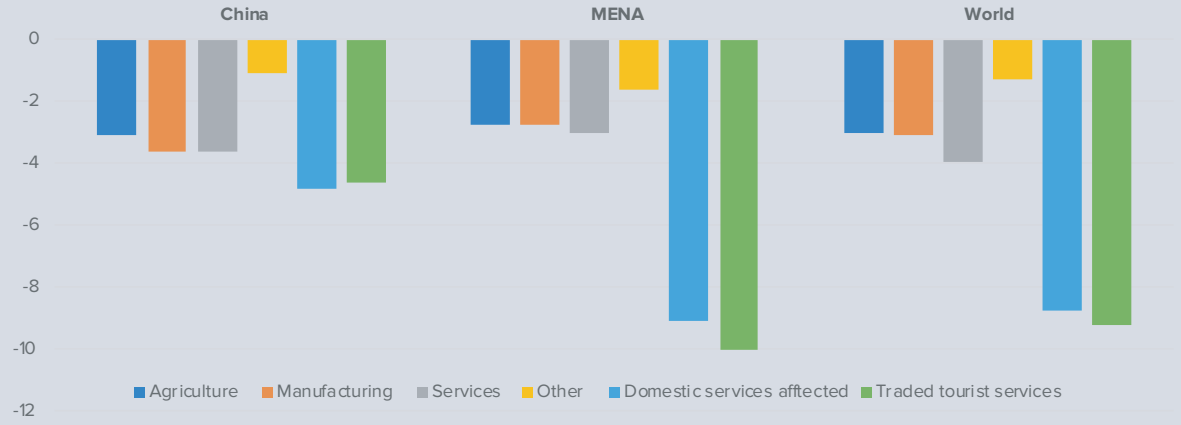
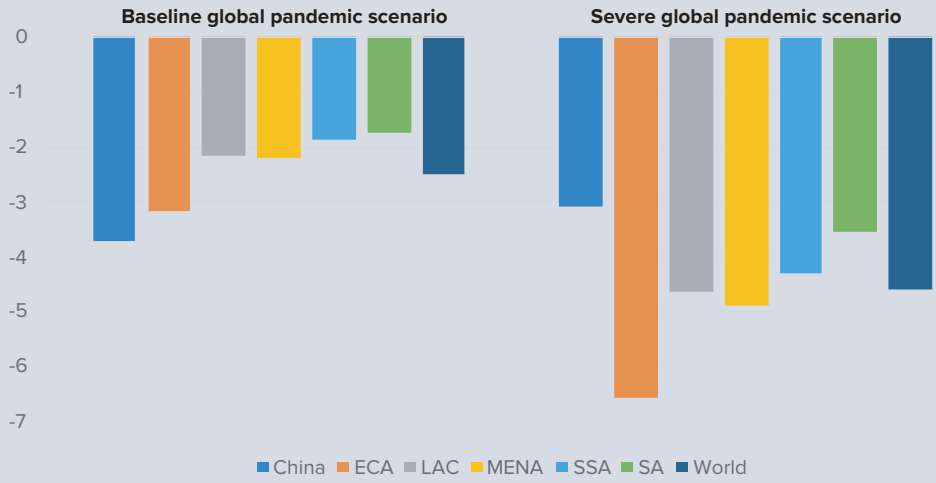
Figure IB1.1 Sectoral GDP Implication Under Severe Global Pandemic Scenario



Source: World Bank staff calculations.
Note: "Agriculture" = crops and livestock. "Manufacturing" = meat products (including fisheries); other food; textiles; wearing apparel; leather products; wood and paper products; refined oil, chemical products (including rubber and plastics), non-metallic minerals; metals, computer, electronic and optical products; machinery and equipment; motor vehicles and parts; transport equipment; other manufacturing. "Services" = electricity; construction; trade including warehousing, accommodation, food and service activities, water transport, air transport, other transport, communications, recreational and other services. "Other" = natural resource products and fossil fuel extraction. "Domestic services affected by pandemic" = trade; accommodation, food and service activities; water transport; air transport; other transport; recreational and other services. "Traded tourist services" = accommodation; food and service activities; water transport, air transport, other transport, recreational and other services.

- As disease spreads and lockdowns continue across the MENA region and supply chain disruption continues, it is most likely that female employment will be hit the hardest, as women are more represented than men in the services and informal sectors.
- The results of the CGE simulation suggest that the Covid-19 pandemic hits MENA's trade volume hard (see Figure IB1.2). This suggests that MENA, countries need to take this opportunity to strengthen regional value chains and expand regional trade.

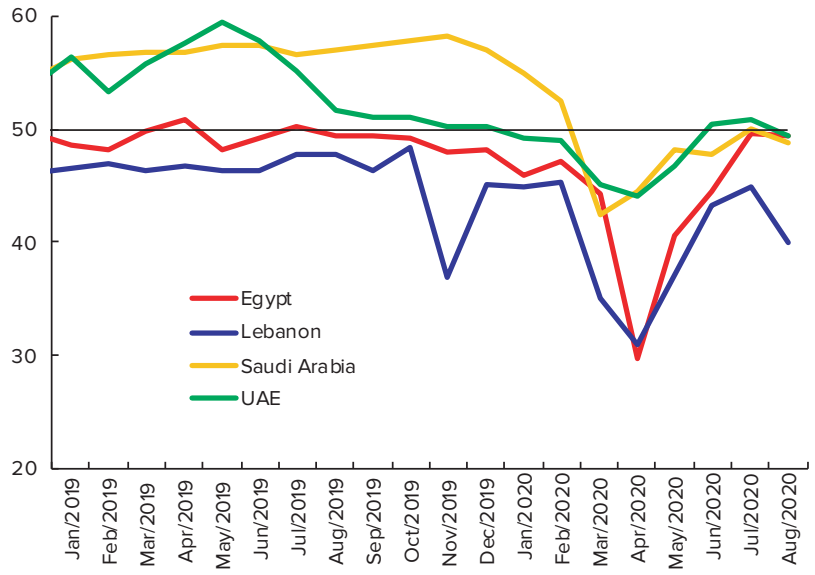
Figure IB1.2 Real Export Implications of the Pandemic Under Both Scenarios



Source: World Bank staff calculations.
Note: : ECA= Europe and Central Asia, LAC= Latin America and the Caribbean, MENA = Middle East and North Africa, SSA = Sub Saharan Africa, SA = South Asia.

In light of the great uncertainty of the dual shock, high-frequency data is important to tracking economic activity and allowing timely responses from policymakers. High-frequency data for the MENA region as of August indicate that economic activities are stabilizing but at much lower levels than those observed in December 2019. Satellite data of nitrogen dioxide (NO2) concentration, a proxy for economic activity, reveal a sharp drop in February and March of 2020. It then seems to have slightly recovered in August (see Box I.2). Similarly, Purchasing Managers' Indices (PMI) available for MENA countries show sharp contractions in March and April of 2020 but stabilized by July, when the indices for Egypt, Saudi Arabia and the United Arab Emirates were recorded at about 50, indicating no contraction from June (see Figure I.11). However, they slightly declined in August. For Lebanon, the PMI is below 50, indicating a continuing contraction.

Figure I.11 Purchasing Managers' Index

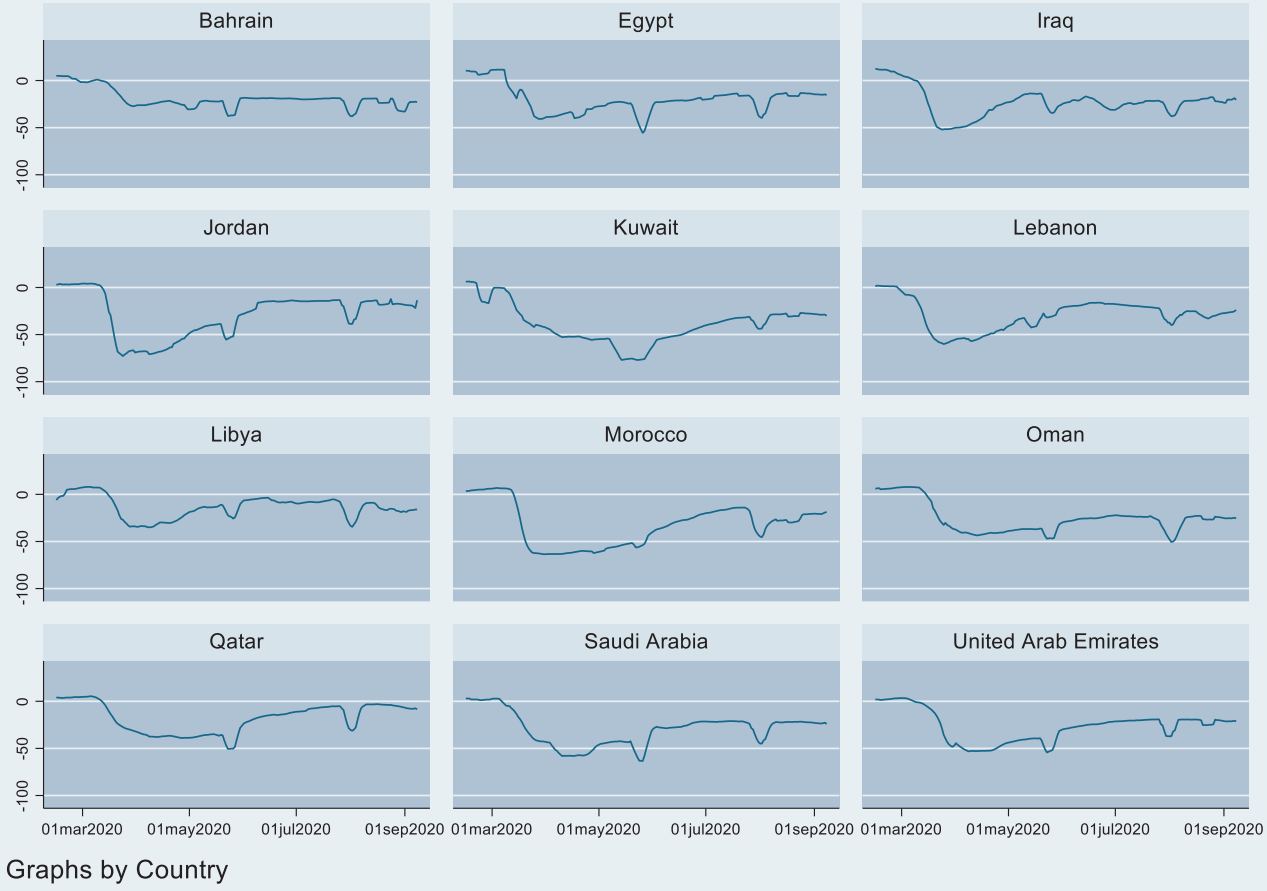


Source: Bloomberg, L.P.
Note: Markit PMI for whole economy, seasonally adjusted. A PMI above 50 represents an expansion over the previous month. A PMI reading under 50 represents a contraction.

High-frequency data from Google reveal a similar trend: visits to workplaces and length of stay at workplaces across MENA countries, after recovering somewhat in prior months, stabilizes at much below the January 2020 level (see Figure I.12). This portends a bumpy and difficult economic recovery for the MENA region.

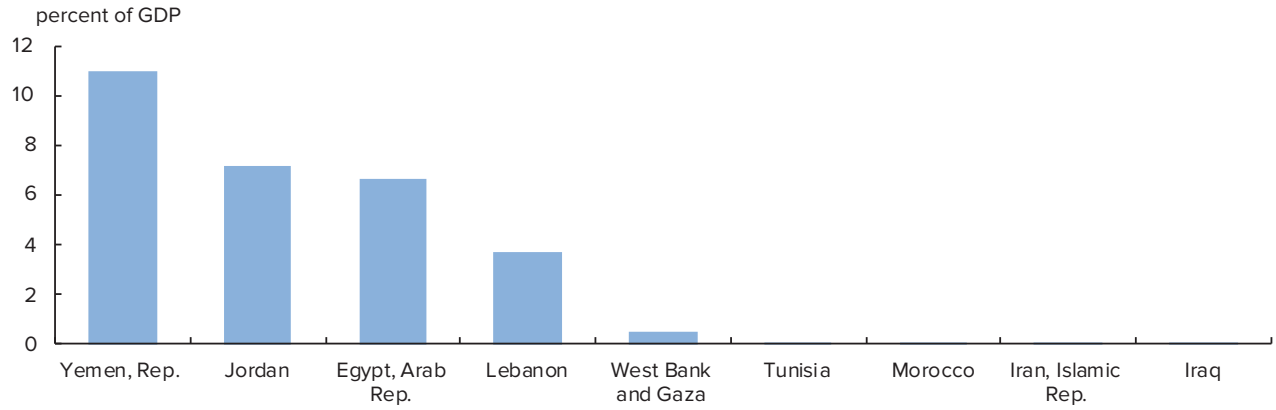
The dual shock is expected to lower oil prices, which will hurt both MENA importers and exporters—exporters directly and importers indirectly from reduced foreign direct investment, remittances, tourism, and official assistance from the exporters. Remittances from GCC countries have been substantial in many MENA countries (see Figure I.13). In addition, official development assistance (ODA) from the GCC is critical for many developing MENA countries (see Figure I.14). Lower oil prices could threaten the sustainability of remittances, investment, and aid flows from the GCC. Remittances are projected to drop by 20 percent in 2020 (World Bank, 2020b). FDI to non-GCC MENA dropped sharply (see Figure I.5).

Figure I.12 Visits to Workplaces in MENA (percentage change from January 2020)



Sources: Google, Covid-19 Community Mobility Reports, and World Bank staff calculations.
Note: The panel line charts show how visits to workplaces change in each MENA country. Each line shows a daily 7-day moving average of changes in visits to workplaces and length of stay, compared to their median value between January 3 and February 6.

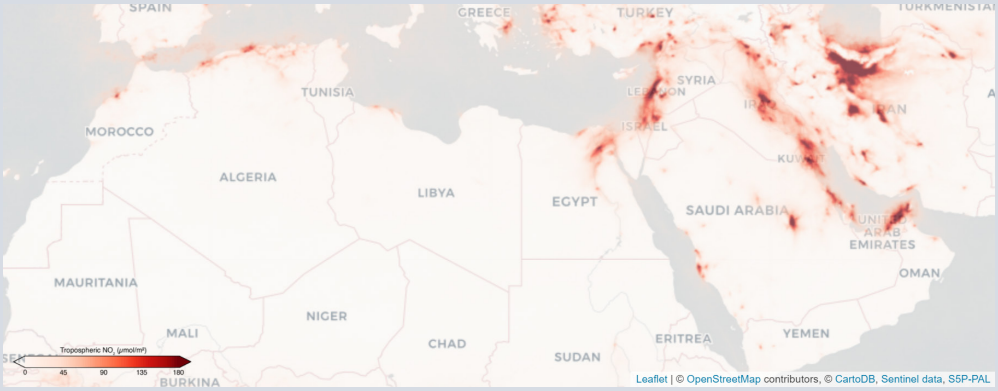
Figure I.13 Remittances from GCC to Developing MENA in 2019



Sources: World Bank KNOMAD, World Bank MPO, and World Bank staff calculations.
Notes: Blue bars indicate total remittances received from GCC countries in 2019, as a share of receiving country's GDP of the same year. Algeria, Djibouti, and Libya didn't receive remittances from GCC countries in that year.

Box I.2. NO_2 Concentration as a Measure of Economic Activity in MENA

December 2019



March 2020

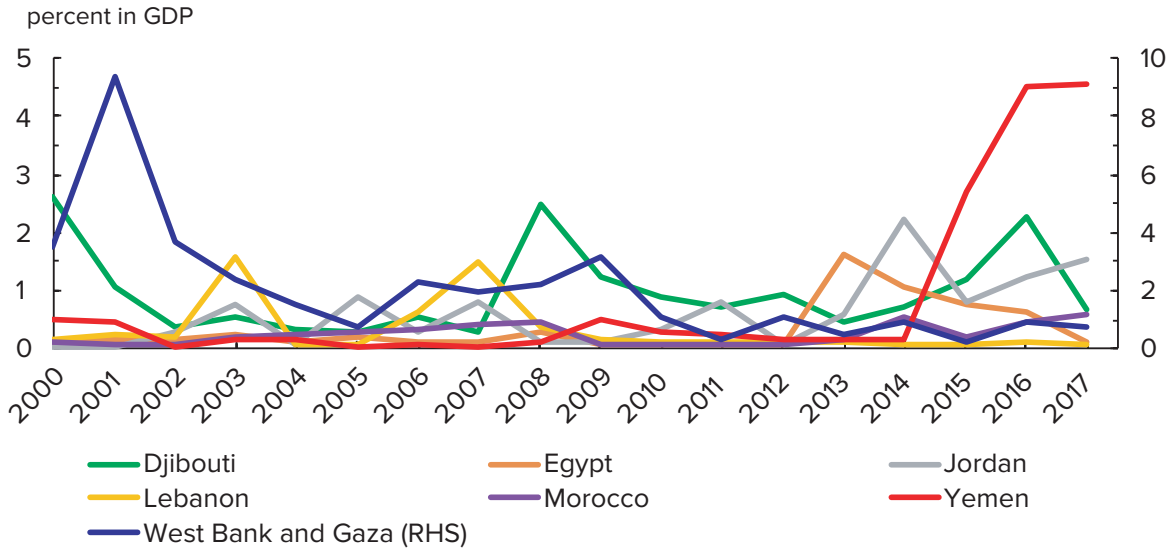
August 2020

Source: Sentinel-5P Product Algorithm Laboratory (S5P-PAL), retrieved from https://maps.s5p-pal.com/.
Note: Using data from the Copernicus Sentinel-5P satellite, these maps show a 14-day moving average of nitrogen dioxide (NO2) concentration in the second-half of each month across the MENA region.

The concentration of nitrogen dioxide (NO2) can be a good proxy for economic activity because this noxious gas is emitted by motor vehicles, power plants, and industrial facilities (see Dutheil and others, 2020). NO2 is well-suited data to high-frequency analysis of local economic activity because it has a short lifetime and NO2 molecules stay close to their sources (Dang and Trinh, 2020).

These maps above show 14-day moving average of NO2 concentration at the second half of each month across the MENA region. Darker areas imply higher NO2 concentration. The maps reveal that NO2 concentration declined sharply in March, compared to the baseline in December 2019. Since then, it has shown little increase.

Figure I.14 Official Development Assistance Flows from GCC to Developing MENA



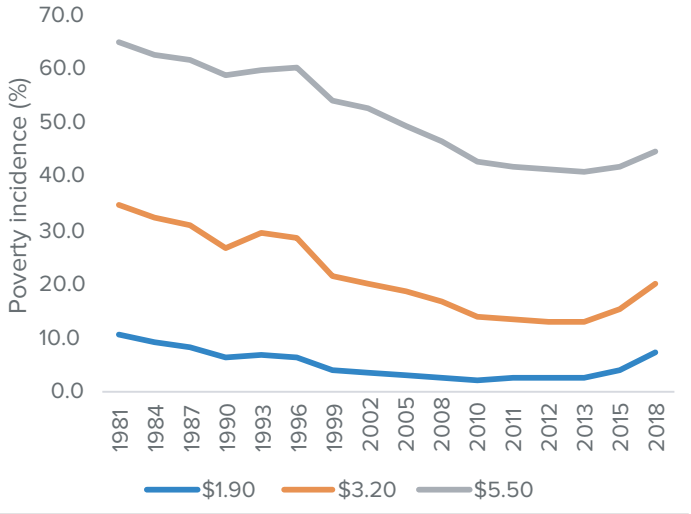
Sources: OECD Stat, World Bank World Development Indicators, and World Bank staff calculations.
Note: Official Development Assistance flows are from the GCC countries that report data--Kuwait, Saudi Arabia, and the United Arab Emirates.

I.3 Poverty and Social Consequences

Effects of the Dual Shock on Poverty

Poverty in the MENA region declined dramatically between 1981 and 2013 by all standard measures—the extreme (international) poverty line of $1.90 per person per day, the lower middle-income line of $3.20, or the higher middle income line of $5.50 (see Figure 1.15). Since 2013, however, poverty in the MENA region has seen an uptick. This increase in poverty is largely attributable to conflicts in Yemen and Syria, though since 2015 it also reflects higher poverty in Egypt, Iran and Jordan.

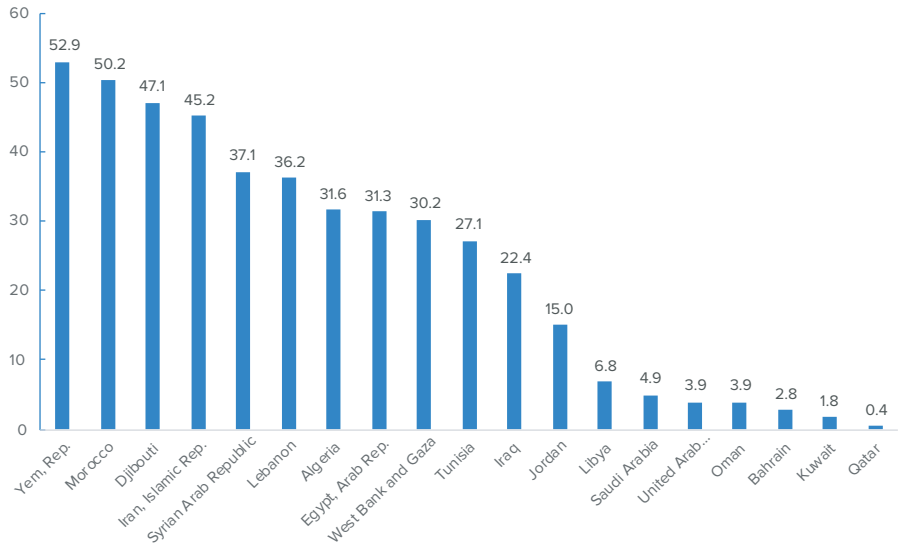
Figure I.15 Pre-Covid Poverty Trend in MENA



Source: World Bank, Povcalnet

Many workers in the large informal labor markets in many MENA economies are excessively vulnerable to Covid-19. Most MENA countries have dual labor markets. One is a formal market dominated by an oversized public sector that encompasses such employers as public administration and state-owned enterprises. The public sector accounts for a large fraction of total employment. This is a part of a long-standing, implicit social contract in which politically significant groups—such as the educated middle class and members of key sects and ethnic groups—receive guaranteed employment and subsidies in exchange for tolerating cronyism, corruption by elites, and little to no government accountability or citizen voice. The other labor market is a large informal sector with little job security

Figure I.16 Self Employment in MENA



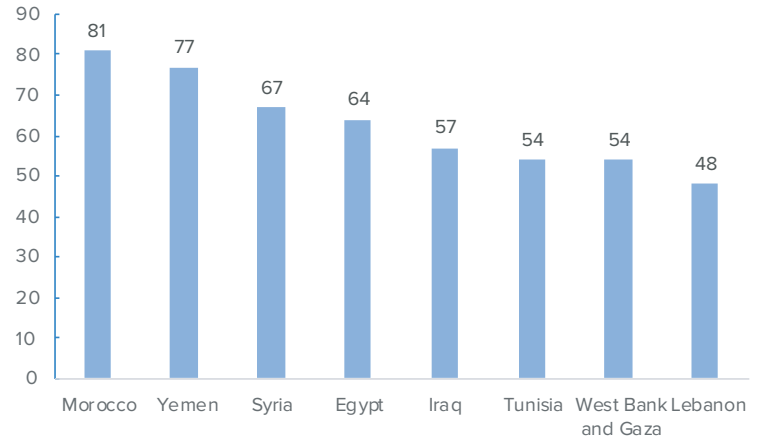
Source: International Labor Organization (ILO).
Note: Bars indicate self-employment as a percentage of total employment in 2019, modeled ILO estimate. Self employment jobs include employers, own-account workers, contributing family workers, and members of producers' cooperatives.

and virtually no social protections (World Bank 2014a; Gatti and others 2014). Figures I.16 and I.17 show that self-employment and other informal employment are widespread in many MENA economies.

Covid-19 confronts the region with economic and public health shocks that further deteriorate welfare. Although the number of cases and the death toll in the region appear moderate compared to parts of Europe, North America, India, or Brazil, the pandemic profoundly impacts livelihoods and is causing many to fall deeper into poverty.

There are many pathways by which Covid-19 can contribute to poverty. There is the direct effect from succumbing to the disease. Poor households are particularly at risk. Poor people are more likely to have preexisting health conditions, to live in crowded conditions, with multigenerational households and to have less access to soap and clean water. The indirect pathways that affect people's livelihoods include market disruptions that have led to price increases and, at times, stock-outs. Moreover, because of lockdown policies implemented to stop the spread of the pandemic, many, especially in the informal sector, lost their ability to earn an income.

Figure I.17 Informal Employment in MENA



Source: International Labor Organization; and World Bank I2D2 dataset.
Note: Bars indicate informal employment as a percentage of total employment based on the most recent available data: Egypt, 2017; Iraq 2012; Lebanon, 2011; Morocco, 2009; Syria, 2003; Tunisia, 2010; West Bank and Gaza, 2018; Yemen, 2014. The ILO defines the informal sector broadly to accommodate country situations and specific country needs. The informal sector could include all persons in employment who are: (a) own-account workers, employers or members of producers' cooperatives employed in their own informal sector enterprises; (b) own-account workers engaged in the production of goods exclusively for own final use by their household; (c) contributing family workers, regardless of whether they work in formal or informal sector enterprises; or (d) employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households.

We consider the impact of Covid-19 on poverty through this income channel and present two different approaches. The first calculates changes in poverty based on projected changes in GDP. This approach assumes that every household is equally affected and that the effect of Covid-19 is uniform over time. In the second, micro-econometric, approach we loosen those assumptions. The distribution neutral impact assumption is dropped by allowing for different sectoral growth effects; the uniform-in-time assumption is dropped by including a time dimension in our projections, which allows the impact of the pandemic to gradually dissipate. While the long-term impact of the micro approach converges with the macro approach, the micro approach demonstrates a much more dramatic impact on poverty in the short run. Evidence from phone surveys suggests that these large short-term effects on poverty are plausible.

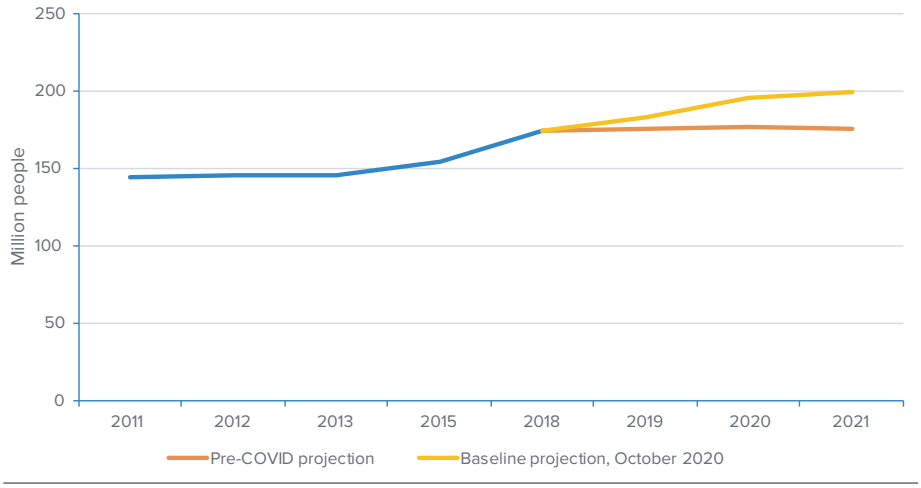
Table I.4. Projected Poverty Increase due to the Dual Shock

	GDP Downgrade	Pre-Covid		Covid	
		Poverty headcount at $3.20 (%, 2020)	Poverty headcount at $5.50 (%, 2020)	Poverty headcount at $3.20 (%, 2020)	Poverty headcount at $5.50 (%, 2020)
Algeria	-8.4	2.2	20.8	3.3	26.5
Djibouti	-8.5	31.8	62.3	35.9	66.4
Egypt	-2.3	24.1	68.9	30.5	73.8
Iran	-4.6	4.0	16.6	4.9	19.2
Iraq	-14.6	11.8	46.9	17.3	56.6
Jordan	-7.8	2.5	21.7	3.3	26.2
Lebanon	-19.5	0.1	1.3	0.3	3.5
Morocco	-9.8	4.9	23.4	6.2	27.5
Tunisia	-11.4	2.4	15.0	4.2	22.0
West Bank and Gaza	-6.8	5.0	23.1	6.8	27.8
Aggregate		**18.4**	**42.6**	**22.3**	**48.6**

Source: World Bank staff calculations
Note: GDP downgrades are from Macro Poverty Outlook (October 2020 forecasts minus October 2019 forecasts). The poverty headcount is a percentage of the 2020 population.

These distribution neutral estimates suggest a significant increase in poverty with tremendous cross-country variations (see Table I.4). The change in poverty due to the pandemic is highest in Iraq where, at the $5.50 poverty line, the poverty rate would increase by 9.7 percentage points to 56.6 percent of population. Across the MENA region, poverty incidence is expected to increase by 3.7 or 6.0 percentage points depending on whether the $3.20 or $5.50 poverty line is used. As a consequence, the number of poor is expected to increase from 178 million to almost 200 million people (see Figure I.18).

Figure I.18 Impact of the Dual Shock on the Number of Poor People in MENA



Source: World Bank staff calculations
Note: Poverty is defined at the $5.50 poverty line.

Since the start of Covid-19, face-to-face data collection has stopped, which limits monitoring of the welfare impacts of the pandemic. Because decision makers needed information, most countries in the region shifted to collecting household data through phone interviews. By July 2020, seven countries in the MENA region had completed at least one round of nationally representative phone surveys (see Table I.5). These surveys allow decision makers to gain an understanding of the welfare impact of lockdown policies. Some of these surveys (Egypt, Libya, Yemen) were based on new cross-sections and collected using Random Digit Dialing methods. Others (Morocco, Tunisia, West Bank and Gaza, and Djibouti) used samples drawn from existing household surveys. This approach also allows survey results to be broken down by the welfare status of households.

Table I.5: Selected Characteristics of Covid-19 Phone Surveys Completed in MENA

Country	Sample size	Response rate	Timing	Implementing agency
Djibouti	2,082	71%	July 7 to July 21, 2020	National Statistical Office
Egypt	2,034	57%	April 27 to May 09, 2020	Baseera (Egyptian Center for Public Opinion)
Libya	530	NA	April 04 to May 09, 2020	National Statistical Office
Morocco	2,350	NA	April 14 to 23, 2020	Higher Planning Commission
West Bank and Gaza,	2,369	81%	June 27 to July 14, 2020	National Statistical Office
Tunisia	1,360	77%	April 29 to May 08, 2020	National Statistical Office
Yemen	4,287	NA	April 1 to 30, 2020	National Statistical Office

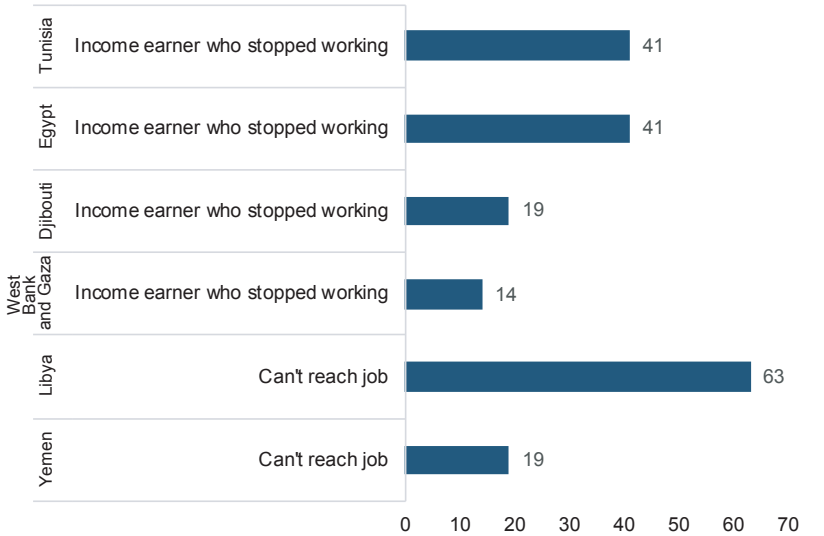
Sources: Various survey reports
Note: In Yemen, random digit dialing was used to replenish the sample because of non-respondents. NA=not reported by the implementing agency.

Restrictions on mobility resulting from measures taken to curb the coronavirus pandemic strained the livelihoods of many. Though the phone surveys did not collect information on the impact of Covid-19 on the ability to earn an income in a uniform way, Figure I.19 illustrates how income-earning abilities were severely constrained in different countries.

In Yemen, where the phone survey was fielded in the early days of the pandemic, relatively few, 19 percent, reported difficulties in their ability to go to work. In Libya, by contrast, the percent of workers who could not reach their job was 63 percent. In Djibouti, 19 percent of the breadwinners who were working no longer did so after the outbreak of the pandemic; in Tunisia, 41 percent were unable to continue working. In Egypt, the containment measures sharply affected breadwinners' likelihood to work as well. Altogether, 41 percent of interviewed workers stopped working.

The ability of poor households to continue working was hurt more by lockdown measures than that of less poor households (see Figure

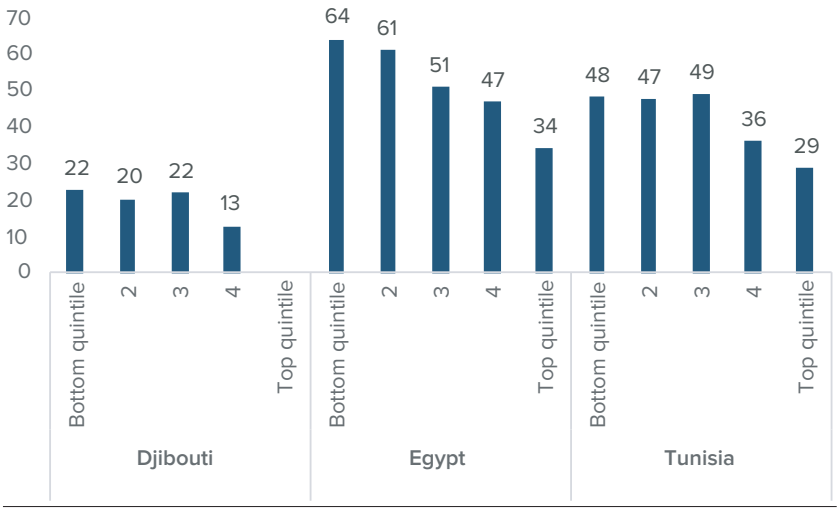
Figure I.19 Impact of Covid-19 on the Ability to Earn an Income



Source: MENA phone survey reports.

I.20). This is illustrated by data from Egypt on the percent of income earners that had to stop working during Covid. The likelihood that an income earner from the bottom quintile stopping work is almost twice as high as the likelihood that an income earner from the top quintile stopped.

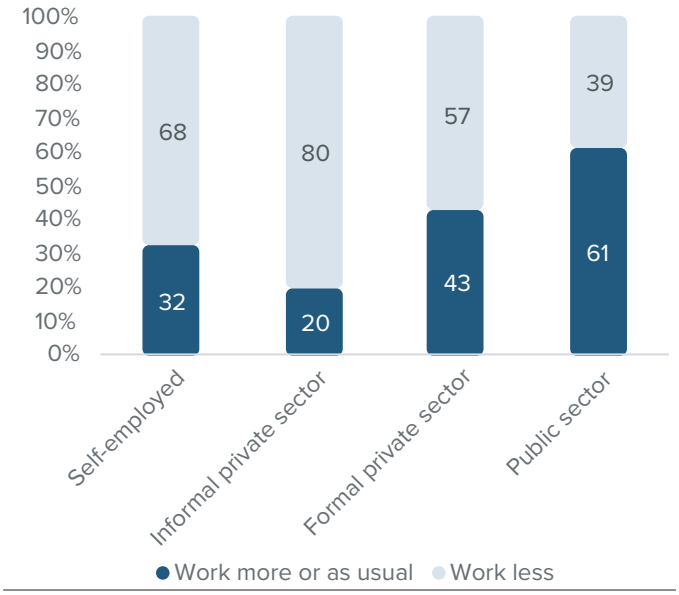
Figure I.20 Percent of Workers Who Stopped Working



Source: MENA phone survey reports.
Note: The quintile breakdown is by household assets in Egypt, by income in Djibouti (the top quintile is not covered by the survey), and by consumption in Tunisia.

There are varied reasons why poorer households were more likely to stop working. Poorer households are more likely to be self-employed or engaged in the informal sector, both sectors that are more affected by lockdowns. For example, in Egypt, Figure I.21 shows that only 32 percent of the self-employed worked as much as usual during the lockdown, while 61 percent of those in the public sector worked a normal schedule. Similarly, those engaged in the informal private sector are much more likely to work less (80 percent) than those in the formal private sector (57 percent). Poor households are also less likely to be able to work remotely, as data from Tunisia show. While virtually no one in the bottom quintile works remotely, one in 10 people in the top wealth quintile could work remotely.

Figure I.21 Consequences of Covid-19 on the Ability to Work



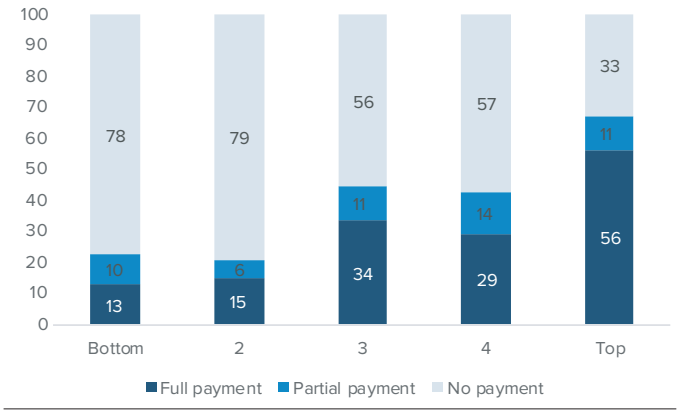
Source: MENA phone survey reports.

Most people who did not work were not paid. In Tunisia, 59 percent of the respondents who did not work, could not receive any wages. About 30 percent received the full amount of their salaries, while the remaining 10 percent received a fraction of their wages. Among the respondents in Yemen who did not work, 63 received no wages, 14 received partial wages and 22 percent received a full amount of their wages. In Djibouti, among breadwinners who could not work, 45 percent received no pay, while 36 percent had a fraction of their wages; and only 9 percent received full pay.

Not only are poor households less likely to be able to go to work, they are also less likely to receive a paycheck when they do not. Figure I.22 illustrates this with data from Tunisia. Whereas the majority (78 percent) in the bottom quintile do not receive any payment when they are not working, most in the top quintile (67 percent) continue to receive either full or partial payment. Outside Tunisia, similar patterns are observed.

Unsurprisingly, poor households are much more likely to be without any source of income during the lockdown than are less-poor households. In Morocco, for instance, 10 percent of wealthy households report earning no income, whereas 44 percent of poor households report none. When income ends, the financial

Figure I.22 Share of Tunsian Workers Receiving Payment While Not Working, by Consumption Quintile %

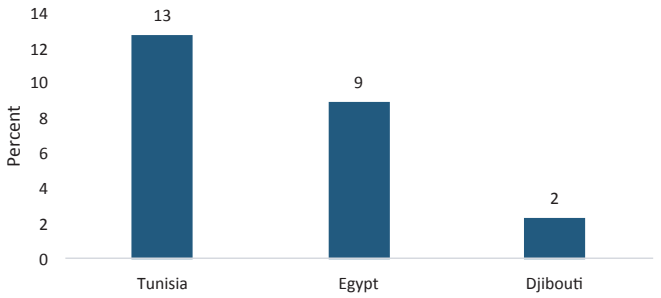


situation of households deteriorates rapidly. In Tunisia, one-third of those in the top wealth quintile indicated that their financial situation has deteriorated or deteriorated very much, and 44 percent of these wealthy households believe they could not come up with 200 dinars ($70) to meet an emergency expense. The situation for less wealthy households is more dire. Among the bottom wealth quintile, two-thirds of households say that their financial situation deteriorated very much; one-quarter say they are incurring debt to sustain their livelihoods and more than two-thirds indicate they cannot mobilize 200 dinars to meet an emergency expense.

Governments in the region have responded by spending more on social protection. The size and type of support varies by country with many offering cash transfers (see Figure I.23). In Tunisia, 13 percent of households received some cash transfer from the government. About 2 percent of the households in Djibouti did. In Egypt, 9 percent of the households were beneficiaries of the national cash transfer program Takaful and Karama, which has been expanded since the outbreak of the pandemic.

For Djibouti, Tunisia and Egypt, it is possible to break down the receipt of cash transfers by wealth category. In Egypt and Tunisia, these cash transfers are reasonably well targeted, and much larger fractions of the poorest households received them. Yet, even though in Egypt and Tunisia the programs are better targeted, still quite a large share of cash transfers leaks to the better-off households. And, more importantly, most of the poorest households are not reached (see Figure I.24).

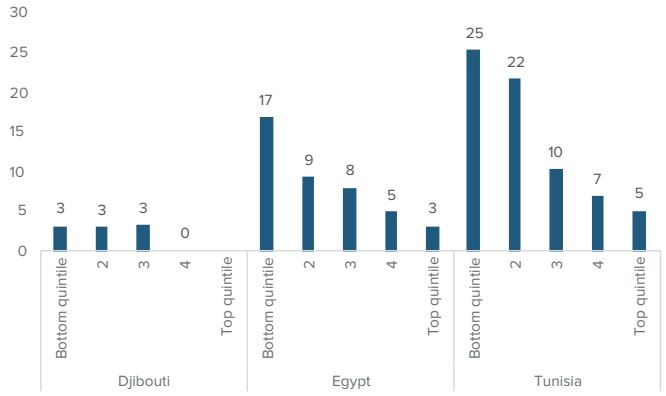
Figure I.23 Share of Population Receiving Cash Transfers (%)



Source: MENA phone survey reports.

Faced with such an income shock, households adopted several strategies to sustain their livelihoods (see Figure I.25). They drew on their savings or borrowed to make ends meet. In Tunisia and Morocco, respectively, 25 and 22 percent of households used their savings to compensate for the decline in their incomes. These coping strategies, however, raise critical questions about sustainability. Evidence from various sources suggests that savings are often small and cannot, therefore, sustain livelihoods beyond the short run. Also, it is unlikely that the credit market, especially the informal one, can keep providing loans if debtors do could not quickly begin repayment. This becomes a pressing issue because the health crisis persists. Some households had also come to rely on family and social networks to make up for their income loss. In Tunisia and Morocco, 25 and 14 percent of households received assistance from friends. But as the crisis continues, many more households might be affected, limiting the availability of assistance from networks.

Figure I.24 Share of Population Receiving Cash Transfers Across Prosperity Levels (%)



Source: MENA phone survey reports.
Note: The quintile breakdown is by household assets in Egypt, by income in Djibouti (the top quintile is not covered by the survey), and by consumption in Tunisia.

Figure I.25 Household Strategies to Cope With Covid-19

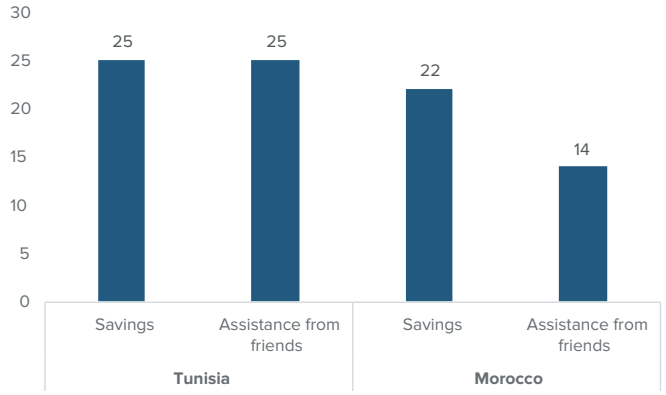
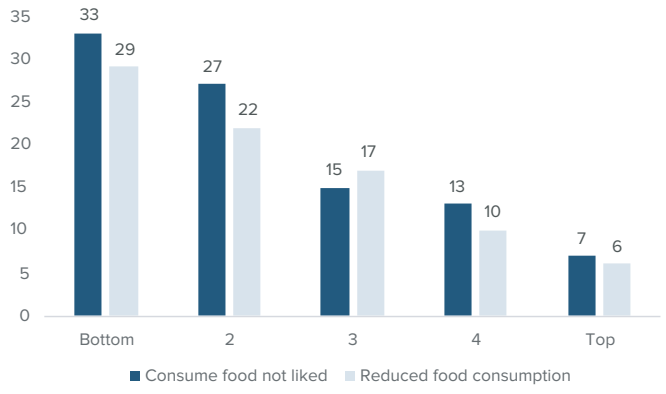


Figure I.26 Changes in Food Consumption due to Covid-19 in Tunisa, by Consumption Quintile



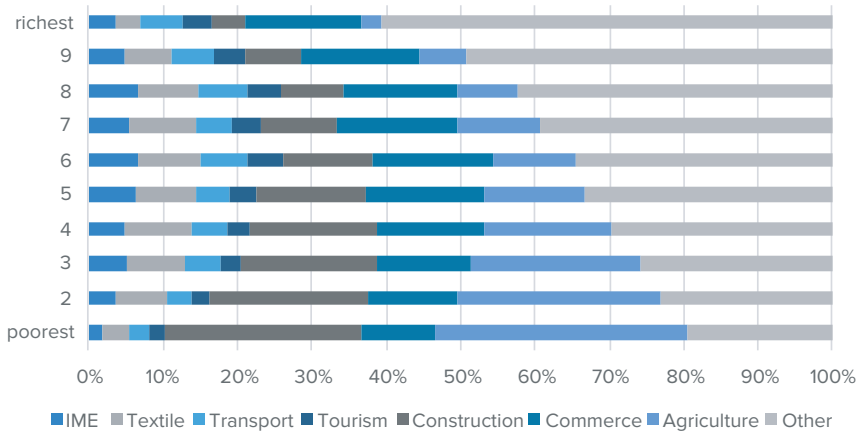
Despite transfer programs and coping mechanisms, many households face a significant decline in their purchasing power, which translates into increased food insecurity. In Libya, 81 percent of households started to consume less-preferred foods and over 70 percent consume less food. The poorest households are affected most, as data from Tunisia demonstrate in Figure I.26. On average 19 percent of Tunisian households consume less-preferred foods and 18 percent eat less food overall. Households in the poorest quintile are about five times as likely to have reduced their food consumption as households in the top wealth quintile. Among the poorest, about one in three households reduced food consumption. Among households in the top wealth quintile, about one in 16 reduced food consumption.

The phone surveys raise questions about the inequality neutral assumption used in the macro projections. In this section, we allow for a more heterogeneous impact of the crisis, by modeling the effect of sectoral GDP shocks on household consumption. We present results for Tunisia and Jordan, using national poverty lines (rather than the international poverty lines used for the macro projections). For Tunisia we use the 2015 household budget survey, EBCNV, and for Jordan the 2017-18 Household Income and Expenditure Survey. For Jordan, we not only model different impacts per sector, we also allow the shock to be more severe in the short run and to gradually peter out.

According to World Bank projections, the sectoral breakdown of the GDP contraction due to Covid-19 in Tunisia is such that the six hardest hit or "high-risk" sectors are Tourism or Hotels, Cafes and Restaurants (expected to contract by 25 percent), Textiles (16 percent), Mechanical and Electric industry (15 percent), Transport (13 percent), Commerce (5 percent), and Construction or Civil engineering and Building (5 percent). These six "high risk" subsectors employ a large share of the population—ranging from 47 percent of those employed in the poorest decile to 53-54 percent in the 4th, 5th and 6th deciles (see Figure I.27).

Combining information on GDP growth projections by sector and employment elasticity of growth of each sector (to capture how elastic employment is to changes in sectoral GDP), the loss of employment in each sector can be estimated. Using household survey data, the individuals who are likely to

Figure I.27 Share of Employment across Sectors in Tunisia, by Consumption Decile



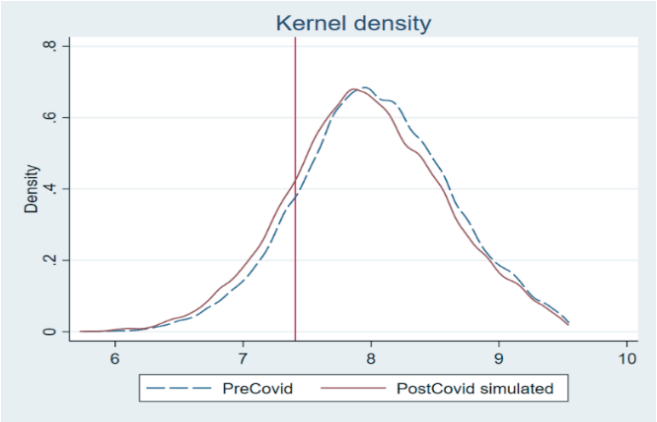
Source: World Bank, background note to the 2020 Tunisia Systemic Country Diagnostic.

lose their jobs are identified based on regression analysis, and the impact on consumption of the loss of employment is simulated under various assumptions. In this way, a new post-pandemic consumption distribution is derived, which is used to assess the impact on poverty.[8] The pre- and post-Covid consumption distributions as well as the associated growth incidence curve are presented in Figure I.28. The red line in the consumption distribution reflects the poverty line.

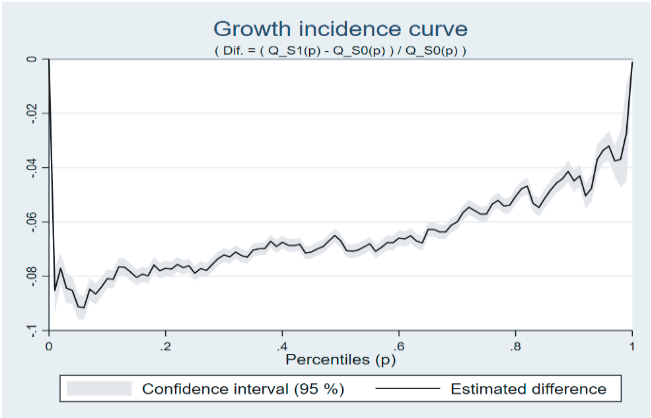
In this approach, poverty is projected to increase due to the dual shock. Figure I.28[9], Panel A shows more mass of the "post-Covid" consumption density function

Figure I.28 Distribution of Per Capita Consumption and Growth Incidence Curves in Tunisia

Panel A: Distribution of Per Capita Consumption pre- and post-Covid-19



Panel B. Growth Incidence Curves

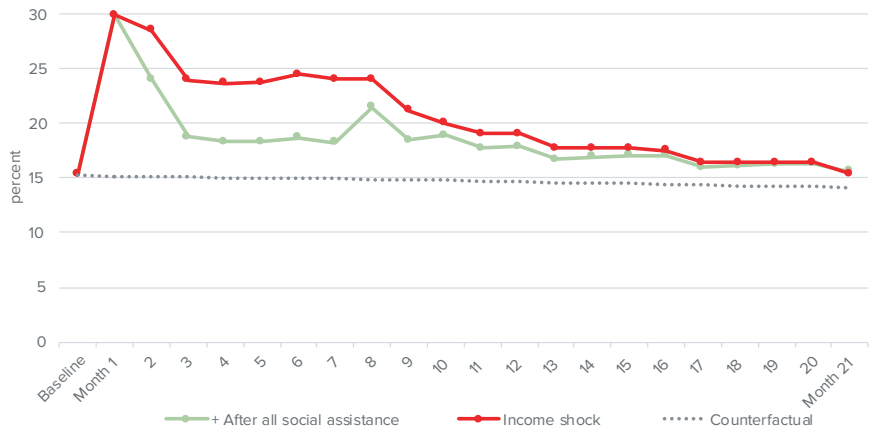


Source: World Bank, background note to the 2020 Tunisia Systematic Country Diagnostic.
Note: The vertical red line indicates the national poverty line

is found to the left of the poverty line, implying an increase in poverty. Indeed, poverty incidence increased by 25 percent, from 13.7 percent to 17.1 percent. In accordance with the evidence from the phone surveys, the Growth Incidence Curve shows that the poor are relatively more affected by the economic shock induced by Covid-19 than the non-poor (see Figure I.28, Panel B). The Growth Incidence Curve plots the growth rate of consumption per capita for all income groups in Tunisia. It shows that for almost all subgroups of the Tunisian population there is an expected decline in consumption per capita, but households in the poorest 20 percent have a greater consumption decline.

8 In the case of Tunisia, the simulations also allow for price shocks as a result of Covid-19.
9 Estimates are calculated based on growth projection in April 2020.

Figure I.29 Summary of Poverty Impacts from Income Shocks and Degree of Project Mitigation for Jordanian Households



Source: World Bank, Jordan Emergency Cash Transfer Covid-19 Response Project
Note: The figure does not account for deflation, which causes poverty estimates to fall slightly.

As in Tunisia, projections for Jordan model sector specific declines in economic activity, while distinguishing short- and long-term poverty impacts to predict household monthly consumption with and without the pandemic. An initial scenario simulates an effect of the lockdown as a fall in private sector employment income of between 30 percent and 100 percent (depending on whether the sector of activity is open or closed and the formal or informal status of the worker); a 25 percent decline in farm income (agriculture and livestock), a 15 percent fall in income from international remittances and a 50 percent drop in domestic transfers. Public sector workers' income is left unaffected, as is income from pensions and social assistance. The analysis then simulates the evolution through 21 months as the lockdown measures are relaxed, allowing more sectors to open and reducing the income decline for workers in open sectors. The recovery is slower in sectors that are more exposed to the export shock from a decrease in aggregate demand due to the global slowdown. The official poverty rate of 15.7 percent from the 2017-18 survey is projected to be 15.3 percent at the beginning of 2020 as the baseline and through the months thereafter. This serves as a benchmark for the estimated poverty impacts.

The initial income losses could increase poverty among Jordanian households to nearly double to 29.9 percent. Thereafter, poverty is expected to decline in the second and third months, then plateau over the following six months (see Figure I.29). The figure shows that the poverty impact of the pandemic has both a transient and persistent component, as even after 21 months the poverty rate remains higher (15.4 percent) than its baseline level in the beginning of 2020 (of 15.3) and 1.3 percentage points higher than the counterfactual poverty rate of 14.1 percent were there no pandemic.

Public transfers can play an important role in dampening the poverty impact of the pandemic, beginning in the second month after the implementation of lockdown measures. In the scenario of public assistance to households, the results nowcast a poverty rate varying between 29.9 and 18.5 with an average poverty rate of 20.9 percent over this 9-month period. Prima facie, this suggests a Covid-induced increase in poverty incidence of 5.2 percentage points, nearly twice the macro projections of a 2.9 percent increase in poverty.

As Covid is making itself felt, distribution-neutral macroeconomic projections suggest a significant impact on poverty in the MENA region. Furthermore, the estimate may well be an underestimation, as the assumption of a distribution neutral impact is a strong one, and evidence from phone surveys suggest that poor households have been disproportionately hit by policy measures to reduce the spread of the virus.

In the short run, the poverty impact is likely to be much more severe. Using micro-simulation models for Tunisia and Jordan we are able to drop the distribution neutral assumption; and model a non-uniform intertemporal shock that is steep at the outset and gradually dissipates. Once these assumptions are included in the projections, we find a potential doubling of poverty in

the short run. This is commensurate with phone survey evidence that suggests that many households reduce food consumption and incur debt to make ends meet. The poverty projections show too, how well-targeted social interventions can prevent the worst poverty outcomes. In Jordan, for instance, a well-targeted social protection program can reduce poverty by as much as 5 percentage points during the height of the Covid pandemic. In practice, however, we find that the cash transfer programs are progressive, but also that much of their resources still go to non-poor households. More importantly, we find that the majority of poor households remain out of reach of cash transfer programs.

Effects of the Dual Shock on Education

The pandemic had also triggered an unprecedented disruption in education. According to UNESCO, as of early August, more than 1 billion students—more than 60 percent of the children world-wide who were enrolled in school—are directly affected by nationwide school closures. Such closures put vulnerable and hard-to-reach children in particular danger of dropping out of the education system. According to UNICEF, the agency has tripled its estimated funding requirement of Humanitarian Action for Children (HAC) for 2020 world-wide—and almost quadrupled it for the MENA region. Available funding in MENA is expected to fall short of the funding requirement by almost 70 percent—among the highest of all regions in the world. Of the $357 million HAC fund required for the MENA region, $146 million is earmarked to "support access to continuous education, social protection, child protection, and gender-based violence services".

I.4 Policy Response

MENA countries have reacted quickly to the dual shocks, putting in place health-related steps such as social distancing and taking a range of fiscal and monetary measures to support their economies. Because they have sizeable buffers, the GCC governments could implement unprecedentedly large fiscal and monetary policies to help soften the impact of the two shocks on the public and formal private sectors—mainly through eased lending and wage support (see Appendix Table A1). Developing MENA countries, some with international help, also have taken many fiscal and monetary measures (see Appendix Table A2). Many countries have postponed taxes, enhanced unemployment benefits, and transferred cash to vulnerable households as discussed above. Central banks in the region have generally responded proactively, injecting liquidity (Tsakas, 2020). According to the International Monetary Fund (IMF), by April liquidity support measures averaging 3.4 percent of GDP, had been announced in seven of the MENA countries. In Tunisia, the central bank injected 9.9 billion dinars to increase bank liquidity. In Morocco, Bank-Al-Maghrib injected more than 30 billion dirhams to support the economy and took measures to support credit institutions on a prudential level, covering liquidity and equity requirements and loan provisioning. In Egypt, particularly dependent on tourism services, a government guarantee of EGP 3 billion on low-interest loans by the central bank has been announced for the tourism industry. The central bank also approved an EGP 100 billion guarantee to cover lending at preferential rates to the manufacturing and agriculture (IMF, 2020b). By July, nine central banks in MENA (Jordan, Morocco, Saudi Arabia, Tunisia, UAE) and neighboring countries (Armenia, Georgia, Tajikistan, Uzbekistan) had injected more than $40 billion into their financial systems to support liquidity. In addition, another nine countries in the region resorted to foreign-exchange interventions, reflecting the prevalence of exchange rate pegs.

Because the dual shock will have a persistent effect, it is important early in the crisis to look beyond Covid-19 and reflect on the sustainability and efficacy of policies. Following is a framework for authorities to consider now and after the pandemic:

1. **Tailoring policy responses:** To deal with the dual shock, authorities can tailor their responses to the severity of the shock. They should focus first on responding to the health emergency and the associated risk of economic depression. When feasible, authorities should postpone fiscal consolidation associated with the persistent drop in oil prices until recovery from the pandemic is well underway. To create much needed fiscal space, the current focus should be on reallocating spending to deal with the immediate crisis and making such spending more efficient.

2. **Focusing on masking, testing and contact tracing.** Lockdowns were imposed to buy time to develop more a targeted, less-disruptive approach—namely, mandatory masking, testing and contact tracing (see Eichenbaum and others (2020) for a discussion). Authorities could boost spending on health—to produce or acquire masks, testing kits and contact tracing technology, to mobilize and pay health workers, to add health infrastructure, and to prepare for vaccination campaigns, among other things. Scaling up testing and contact tracing for Covid-19 is especially important because they enable countries to determine the dimensions of the infection and to detect and isolate cases—which will be a factor in deciding whether and how to reopen the economy without causing a second wave of infections. The GCC countries are having early successes in controlling the virus thanks to widespread testing. Nevertheless, the virus appears to be mutating. Moreover, it is not guaranteed that vaccines, if and when they are available, could completely eradicate the virus. This scenario would make controlling the virus more like a marathon than a sprint.

3. **Supporting the private sector, vulnerable households and reducing leakages.** Households and the private sector need support from governments. At the same time, governments need to support households and the private sectors, not only to protect and preserve consumption and production capabilities, but also to prevent the health crisis from becoming a full-blown economic and financial crisis with collapsing aggregate demand and cascading bankruptcies.

    - *Supporting the private sector:* A combination of targeted assistance, eased credit conditions and monitoring is needed to support the private sector, including small- and medium-sized enterprises (SMEs). Many MENA countries are implementing different measures to support the private sector (See Appendix Tables A1 and A2). The support, with relevant conditions, will help otherwise productive firms survive the income crunch and prevent mass layoffs. Governments must prioritize strategic sectors—importantly network industries and such services as transport, logistics, distribution, and finance—to protect production capacity and support a future recovery. As will be discussed in Chapter II, the ability of firms to integrate and progress in regional and global value chains depends on improving such industries and sectors. Governments could focus on elements of business environment regulation, especially bankruptcy workouts and bankruptcy reforms (see Lyadnova and others 2019) to resolve corporate difficulties and associated corporate debt restructurings.

    - *Assisting vulnerable households, including expatriate workers in the GCC.* Well-targeted and well-administered cash transfers to vulnerable households would help protect them and support overall consumption. This includes the large expatriate labor force in the GCC countries. Supporting the expatriate labor force, especially the low-skilled, would also speed economic recovery and retard further spread of Covid-19 when the workers return to their home countries or when they come back to work in the GCC. Because many developing countries in the MENA region have both a large labor share and borrowing constraints, targeted assistance is vital and should be larger relative to the size of the economy than similar efforts in advanced economies. Some MENA countries—such as Egypt, Morocco, Tunisia, Iran and Iraq—support poor households through cash transfers and other financial assistance

    .

    - *Reducing leakages*. It is important to ensure that relief and stimulus funds are used as intended and do not "leak"—that is, that the funds end up being saved rather than spent—due to lack of information about proper recipients, corruption, inefficiency, or administrative error. As Figure I.24 indicates, in Egypt and Tunisia, cash-transfers to households are reasonably well targeted, and much larger fractions of the poorest households received them. Yet, quite a large fraction of cash transfers leaks to the better-off households and fails to reach most of the poorest households. Box I.3 discusses forms of leakages.

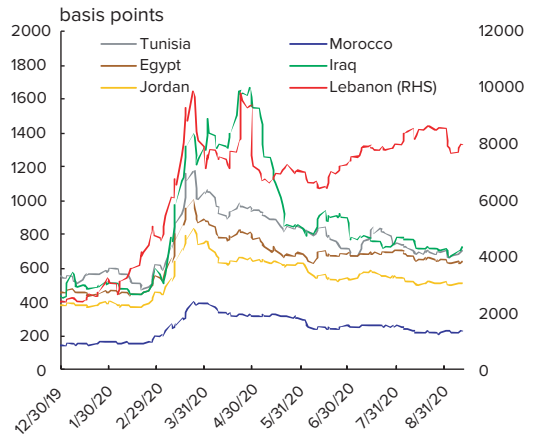
The first step in reducing leakages is to set and design targeted policies that identify clearly the intended beneficiaries with appropriate incentive schemes by income group. Widespread informality makes identifying recipients more difficult, which impedes targeting. Leakages can also occur because of insufficient control of corruption and/or inadequate limits on the degree of monopolization of the economy—both of which can result in diversion of relief and stimulus funds. Without control of corruption and rampant monopolies, there is a high risk of appropriation of funds by individuals in charge of implementing relief programs or by providers of goods and services.

Freeing information flows, increasing transparency, and data disclosure to reduce leakages are crucial elements in targeted cash transfers—which themselves help flatten the spread of the virus, accelerate theeconomic recovery, and mitigate the rise in poverty. Successful models of quickly deployed technology, including digital, to fight Covid-19 and target assistance can be analyzed and adapted to local conditions

- *Maintaining support as the crisis may drag on***.** Governments may consider withdrawing support as the crisis drags on. This runs a risk of letting the health crisis become a full-blown economic crisis, putting even more people into poverty. Existing empirical evidence suggests that austerity hurts the economy when it is weak (see for example Jordà and Taylor, 2016; Fatás and Summers, 2018; House and others 2019; Born and others, 2020). In the current context, the role of stimulus is to restore economic growth, which would allow countries to return to more favorable debt dynamics. Nonetheless, without external support, many governments, especially from developing countries, may run out of fiscal space and be unable to do "whatever it takes" even when they would like to. Thus, the role of the international community is very important. (see Box I.3 and point 4 below).

4. **Securing additional financing**. When possible, sovereign wealth funds, money printing where inflation is low (Gali, 2020), and international borrowing can all be utilized to support the private sector and ease corporate distress to prevent employment loses and company bankruptcies. Taking advantage of low interest rates, Qatar and UAE raised US$10 billion and US$7 billion respectively (Bloomberg April 8, 2020) to bolster finances and to address liquidity issues. In May 2020, Egypt also raised US$5 billion (Bloomberg May 22, 2020). Many other MENA developing countries, on the other hand, face significant financial constraints to stopping the spread of the virus. Many MENA countries had large balance of payments and fiscal deficits before the Covid-19 crisis (see Arezki and others, 2019). Many now also carry high sovereign-risk premiums (see Figure I.30). For those countries, additional foreign borrowing on private markets will be difficult. The region will need much international support to help it navigate an extremely rough patch. Many are receiving that help. Egypt, Jordan, Morocco and Tunisia received loans from the IMF and the World Bank to help them cope with their large and urgent financial needs. Many programs between international financial institutions and MENA countries are underway.

Figure I.30 Sovereign Spread for Non-GCC Countries



Source: JP Morgan, 2020.

The GCC, a major source of bilateral aid, has an important role to play in furthering the initiative to limit the ballooning of future costs and to reduce the risk that the Covid-19 pandemic could result in failed states, which would destabilize the region. The G20, presided over by Saudi Arabia in 2020, has agreed to debt service suspension for low-income countries to free up funds to fight the pandemic (Financial Times 2020). More can be done. Much more debt easing, whether

restructuring or cancellation, will be needed to prevent a debt overhang that would obstruct recovery and limit growth prospects of developing economies, including those in the MENA region. For any future debt restructuring, transparency is important. Empirical evidence suggests that greater data transparency lowered the costs of external borrowing (Cady, 2015 and Kubota and Zeufack, 2020). MENA countries can start improving public debt reporting and data transparency (see Arezki et al, 2020).

5. **In the medium-run, reforming the role of the state, promoting fair competition and adopting digital technology.** The twin shocks have further highlighted the inequality of the dual labor market and of the old social contract that no longer is working. In 2019, protests rocked the Middle East and Africa. These protests, which spread globally, stem from distrust of government, which complicates handling the health and economic crises associated with the pandemic. The protests receded in the face of confinement measures to slow the spread of Covid-19, but are picking up again. To move to more equal and less contentious societies, countries must simplify and promote a universal social protection system to replace the fragmented systems that benefit the few and exclude most. Replacement of the old, inequitable social contract can be accompanied by public service reforms that retain talented workers, remove unfair protections for state-owned and crony enterprises, while providing everyone a basic income and health care. Basic income and health services can be funded by both a reform of the tax system (including wealth taxes) as well as measures to enlarge the tax base by reducing informality both for workers and enterprises currently excluded from the tax system. In addition, the large reduction in corporate subsidies and increased tax revenues that would occur when the state-owned and crony companies operate in a more transparent and competitive environment would provide additional fiscal revenue.

   In the medium run, to restore growth and reduce debt over GDP, productivity must also be enhanced. A powerful way to do so is by promoting fair competition and adopting digital technology, especially in finance and telecommunication. Chapter II discusses how MENA can improve its regional connectivity with broader markets in African and Mediterranean countries to increase productivity and create inclusive, resilient, and sustainable jobs in the region. These enhancements would be especially important to the informal sector, which would gain access to services and markets previously accessible only to the privileged few and state-owned enterprises. In some countries, where the infrastructure of both telecommunication and digital payment is underdeveloped, removing barriers to entering and leaving markets by reinforcing regulator prerogative is paramount. Indeed, given the expanding consumer base in many developing countries, the sectors with most growth potential are service activities conducted through platforms. These platforms can help disrupt stodgy existing logistics, transport and distribution, and, by doing, so foster trade. As we will see in Chapter II, some MENA countries are already investing heavily in the digital economy post Covid-19—most notably Morocco, which aims to become the digital hub of Africa.

6. **Pursuing regional integration:** The Covid-19 crisis raises the question of whether globalization has peaked. As with digitalization, the pandemic has accelerated trends that have caused a slowdown in trade—such as decoupling supply chains, nationalism and reshoring. The dislocation of global supply chains is already well underway. To take advantage of the opportunity provided by delocalization, countries in the Middle East and Africa can both improve their business environments and pursue regional integration. Chapter II provides a deep dive into the analyses of regional trade integration. MENA countries also need to push for regionalization to advance their competition and regulatory agendas. It is imperative that they strengthen the competition apparatus across the board and promote regionalized competition authorities to get around roadblocks posed by local politics. To do so, governments should empower sectoral and regional regulatory bodies with independence and accountability.

Box I.3. Fiscal Policy for Covid-19 and Beyond

Border closings, confinement, and other social distancing measures to retard the spread of Covid-19 have brought the global economy to a near standstill. Forecasts of output losses and unemployment rates have been stubbornly increasing as governments face a crisis that is like no others. The economies of developing countries have been hit as hard as, or even harder than, those of developed countries even though their lockdowns have not been as stringent. Developing economies are suffering the indirect effects of Covid-19 on external demand from China and advanced economies, resulting in a commodity price bust and reduced tourism, remittances, and capital inflows.

Not all countries can do "whatever it takes"

In the face of such an overwhelming crisis, many have rightly called for doing "whatever it takes" to stem the advance of the disease and mitigate its economic consequences (Baldwin and Di Mauro 2020). Because they can borrow in their own currencies at low interest rates, most advanced economies have used fiscal and monetary policies to finance the health response, provide relief to businesses and people, and inject liquidity into their financial systems. Where inflation is not an issue, helicopter money (essentially printed by a central bank) has been used, as has quantitative easing or direct purchase of sovereign debt by central banks.

Developing countries, on the other hand, face massive constraints on their ability to do whatever it takes to stop the spread of the virus and provide relief to their people—many of whom work hand-to-mouth in the informal sector. What is more, the poor in developing countries are disproportionately affected by infectious disease, so the need for government intervention is not a question solely of efficiency. There is an equity component. To finance efforts to contain the virus, avenues such as raising taxes, printing money, or borrowing are limited. Because of the prohibitively expensive borrowing costs most developing countries face in international markets and the already high level of debt denominated in foreign currencies, the international community plays a critical role. A much welcome debt relief initiative championed by the Group of 20 relied on bilateral official creditors postponing debt repayment. Bringing in private creditors will be critical so that detor countries do not use the funds they saved on official loans to pay private creditors. And much more debt easing is needed to avoid a debt overhang that would obstruct recovery and limit these countries' growth prospects.

Moreover, the nature of the crisis poses a fundamental challenge to the sustainability of relief and stimulus policies. If the virus does not recede, or new waves of infection arise, economies may have to remain partially closed. In short, the early stimulus efforts must be effective. Unfortunately, the track record of most developing countries is that public spending does not reach many of the intended beneficiaries—that is, the funds "leak."

Leakages Come in Different Forms

In most developing countries, the lion's share of public health spending goes to the richest 20 percent, and the smallest to the poorest (in India, the shares are 33 and 8 percent, respectively). Most of the spending goes to hospitals, which are located in urban areas, whereas the poor live in rural areas. The poor's main link with the health system is through primary health clinics (PHCs), but these are chronically underequipped, understaffed, and notorious for poor service. In Chad, the leakage rate for nonwage spending allocated to PHCs was 99 percent. In rural PHCs in India, health workers are absent about 40 percent of the time.

continues on next page >>

When present, qualified public-sector doctors in health facilities in Delhi provide worse service than unqualified private doctors ("quacks"). Not surprisingly, poor people don't visit public doctors very much. The total amount of time in a day that an average doctor in Tanzania spends seeing patients is 29 minutes. In other words, if the existing health systems are simply scaled up with more money to treat the Covid-19 victims, it is unlikely that the poor will much benefit. Worse still, if poor people do not use public health facilities very much, policymakers may underestimate the severity of the epidemic in their country. These outcomes can be improved if the additional resources are used according to the principle that "money follows the patient." Such a principle, implemented by, say, voucher schemes, enables patients to hold doctors accountable and thereby receive the treatment they need and deserve.

The lockdowns and curfews have placed a huge burden on poor people, especially the 70 percent or so in the informal sector who depend on earnings from daily work. To mitigate the burden, many governments have introduced or scaled-up social assistance programs, many of which provide cash grants to those who are unable to earn a living. But many social assistance programs have a checkered history, due to administrative constraints or political capture (or both). Sri Lanka's Samurdhi program reached only 60 percent of the poor, while 70 percent of the beneficiaries were not poor. It turned out that Samurdhi payments were concentrated in those districts where the party in power had between 40 and 60 percent of the vote. A self-targeting program in Bihar, India, the Bihar Rural Employment Guarantee Scheme, could have reduced poverty by 14 percent but actually reduced it by 1 percent. The bottom line is that simply scaling up social assistance programs does not guarantee that the poor will receive the assistance they need. One encouraging development is the use of technology to identify the poor and electronically transfer the money to them.

Another source of leakage is the so-called curse of monopolized imports (see Arezki, 2019). In many countries, including in the Middle East and Africa, import dependence leads to persistent twin deficits; a budget deficit drives the trade deficit. Imports of universally subsidized goods are widely inflated. The excessive imports are either smuggled into other countries or used as an input in industry, which as a result garners an artificial advantage when the import is not sold at world prices. That is especially the case when the government is in the business of buying the import and selling it. A good example is the soft drink industry, which benefits from subsidized sugar—and carries bad health consequences to boot. Liberalizing imports and associated logistic and distribution chains, and cutting subsidies, would help resolve the persistent deficits that have plagued the region since the start of the Arab Spring in 2011 and the collapse in oil prices in 2014 and, most recently, in 2020. Unless those deficits shrink, citizens may be asked to face drastic cuts in transfers or social services even as countries are fighting a pandemic to preserve the rents of a few undeserving oligarchs.

Thus, besides having difficulty financing a Covid-19 response, developing countries face substantial leakages during—and likely after—the pandemic. Some countries are prematurely touting fiscal consolidation to return to a sustainable path. Austerity should be postponed until a recovery is well underway where feasible. Recent studies suggest that fiscal contraction hurts a country's standing in financial markets when fiscal stress is severe. For example, after Saudi Arabia recently announced an austerity plan, the stock market plunged.

When fiscal consolidation is appropriate, it too will benefit from stricter control of corruption. The cost of corruption in developing countries has been estimated at $1.3 trillion a year (World Economic Forum, 2019), equal to 75 percent of sub-Saharan Africa's GDP. Perhaps the Covid-19 crisis will galvanize governments to act to reduce leakages, creating fiscal space to serve the poor better while setting the stage for recovery and sustained economic growth.

Based on Arezki and Devarajan (2020)

CHAPTER II: Reviving Middle East and North Africa Regional Trade Integration in the Post-Covid-19 Era

Chapter II Takeaways:

- Leveraging a regional trade integration agenda to enable domestic reforms could become a new source of growth, jobs, and stability in MENA.
- Regional trade integration in the Middle East and North Africa (MENA) is below expectations, due to economic and political economy reasons.
- Persistent non-tariff measures, inadequate business environments, and costly logistics hinder trade within MENA and the rest of the world by impeding MENA's integration in regional and global value chains (RVCs and GVCs).
- The Covid-19 pandemic offers an opportunity for MENA countries to rethink social and economic policies aimed at strengthening trade integration, while reducing oil dependency.
- The authors propose a trade integration framework that goes beyond tariff reductions and links trade to sectoral reforms and the provision of public goods, with the ultimate objective of promoting inclusive growth.
- Post-Covid-19 trade offers an opportunity for MENA's recovery and medium-term transformation, particularly in activities associated with health services and the knowledge economy.
- The comprehensive integration agenda covers labor mobility through trade in services, the revamping of regional mechanisms for strategic cooperation, including • on the broader rules-based multilateral system.
- The success of this agenda depends on the involvement of small- and medium-sized enterprises and civil society in the decision-making processes.

II.1. Trade Integration in MENA: Time to Reset the Clock?

Introduction: An inclusive approach to trade liberalization

Trade openness can be significant in achieving inclusiveness. However, to promote growth that benefits all segments of society, trade reforms must move in parallel with other policy reforms. The benefits of trade openness might otherwise be canceled by other economic and social measures. The contributions of trade openness to inclusive growth can be uneven and cannot be understood without considering how it affects all factors of production, benefiting some and hurting others.

Trade liberalization can contribute to growth and better jobs, but it can also be associated with increased income inequality. For instance, if the need for labor standards is ignored, then so are both the disproportionate influence multinationals can have on trade negotiations and the possibilities of improving conditions for workers in developing countries at low cost and without jeopardizing economic growth (Chauffour and Maur, 2011). Promoting global labor standards, simultaneously with trade liberalization, could increase public support for trade agreements, while reducing inequality.

Furthermore, trade liberalization can aggravate pre-existing geographic and social income disparities if income rises for the factors of production (especially labor) employed in sectors of comparative advantage, and income and employment fall (in

absolute and relative terms) in sectors of comparative disadvantage. Adjustment costs and the length of time it takes individuals, firms, and sectors to adjust can be high (Gasiorek and Mouley, 2019).

Overall, failure to consider the internal redistribution aspects of trade liberalization prompts resistance to trade integration, particularly in the Middle East and North Africa (MENA), which is beset by social and regional disparities. When trade liberalization focuses primarily on technical matters and essentially ignores other issues, it can create economic and social imbalances (Moreno-Dodson, 2020).

When sectoral at the outset, redistributing trading gains after implementation of reforms becomes more difficult. According to Dani Rodrik (2020), the failure to consider these redistributive issues explains why protectionism is reemerging, and both right-wing and left-wing populisms are on the rise: "Today the world economy is as open as it has ever been, and the most important challenge it faces is not lack of openness but lack of legitimacy."

While many governments are concerned with the aggregate impact of growth, emphasis should rather be on addressing inequalities between different regional areas within a country (Arabiyat and others, 2019), and/or disparities among countries within a region. Inclusive growth strategies are needed, including coordinated sector reforms, to increase gains from trade openness. This would assist countries in reducing income disparities and poverty, and in distributing the benefits of growth fairly. With complementary redistribution policies, trade can also reduce poverty and promote inclusiveness—empowering poor and marginalized groups that work, for example, in rural areas or the informal sector, many of whom are women.

There are undeniable benefits to free trade that would be fostered under these inclusive strategies:

Consumers get access to choices (of products and services) previously unavailable. Competition from outside keeps domestic industries "on their toes," lowering prices to consumers (Garg, 2020). Innovation and variety flourish.

Protectionism limits those factors and thus constrains inclusiveness.

This report aims to outline an approach to regional trade integration in MENA based on three objectives:

- **Economic efficiency,** driven largely by the quest for market liberalization and free trade, through the expansion and deepening of trade agreements and other instruments, such as rules of origin.
- **Gradual convergence of per capita income and living standards among countries,** through parallel sectoral reforms, cooperation among institutions, and harmonization of regulations.
- **Explicit goals to prevent the social and territorial inequalities** that would naturally result from free trade, through the provision of public goods (see Box II.7) and specific measures targeting local areas and vulnerable population groups.

Greater economic efficiency must be pursued by first liberalizing trade barriers among countries in the region and, eventually, trade barriers with partners outside the region. Free trade must be expanded from goods to include services and capital flows with regional trading partners, as well as with the rest of the world. Non-tariff barriers that increase the cost of trade (among them, constraints stemming from logistics, rules of origin, and regulations) must be removed. Liberalization must proceed gradually, taking into account the sectoral and regional upheaval it may provoke by applying parallel social and financial measures to reduce any social imbalances arising in the process and to promote inclusion. Economic efficiency will also depend on the mobility of people—which allows for the acquisition of relevant knowledge, the exchange of ideas, the upgrading of skills, and the transfer of techniques and scientific discoveries.

Convergence will require widespread institutional change and harmonization of regulatory frameworks. It will also need substantial support from international partners, especially for lower-income countries or those with high poverty rates. This goal should also be grounded in a coordinated strategy to enhance the attractiveness of countries to private foreign investors—which should be based on improving the overall business environment as well as on co-development models involving small- and medium-sized enterprises (SMEs) in which North and South countries work together as equals rather than the North taking the lead.

Preventing and alleviating the social and regional inequalities caused by market liberalization necessitates ambitious policies to provide public goods (such as access to quality education, health care, and environmental protection), and access to new technologies (especially through the Digital Moonshot supported by the World Bank to bring high-speed Internet to everyone in Africa by 2030). Specific territories and vulnerable groups should be targeted in these efforts.

Existing regional mechanisms in MENA appear inadequate to foster the type of convergence and inclusion that happened in the European Union. Instead, MENA should explore more decentralized processes, based on partnerships between equals on a regional scale or in a sub-regional group. The support of more advanced countries within the region to lower-income and fragile countries, will also be essential in allowing co-development and integration to take place.

A pragmatic approach for MENA trade integration can be developed based on these objectives. MENA countries should keep their economies and societies open, exhibit sound policy and institutional practice, and build coalitions for trade—both regionally among themselves and with major global trading partners. To do so will require major changes to institutional, legislative, and regulatory frameworks at the regional level, which should complement national measures and compensate for any limitations on individual country actions.

The next section will explore the role that regional trade integration can play as a growth determinant in the MENA region during a time of protectionism risks and pandemic. Section II.3 will lay the foundations for a MENA regional trade integration agenda, by providing pragmatic ways forward and recommendations.

II.2. Regional trade integration as a growth determinant in an era of elevated protectionism risks

1. MENA as a Crossroads between Europe, Asia and Africa

The benefits of economic integration are well known. Stronger regional alliances allow countries to better compete in global markets. “Extending domestic markets provide opportunities for greater economies of scale and, through improvements in connectivity, helps strengthen access to markets. Economic integration can provide opportunities to expand economic activity” (Rouis and Tabor, 2013). Regional cooperation can also attract the investment needed to generate more and better jobs.

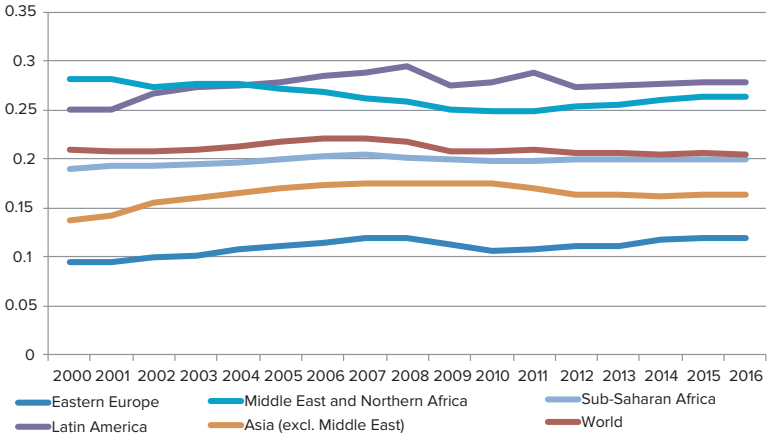
The positive effects of trade integration go beyond socioeconomic gains to include political benefits. An increase in bilateral trade interdependence and global trade openness may result in less conflict between countries and bring more peace and stability. Trade integration has been and continues to be, a means of prosperity, growth, job creation, and stability.

Because of its location and its economic, cultural, and political importance, the MENA region has historically occupied an important place in the world trade and has developed close economic relations with neighboring regions. For centuries, the MENA region connected civilizations—a crossroads for all European, Asian, and African trade routes.

In recent decades, there have been frequent discussions about regional cooperation in the MENA region. MENA countries are involved in a variety of overlapping bilateral and multilateral trade agreements, often called a "spaghetti bowl." There are organizations with a regional scope such as the League of Arab States, as well as sub-regional ones—such as the Union for the Arab Maghreb, the Agadir Trade Agreement, or the Gulf Cooperation Council (GCC)—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). Meanwhile, there have been a series of noteworthy initiatives with major trade partners such as the United States (the MEFTA initiative) and the European Union (association agreements) to promote trade and investment in the region, and to create a foundation for openness, inclusive growth, and stability. Several MENA countries are also active participants in the African Union.

Nevertheless, trade integration performance in the MENA region has been subpar**,** especially when compared with other parts of the world. Meanwhile, the region faces serious and chronic economic challenges**,** not least of which is a very high unemployment rate, especially among youth and women. At more than 25 percent, MENA's youth unemployment rate exceeds that of any other region. MENA is also among the most unequal regions in the world: more than 25 percent of national income is earned by the top 1 percent (see Figure II.1). Gender and geographical inequalities are also extremely high.

Figure II.1 Share of national income earned by top 1 per cent



Source: World Inequality Database.

Despite numerous trade agreements and integration efforts, the contribution of trade integration to economic growth has been below expectations. In this section, we will present some of the reasons, including asymmetric trade agreements, political economy constraints, and enduring conflicts**.**

Yet, the region still has the potential to harness the power of a supranational regional integration agenda to shape and make progress on key national reforms. Leveraging a regional trade integration strategy to enable domestic reforms, could become a new source of growth, jobs, and stability in the MENA region.

2. Sub-regional agreements

In the MENA region, trade integration has been pursued primarily through trade agreements that focused on progressively lowering tariffs for manufactured goods and, to a lesser extent, for agricultural goods and services.

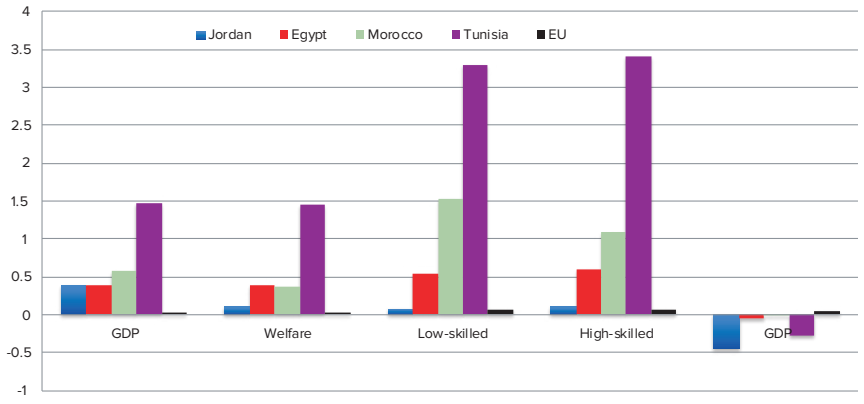
Integration with the European Union: limited gains. The European Union has been a privileged partner for several MENA countries. In the 1970s, Cooperation and Association Agreements were signed with Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia. They mainly provided market access for industrial goods, and preferential market access for agricultural products to the European Union. Then, in 1995, the Barcelona Process was launched to establish "political stability and security," "shared prosperity," and "understanding between cultures and exchanges between civil societies." Corresponding political, economic and social chapters (partnerships) were set up. The Barcelona Declaration aimed at creating this area of shared prosperity in the Mediterranean region, through sustainable socioeconomic development, improved living conditions, increased employment, and

closer regional cooperation and integration. It was under the Barcelona framework that Northern Mediterranean EU countries negotiated new Euro-Mediterranean association agreements with their South Mediterranean (SM) partners.

To achieve the Barcelona objectives, the main policy goal was to establish a free trade area between the European Union and six SM partners (Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia), in addition to intra-SM trade. Focusing on liberalizing trade of goods, free trade agreements (FTAs) between the European Union and each of the six partners were signed between 1995 and 2002 and entered into force between 1998 and 2006.[10]

The Barcelona process was intended to transform Euro-Mediterranean relations. It built a new multilateral framework for regional affairs and inculcated a sense of common identity in regional actors. It was expected to support economic and social modernization in SM countries, while allowing the European Union to maintain a political dialog with them and have some effect to their development process. The preferential tariffs applied by the European Union to imports from SM partners are lower than those applied to imports from the rest of the world. Since the entry into force of the Euro-Med FTAs, SM partners have benefitted from tariff advantages when exporting to the European Union. Mainly because of changes in EU tariffs and the composition of imports from SM partners, those benefits have diminished over the years for Tunisia, Morocco and Algeria; have increased for Egypt and Jordan, and stayed the same for Lebanon (Ecorys, Case & FEMISE, 2020). Meanwhile, in the South of the Mediterranean, reductions in SM tariffs applied on EU imports were more significant than those applied to other countries (in part because SMs had higher tariffs than the European Union to start with). Preferential margins enjoyed by EU exporters in SM markets have increased in most sectors and in most SM partners. Ecorys, Case and FEMISE (2020) concluded that although the European Union has benefited more, all SM partners seem to have obtained, some welfare and income gains from this trade liberalization (see Figure II.2).

Figure II.2 Estimated impacts of Euro-Mediterranean FTAs on GDP, welfare, and wages of the partner countries



Source: Ecorys-CASE-FEMISE (2020), Estimations of DG Trade, European Commission, using the MIRAGE model.

These gains are, however, rather small in absolute terms—ranging from 0.4 percent of GDP in Jordan to 1.5 percent of GDP in Tunisia. Yet, these gains only capture the effects of relative price changes and reallocation of resources across the economy. The overall benefits are expected to be larger due to a range of effects, including economies of scale and productivity increases.

Potential gains would help countries to shift towards deeper integration that could provide the SM partner countries with a stake in the EU's internal market. The European Union has made efforts to modernize association agreements into deep and comprehensive free trade agreements (DCFTAs, which go beyond manufacturing), with countries such as Morocco and Tunisia. Reviews of existing agreements are also underway with Egypt and Jordan.

10 The main objectives of the Euro-Med FTAs were to: (i) promote trade and expansion of harmonious economic and social relations, and establish the conditions for the gradual liberalization of trade in goods, services, and capital between the EU and SM partner countries; and (ii) encourage intraregional integration by promoting trade and cooperation both within the Mediterranean region and with the member States of the EU Community.

Meanwhile, it is likely that the economic growth and social stability achieved by the European Union have had positive externalities and benefits for Mediterranean countries. Nevertheless, overall, the gains have been disappointing due to, among other things, the exclusion of agricultural goods and services from the agreements, and non-tariff trade costs.

Moreover, the limited gains fail to make any meaningful reduction in the gaps in income and living standards between SM countries and their European counterparts (Moreno-Dodson, 2020). As a result, negotiations are underway to further liberalize trade in agriculture and services, and agree on similar regulatory frameworks on such issues as quality standards. However, more needs to be done.

Overall, deeper relations can benefit both MENA countries and Europe, provided there is mutual agreement on a comprehensive trade integration strategy. The Center for Mediterranean Integration (Moreno-Dodson, 2020) outlines important benefits to such integration:

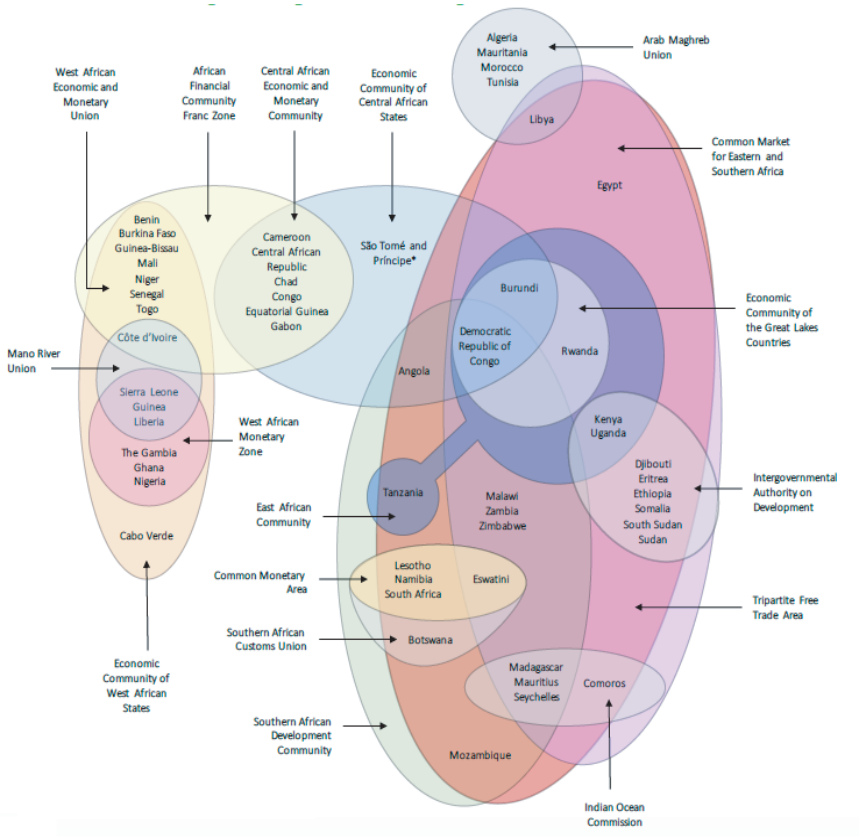
- Peace and security through economic development
- Access to larger markets
- Efficiency through increased competition
- Access to foreign technology.

Moreover, governments may desire to bind themselves with better policies to attract foreign direct investment (FDI). And countries that participate in regional integration may be able to offset the power of other regional agreements by increasing their multilateral bargaining power. In a nutshell, regionalization of trade seems to offer a good compromise between proximity and large access to markets.

Trade Integration with sub-Saharan Africa. MENA countries are at the gateway to sub-Saharan Africa (SSA) and participate in several African regional trade agreements (see Figure II.3). Among them, is the Arab Maghreb Union (AMU).

Yet, the AMU has one of the lowest levels of trade integration in the world. In 2018, AMU intraregional trade accounted for just 2.4 percent of its member countries' total trade (see Figure II.4). That is very low in absolute terms and in comparison, to other regional trade groups such as Mercosur in South America (14.7 percent) or Ecowas in

Figure II.3 Regional Trade Arrangements in Africa, 2019



Source: Abrego and others (2019).

Africa (8.65 percent). Several factors are at play: Insufficient reforms of legal frameworks for investment; no harmonization of taxes and rules of origin, little to no convergence or simplification of regulation and non-tariff measures, and the relative lack of trade facilitation programs (such as one-stop shops in which businesses deal with all their trade-related issues).

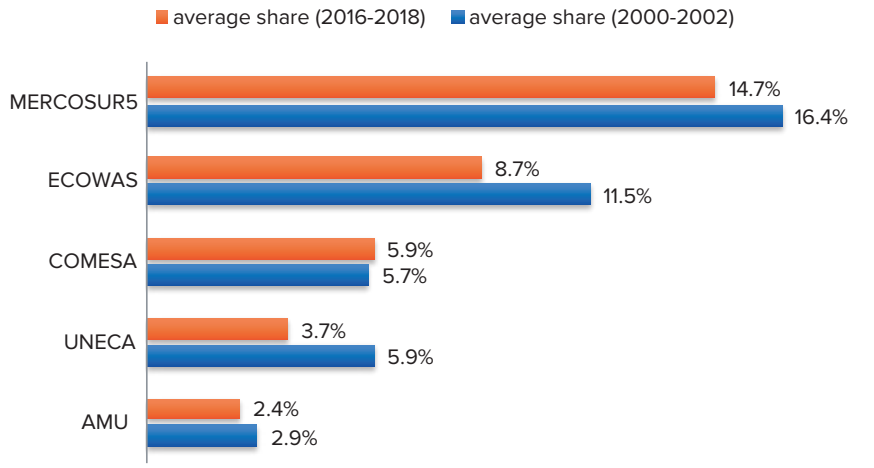
More promising, however, is the recently launched African Continental Free Trade Area *(AfCFTA).* The agreement has seven specific objectives:

- Elimination of tariffs and non-tariff barriers to trade in goods
- Liberalization of trade in services
- Cooperation on investment, intellectual property rights, and competition policy
- Cooperation in all trade-related areas
- Cooperation on customs matters and the implementation of trade facilitation measures
- Establishment of a mechanism for the settlement of disputes concerning members' rights and obligations
- Creation and maintenance of an institutional framework for the implementation and administration of the AfCFTA.

The AfCFTA would have more member countries, 55, than any other free trade area. It would connect 1.3 billion people and have a combined GDP of US$3.4 trillion. One of its key objectives is development of regional value chains (RVCs) to diversify the manufacturing sector and promote growth. It also has the potential to lift 30 million people out of extreme poverty. It is expected to complement existing sub-regional economic communities and trade agreements, offering a continent-wide regulatory framework, including policy areas, such as investment and intellectual property rights, that have been left-out of most sub-regional agreements in Africa (World Bank, 2020a).

The agreement entered into force in May 2019, but the negotiations on tariff reductions, rules of origin, and the specifics for trade in the priority services sectors have not been completed. Preferential trade under the AfCFTA was to commence on July 1, 2020 but has been postponed because of the Covid-19 pandemic. The second phase of negotiations will cover rules defining investment, competition, and intellectual property rights.

Figure II.4 Share of intra-regional trade in total trade, Arab Maghreb Union and Comparable Regional Economic Communities



Source: COMTRADE.
Note: Mercosur5 includes Venezuela, which has been suspended from the organization. The Arab Maghreb Union is an economic and political union agreement signed in 1989 by five Arab countries, Algeria, Libya, Mauritania, Morocco, and Tunisia, aimed at coordinating, harmonizing and rationalizing their development policies.

The AfCFTA regional market could be a game-changer for all African countries, including those in North Africa, helping them diversify their exports, accelerate growth, and attract FDI. It could also become an attractive market and spur more trade with neighboring economies in the Middle East, notably the Levant, with which North African countries already share significant trade ties (see section 6).

There are a number of factors that make deeper relations with Africa appealing to MENA countries:

- *The 4,500km-long trans-Saharan highway from Algiers to Lagos, most which has been completed, reinforces possibilities for trade within Africa***.** The main artery of this road crosses Algeria, Niger and Nigeria, while several branches join Mali, Tunisia and Chad. Operators in northern Niger and northern Mali, who would move their goods via the trans-Saharan route from Mediterranean ports, rather than the Gulf of Guinea, could save 11 days. However, regulations regarding customs and border crossings must be harmonized to make this new road a convenient way to transport and trade goods across countries.

- *There are recent discoveries of huge volumes of natural gas in Mauritania/Senegal*. These deposits could help unlock the clean energy potential of these two countries and benefit the entire region. Resulting fiscal revenue and foreign investment could help build the necessary domestic infrastructure. It could also help afford opportunities to diversify economic activity and open new areas of skilled employment (Melly, 2019). Meanwhile, positive spillovers would be a boon to a continent that has enormous and urgent energy needs (International Energy Agency, 2019).

- *The Morocco-Nigeria gas-pipeline project could bolster intra-African cooperation***.** The project is set to involve 15 countries in West Africa and could aid job creation and economic development, and foster peace and stability in the continent. Meanwhile, gas has a pivotal role to play in Africa's transition to clean energy (Thurber and Moss, 2020).

- *Morocco has already built on the region's integration potential, especially in sub-Saharan Africa.* Moroccan banks invested more than US$1.8 billion in 25 African countries between 2007-2017, representing 52.2 percent of Moroccan funds injected in Africa (Direction des Etudes et des Prévisions Financières, 2019). Attijariwafa Bank, BMCE Bank and Banque Centrale Populaire (BCP) have signed cooperation agreements with African governments and banks to support infrastructure programs, socioeconomic projects and government budgets. On top of accessing a bigger market, the initiative also contributes to the development process in their African neighbors, with attendant peace dividends. Moroccan banks operating in Africa will also enable Moroccan and European businesses to expand in the continent.

3. Constraints to MENA trade integration

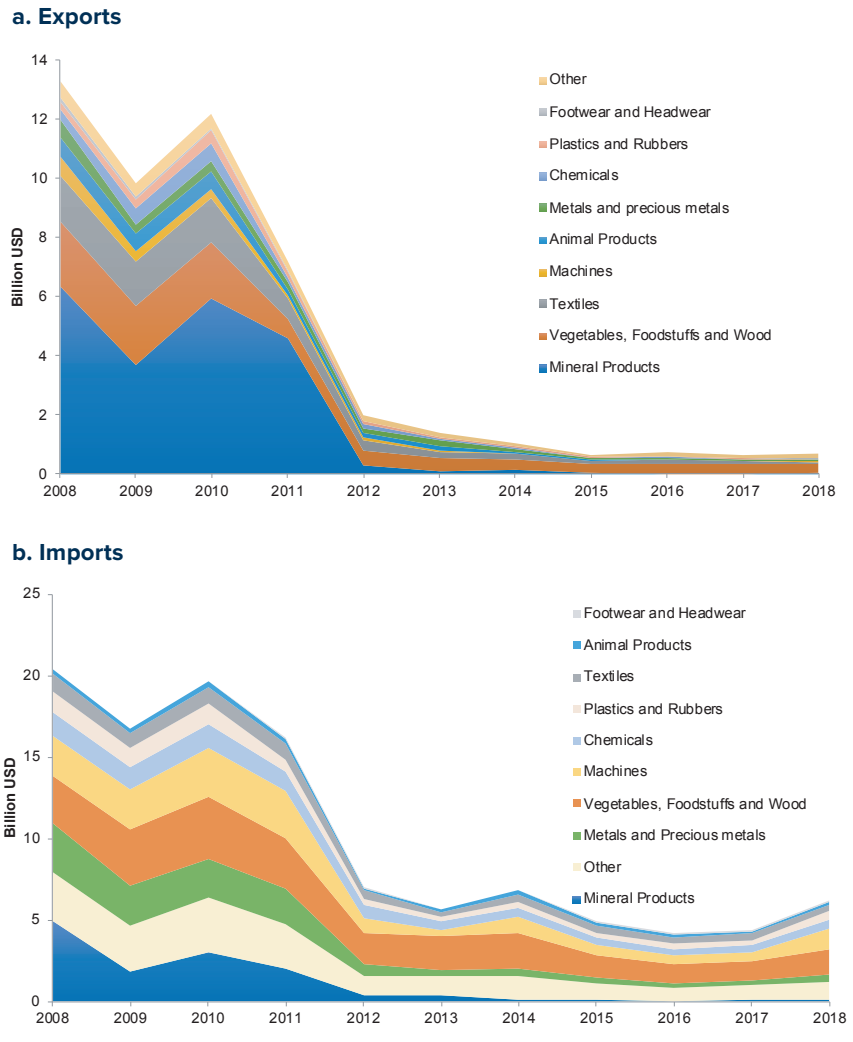
Political economy roadblocks. A series of political economy constraints contribute to the subpar record of trade integration of MENA countries—regionally and globally:

- *Mistrust***.** From an economic standpoint, MENA countries have incentives to integrating regionally because they often have similar factor endowments and comparative advantages (for example, AMU countries). But a level of "mutual trust" between countries is needed for regional trade integration to work and political cooperation among MENA countries has proven been problematic. The West Bank and Gaza - Israeli conflict, the strained relations between Morocco and Algeria, and the conflict in Syria, among others, impede development of a more united front among MENA countries.

- *Lack of Transparency***.** Data availability and transparency are important for growth. Arezki and others (2020) highlight two areas (public debt sustainability analysis and labor market measures) where the lack of data and transparency in MENA countries weakens credibility and obstructs policymaking. The credibility of any debt-sustainability analyses depends on data transparency. But, MENA countries vary greatly in their public debt reporting. Meanwhile, current analyses of labor market outcomes in MENA are also subject to data that differ from country to country and definition inconsistencies persist. Any future trade integration must be based on sound policymaking, which itself requires reliable regional data.

- *Cronyism*. According to Cammet and Diwan (2014), cronyism between the state and the elite of the business world in the region has increased over the past two decades, even after the Arab Spring protests (FEMISE, 2019). The link between cronyism and the lack of private sector dynamism and the accompanying failure to create many good jobs has been demonstrated. This prevents the region from capturing the potential gains from trade integration. An overview of the literature shows that cronyism hurts overall regional growth, which could explain why, despite liberalization reforms, MENA countries have not achieved the expected results (FEMISE, 2019).

Figure II.5 Dynamics of Syrian Trade, billion US dollars, (2008-2018)



Sources: Onder and Sayed (2019), and Observatory of Economic Complexity, https://oec.world/.

Moreover, countries in the MENA region have been affected by conflict, resulting in influxes of refugees, which add additional economic and social distress (Devarajan and Mottaghi, 2017). At least 12 million refugees and displaced persons live in Iraq, Jordan, Lebanon, West Bank and Gaza, Egypt and Turkey (Refugees International, 2020), with fatal consequences for the refugees themselves, who face obstacles to movement and increasing poverty. Since the late 1990s, the region has seen several non-state armed conflicts, one-sided state violence, and one-sided non-state violence[11].

Conventional wisdom suggests that violence can significantly upset international trade. Conflicts are usually accompanied by partial or total trade embargoes. Moreover, violence itself may disrupt trade. Firms that trade tend to be risk averse, as armed conflict may disrupt their normal trading relationship (Li and Sacko 2002). When a conflict seems possible, as is the case whenever there are political rivalries, trade prospects diminish.

Karam and Zaki (2016) find that, on average, a conflict is equivalent to a tariff of 5 percent of the value of trade. The Syrian conflict undoubtedly hurt trade in Mashreq countries. Similarly, the conflict in Libya disrupted trade in the Maghreb. Civil conflicts (non-state conflicts) also hinder trade significantly and have been found to be detrimental to bilateral trade flows in manufacturing. Interestingly, none of the non-state conflicts examined by Karam and Zaki (2016) were found to affect trade in services. Overall, in recent decades, conflicts in the MENA region are likely to have reduced any positive impact from trade on growth.

11 See Uppsala Conflict Data program statistics, https://ucdp.uu.se/.

Trade statistics show that Syria's exports have crashed since the commencement of the conflict (see Figure II.5). Export receipts fell from US$19 billion in 2010 to US$745 million in 2016 (Onder and Sayed, 2019).

There are also non-economic benefits to integration—peace, security and stability**.** These enhance the attractiveness of regional trade integration for MENA countries. Countries often exchange similar products as a result of intra-industry specialization. Intra-industry trade has been cited as particularly pacifying because it promotes similarity of interests and preferences among trade partners without evoking vulnerability—unlike inter-industry trade, which reveals different sets of incentives (Peterson and Thies, 2012). Meanwhile, trade increases information flows, which fosters intercultural understanding (Dorussen and Ward, 2010) and reduce information asymmetries, which might otherwise lead to conflict (Gartzke, 2003).

Thies and Peterson (2016) argue that, by promoting similar interests among trading partners without promoting dependence and vulnerability, intra-industry trade prevents conflicts of interest from emerging, with trade gains acting as added incentives to provide value to a given relationship. Furthermore, while liberalization could facilitate intra-industry trade and foster stability, this is likely to happen only if states have similar factor endowments.

4. MENA Intraregional and external trade flows: what is restraining trade?

An analysis of the evolution of MENA trade and foreign direct investment (FDI) flows within and outside the region, is presented in Annex C. The main points to be taken from this analysis are:

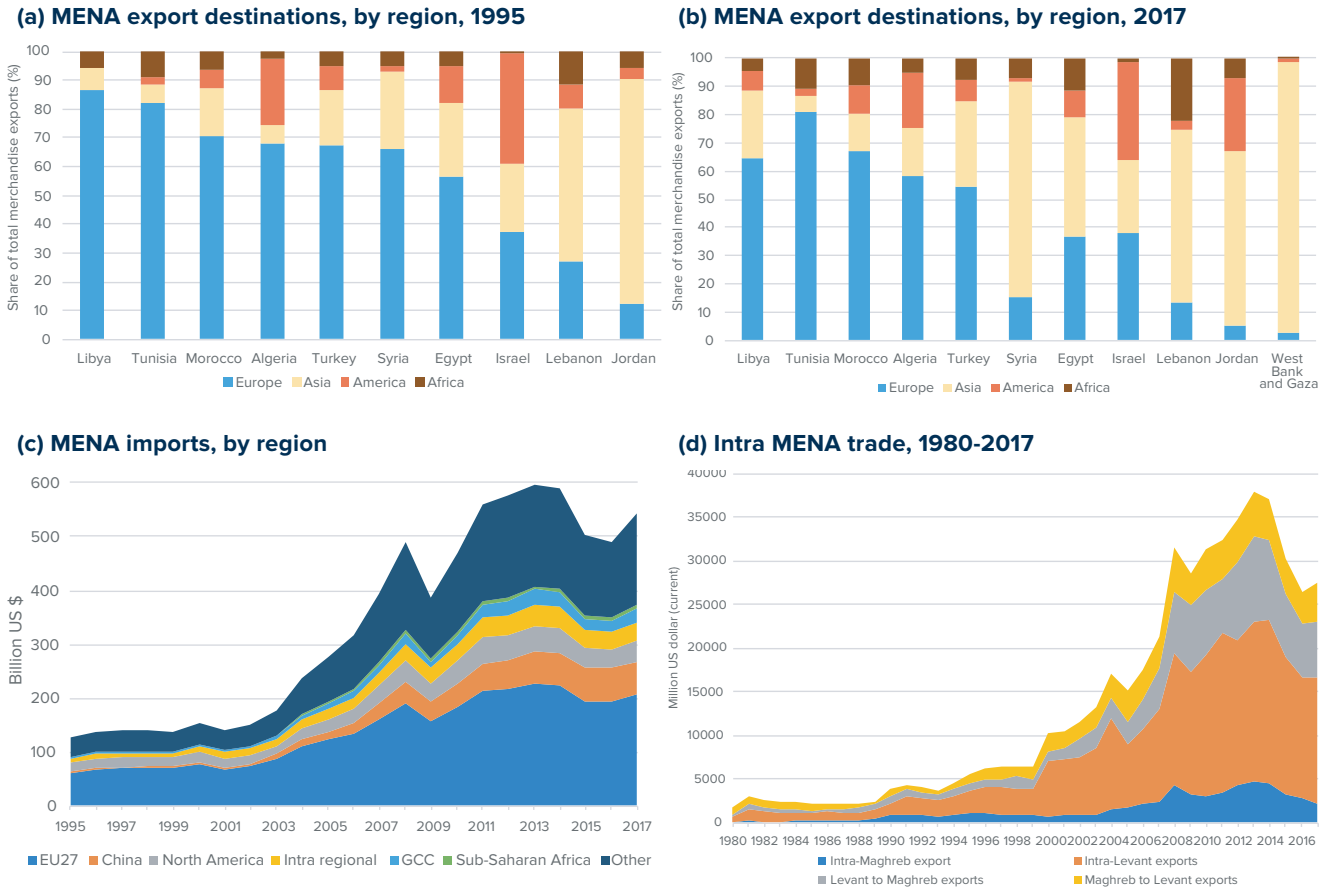
- The share of MENA trade with the European Union has declined. It represented 15.7 percent of total MENA trade for 2018, compared with 28.7 percent in 2002. Both exports and imports declined. At the same time, although still low, intra-MENA trade has increased from 8.6 percent of total trade in 2002 to 12 percent in 2018. Between 2002 and 2018, the value of MENA-EU trade almost tripled, while the value of intra-MENA trade increased 10-fold, albeit from a low base.

- The MENA region (excluding the high-income countries) received about US$32 billion of foreign direct investment (FDI) in 2019, down from US$60.9 billion in 2018. It is one of the lowest FDI destinations in the world, receiving five times less than Latin America and the Caribbean, and only slightly more than the US$28.5 billion sub-Saharan Africa received. The UAE (high-income) was the biggest MENA recipient (US$10.4 billion in 2018), followed by Egypt (US$9 billion in 2019) and Oman (US$6.3 billion in 2018). When all high-income countries are included, MENA receives FDI inflows comparable to the East Asia and Pacific (EAP) and Europe and Central Asia (ECA) regions, both of which have with higher levels of regional integration. But because FDI in the MENA region flows mainly to commodities (notably oil), it doesn't do much to increase employment or backward linkages (that is, further domestic processing of domestic or imported inputs) due to the high capital intensity of the oil sector, the difficulties in leaving and entering markets, and low political stability of the region (see Figure II.6).

- The direct partners of the European Union with whom association agreements have been signed (Algeria, Egypt, Morocco and Tunisia) have benefited from both trade and FDI. Trade between the EU and its partner countries steadily increased in recent years in both directions. With all six Mediterranean trade partners, including Lebanon and Jordan, EU imports are concentrated in low value-added primary goods, such as fuels and minerals. The European Union has been slowly increasing imports of machinery from these countries, a trend that could foreshadow the gradual integration of the region with EU supply chains through intra-industry trade.

The MENA region's participation in international supply chains is oriented toward non-MENA countries, rather than with a specific region or within MENA (see Box II.1). Over the past two decades, MENA's export destinations have shifted from Europe toward Asia and Africa (see Figure II.6, Panels a and b). MENA region countries have relatively weak trade linkages with each other, compared with other destinations, amounting to 6 percent of overall trade (see Figure II.6, Panel c). However, recent small increases in trade within the Levant or between Levant and Maghreb countries, though low at 10 percent of overall trade, hold promise for increasing future intraregional MENA trade growth (see Figure 6, Panel d). Outside the Levant and Maghreb, Oman is the single MENA country with a significant share of intra-MENA trade (Giovanetti and Marvasi (2019) and Box II.1) and could be an important pole from which to further expand MENA regional trade. Oman's performance could be partly explained by the existence of free economic zones such as Salalah. It was created to attract investment by providing tax and commercial incentives in sectors such as logistics, assembly and light-medium industries (Hossain, 2015). Such free zones have positioned Oman as a regional shipping hub, with re-exports from the country increasing by 33 per cent in the first quarter of 2020 compared with the first quarter of 2019. Specifically, re-exports to Qatar and the UAE increased respectively by 75 per cent and 54 per cent during the period considered (Marasinews, 2020).

Figure II.6 MENA External and Intraregional Trade



Source: Moreno-Dodson (2020), drawing from IMF DOTS, 2016, and UNCTAD Stat.

Box II.1. Intraregional Trade Integration

The value of overall trade across MENA countries varies widely. Among the top MENA global traders (Saudi Arabia, the UAE, and Iran, each with trade values exceeding US$100 billion), only Iran is a net exporter of intermediate goods to the world (see Table IIB1.1). Kuwait, Qatar and Libya are net exporting countries. Lebanon, Jordan and Tunisia are net importers.

MENA countries are also varied in terms of their intermediate export and import shares with their MENA neighbors. Some countries mostly operate as suppliers within the region (intra-MENA exporters), while others are buyers (intra-MENA importers). Lebanon exports 59.2 percent of its intermediates to the MENA region, followed by Jordan (43.4 percent) and Bahrain (22.5 percent). In contrast, Algeria (0.4 percent) and Libya (0.5 percent) send nearly all their exports of intermediate products outside the region.

Maghreb countries tend to trade more with European countries than with MENA countries. According to the World Integrated Trade Solution (WITS) of the World Bank (2020e) , Algeria's top exporting partners in 2017 were Italy (US$5,629.5 million), France (US$4,431.3 million) and Spain (US$4,103.4 million), which are also among its main importing partners. The same three countries are among the top trading partners of limited manufacturing MENA countries such as Morocco (exporting US$6,922.6 million to Spain in 2018 and importing US$8,105.8 million) and Tunisia, which also trades a lot with Germany. Commodity exporters such as Lebanon and Jordan also trade with the European Union but are more integrated with some of their MENA neighbors. Among Mashreq countries, Lebanon's top exporting partners are the UAE (US$457.4 million in 2018) and Saudi Arabia (US$212.4 million in 2018) which are also among Jordan's top five partners. Countries such as Oman and Yemen primarily trade with MENA neighbors such as the UAE (Oman exported US$2,902 million in 2018), Qatar and Saudi Arabia. The UAE is also a major trading partner of both Saudi Arabia and Iran. Figure IIB1.1 shows that Bahrain, Algeria, Saudi Arabia, the UAE and Oman had the biggest increases in intra-MENA imports between 2012 and 2018. Five product groupings—fuels, metals, stone and glass, chemicals, and electrical machinery— account for about 70 percent of intra-MENA imports (see Figure IIB1.2).

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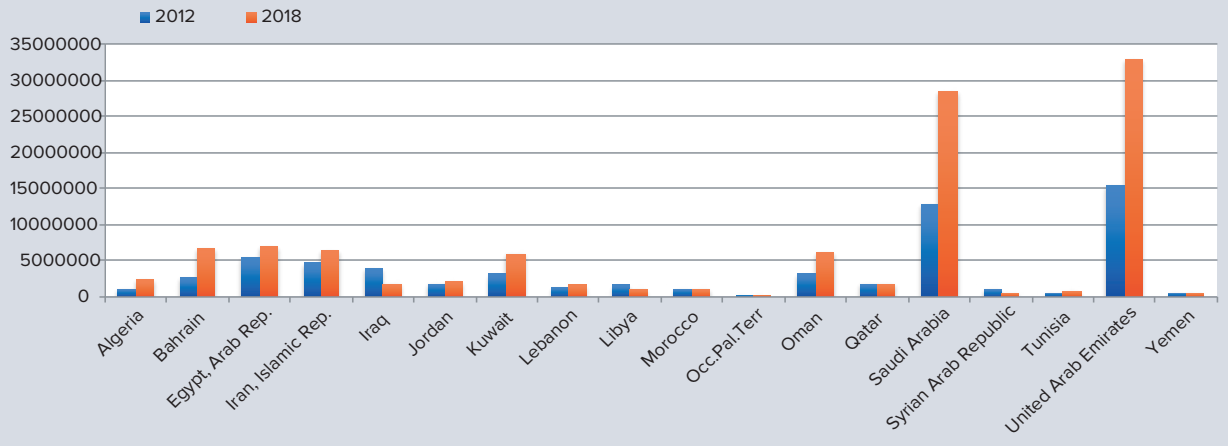
Table IIB1.1: Normalized Trade Balances and Intra and Extra-regional Trade, Total Trade in Goods and Services

Country	Normalized intermediate trade balance (%)			Weight of intra-MENA on intermediate trade (%)		
	Intra-MENA	Extra-MENA	World	Total Trade	Export	Import
Algeria	-45.7	46.1	45.2	1.0	0.4	2.6
Bahrain	75.4	7.0	17.3	15.0	22.5	4.5
Djibouti	-5.9	-17.3	-16.6	6.1	6.9	5.5
Egypt	62.9	-14.9	-9.1	7.4	13.3	2.5
Iran	-2.1	17.7	15.7	9.8	8.3	11.9
Iraq	-90.3	46.6	30.2	12.0	0.9	32.7
Jordan	31.2	-40.2	-21.7	25.9	43.4	14.7
Kuwait	8.1	70.6	69.2	2.2	1.4	6.5
Lebanon	23.4	-76.8	-55.3	21.5	59.2	10.6
Libya	-79.3	55.9	50.8	3.7	0.5	13.6
Morocco	32.7	2.2	2.7	1.8	2.3	1.2
Oman	-22.1	43.1	27.5	23.9	14.6	40.2
Qatar	-17.2	66.6	60.3	7.5	3.9	22.1
Saudi Arabia	-67.8	4.3	0.4	5.4	1.7	9.1
Syria	57.2	7.9	13.8	11.9	16.4	5.9
Tunisia	32.3	-22.0	-18.4	6.5	10.6	3.7
UAE	39.5	-10.6	-3.8	13.4	19.5	7.8
Yemen	7.8	12.6	12.2	7.2	6.9	7.5

Sources: Giovanetti and Marvasi (2019), elaborations using EORA dataset.

Figure IIB1.1 Intraregional trade imports, (Thousands US$) from MENA, by country



Source: COMTRADE.

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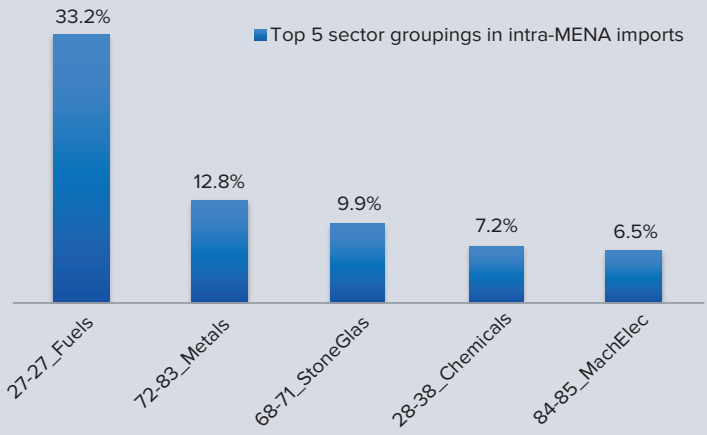
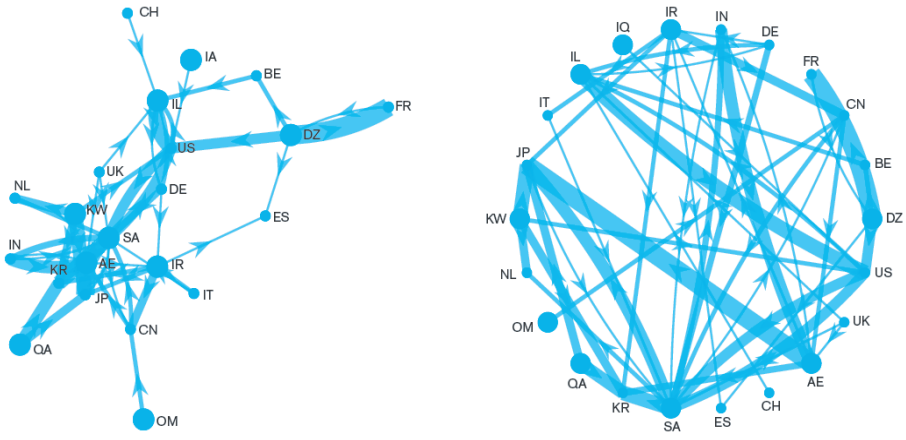
Figure IIB1.2 Top 5 sector groupings in MENA imports



Sources: COMTRADE, H4 nomenclature.

Giovanetti and Marvasi (2019) provide a graphical representation of the overall intermediate trade network of MENA countries (see figure IIB1.3). Here, each country is a node, the spokes are proportional to trade, the arrows indicate the direction of the trade flow and countries that are more connected occupy central positions. The largest traders in the MENA region (Saudi Arabia, UAE, and Iran) are central. Meanwhile, figure IIB1.4 shows the intra-MENA intermediate trade network. Overall, Saudi Arabia and Jordan have the highest number of linkages, being connected with all the other MENA countries, and are the two most central countries of the network. The authors suggest that most of the countries are somehow integrated within the region. However, they do not always have large trade flows, which ultimately reduces their importance in the production chain (such as Jordan). Others do not exploit the geographical closeness and are thus relatively isolated (Algeria).

Figure IIB1.3 Trade in intermediates network of MENA countries - Overall trade in goods and services (flows above 0.5%)



Source: Giovanetti and Marvasi (2019), estimates using EORA dataset.
Note: AE = United Arab Emirates. BE= Belgium. BH = Bahrain CH = Switzerland. CN = China. DE = Germany. DZ = Algeria. ES = Spain. FR = France. IL = Israel. IN = India. IQ = Iraq. IR = Iran. IT = Italy. JO = Jordan. JP = Japan. KR = South Korea. KW = Kuwait. LB = Lebanon. LY = Libya. NL = Netherlands. OM = Oman). QA = Qatar. SA = Saudi Arabia. SY = Syria. TN = Tunisia. UK = United Kingdom. US = United States of America. YE = Yemen.

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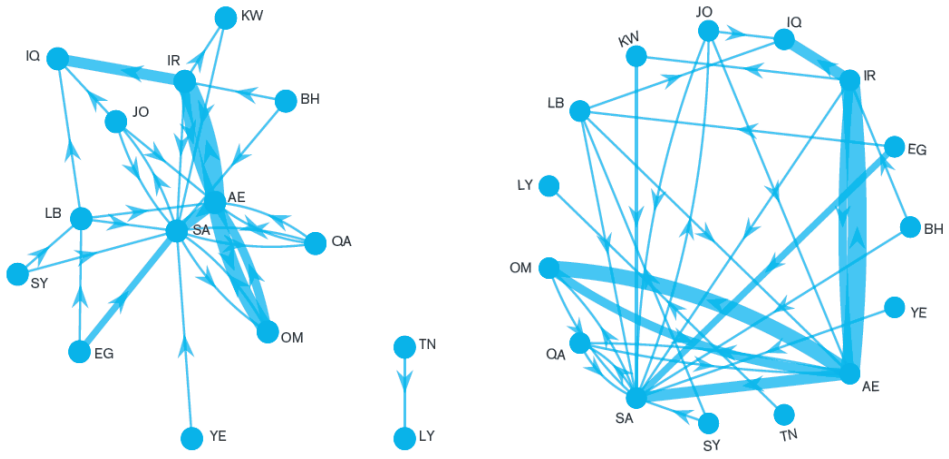
Meanwhile, figure IIB1.4 shows the intra-MENA intermediate trade network. Overall, Saudi Arabia and Jordan have the highest number of linkages, being connected with all the other MENA countries, and are the two most central countries of the network. The authors suggest that most of the countries are somehow integrated within the region. However, they do not always have large trade flows, which ultimately reduces their importance in the production chain (such as Jordan). Others do not exploit the geographical closeness and are thus relatively isolated (Algeria).

Figure IIB1.4 Intra-MENA network of intermediates - Overall trade in goods and services (flows above 0.5 percent).



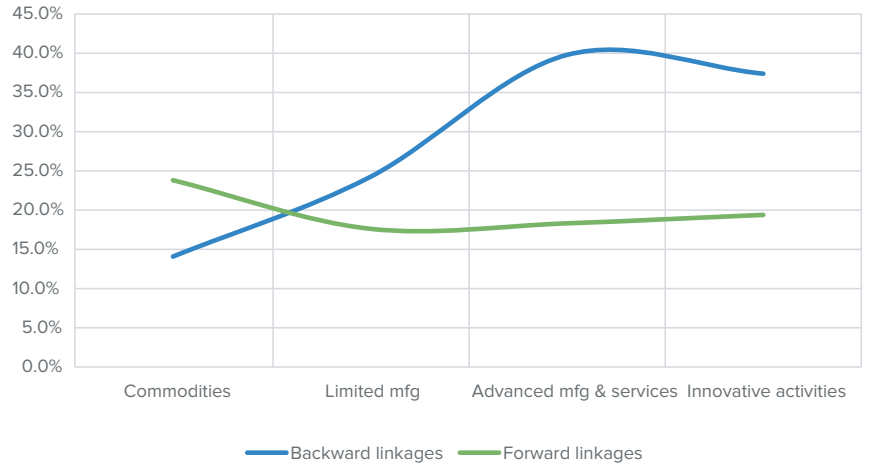
Sources: Giovanetti and Marvasi (2019), elaborations using EORA dataset.
Note: AE = United Arab Emirates. BE = Belgium. BH = Bahrain CH = Switzerland. CN = China. DE = Germany. DZ = Algeria. ES = Spain. FR = France. IL = Israel. IN = India. IQ = Iraq. IR = Iran. IT = Italy. JO = Jordan. JP = Japan. KR = South Korea. KW = Kuwait. LB = Lebanon. LY = Libya. NL = Netherlands. OM = Oman. QAC = Qatar. SA = Saudi Arabia. SY = Syria. TN = Tunisia. UK = United Kingdom. US = United States of America. YE = Yemen.

International trade flows are increasingly driven by global value chains (GVCs)—in which different entities, often in different countries, are responsible for different stages of the creation of a good or service, from the initial idea to distribution to final users (see Box II.2). Countries and regions participating in GVCs are classified into four types of exporters, from low complexity to high complexity:

- Commodities
- Limited manufacturing
- Advanced manufacturing and services
- Innovative activities

Three MENA countries—Lebanon, Morocco and Tunisia—participated in limited manufacturing GVCs in 2015, while Jordan, initially a limited manufacturing country, moved down to the commodities category between 1990 and 2015. Most other MENA countries fall in the commodities category, with the oil producers at the higher end of the category and non-oil exporters such as Egypt, at the low end. According to WITS data for 2018, consumer goods represent more than 38 percent of Lebanon's exports and 50 percent of Jordan's. The machinery and electronics sector only represents 6.7 percent and 10.9 percent of their trade respectively. The situation is similar for global traders such as Saudi Arabia and the UAE, where the same sector represents 1.1 percent (fuels represents more than two-thirds) and 11.5 percent, respectively. Box II.1 above suggests that limited manufacturing countries tend to trade more with the European Union. Greater integration with the EU market could be a possible incentive for them to produce higher complexity products. Countries able to transition from a lower complexity to a higher complexity GVC type move up the production value chain and reap larger gains from having more diversified production and trade structures, and more opportunities

Figure II.7 Average backward and forward GVC participation across type of GVC



Source: World Bank 2020d.
Note: The approximate distribution is based on backward and forward GVC participation averages by taxonomy group for the period 2010–15.

for backward and forward linkages. The MENA region participates in GVCs mainly as a commodity exporter (see also Box II.2). Nevertheless, there have been some increases in sophistication in recent years. Box II.4 identifies dynamic opportunities for export growth in selected MENA countries and shows specific technology products (so-called technology rising stars) that could offer trade integration potential in GVCs. Such products include medicines (Jordan, Lebanon), parts of airplanes/helicopters (Tunisia) and electric conductors and vehicles (Morocco).

But MENA countries, with few exceptions, have overall limited combined backward and forward linkages in GVCs—that is, they import few inputs to further process, and export commodities for further processing. Backward linkages are fewest for countries specialized in commodities, and begin to expand for countries in the limited manufacturing group (see Figure II.7). Countries specializing in advanced manufacturing and services are highly reliant on imported inputs to produce their exports. Backward participation is slightly lower for the countries in the innovative group because their activities are less dependent on imported inputs. The abundance of natural resources or agriculture in a country is linked to high forward integration because commodities are used in a variety of downstream production processes that typically cross several borders. Participation in limited manufacturing (garments for example) reduces forward integration because commodities are relatively less important in global trade, and the manufacturing output is less likely to be used as an input in destination countries. However, moving to advanced manufacturing and services GVCs, and especially innovative activities, increases forward participation (World Bank, 2020d).

The 2020 World Development Report identifies five key policy indicators as determinants of the complexity of the country's GVC participation—tariffs, FDI, political stability, customs efficiency, and logistics quality—and highlights the clear differences in characteristics of the four GVC categories depending on policy indicator (World Bank, 2020d). For all five policy indicators that are determinants of GVC backward participation, the lower the indicator value, the lower the category to which it was associated. The lower two GVC categories (commodities and limited manufacturing) are associated with lower average GVC participation shares, the determinants of which include slower customs processing, lower political stability, higher average tariffs, and lower logistics performance indices (LPIs).

Why are MENA countries not more integrated regionally or with other regions? Trade integration and trade flows depend on a country's or region's sector production profile, the extent to which it allows for backward and forward linkages, and the degree to which the production profile is specialized or diversified. In general, the more diversified the production profile relative to other countries or regions, the greater trade integration and trade flows can be. Similarly, the greater the opportunities for backward and forward linkages of various kinds, the greater the prospects for increased trade flow and integration.

The commodity GVC group, of which the MENA region is a part, fares worse on all indicators of GVC backward participation share, when compared with the limited manufacturing category. In contrast, the higher two GVC categories are associated with higher LPIs, better political stability, lower average tariffs, faster customs processing times, and higher average backward GVC participation shares. Other than the backward GVC participation share, the innovation GVC group had higher scores on all the other indicators (World Bank, 2020d, Table IIB2.7.1).

The relative importance of different determinants of the GVC participation of a region depends on the type of GVC and the characteristics of countries in the region. Bottlenecks specific to different regions and groups of countries hamper their backward GVC participation (World Bank 2020d Table IIB2.7.2). To transition across types, all determinants and policy areas must be improved, including tariffs, FDI, political stability, customs efficiency, and logistics quality. The relative importance of these determinants differs across regions. For example, in sub-Saharan Africa, low FDI inflows are the most important deterrent to backward GVC participation, while for countries in the MENA region and in fragile and conflict situations, low political stability is the severest obstacle. Nonetheless, the ability to transition across different types of GVC participation depends not on the severest obstacle but, rather, on substantial, simultaneous improvements in several policy areas.

Box II2. Global Value Chains —Definition and key regional characteristics.

Global Value Chains (GVCs) correspond to the dynamics of production processes but also the international dispersion of tasks and activities—such as research and development, conception, design, marketing, manufacturing, assembly, packaging, distribution—organized within these processes. From an organizational standpoint, the networks mobilized within GVCs can be very complex, involving firms in a wide variety of fields (such as manufacturing, logistics, transport, and insurance). These GVCs are characterized, both by their form—the geographic and sequential organization of the functions and inputs produced—and by their governance mode—that is, the distribution of power between the leading firm and the other stakeholders in the chain (Augier and others, 2019).

Firms in developing countries have a unique opportunity to produce and export (process or inputs) according to their comparative advantages. Because GVCs are so important in world trade, it is by integrating into a GVC that a firm in a developing country is most likely to export. Producing and exporting within a GVC is also likely to bring improved productivity and better international positioning. As noted by Augier and others (2019) “the use of foreign inputs, the obligation to meet certain production and quality standards, a close relationship with the foreign principal, access to new technologies, the possibility of improving employees' skills, access to new information—in particular concerning consumer preferences in high-income foreign markets—access to new productive organizations, etc., contribute to increasing the company’s competitiveness and hence that of its products.”

While all countries are involved in GVCs, they each participate in different ways (see Map IIB2.1). Some countries tend to export raw materials, which are used as inputs for further processing. Others import such inputs for assembly and export, while others produce sophisticated goods and services. Some trade heavily through GVCs, whereas others export largely domestic goods for consumption.

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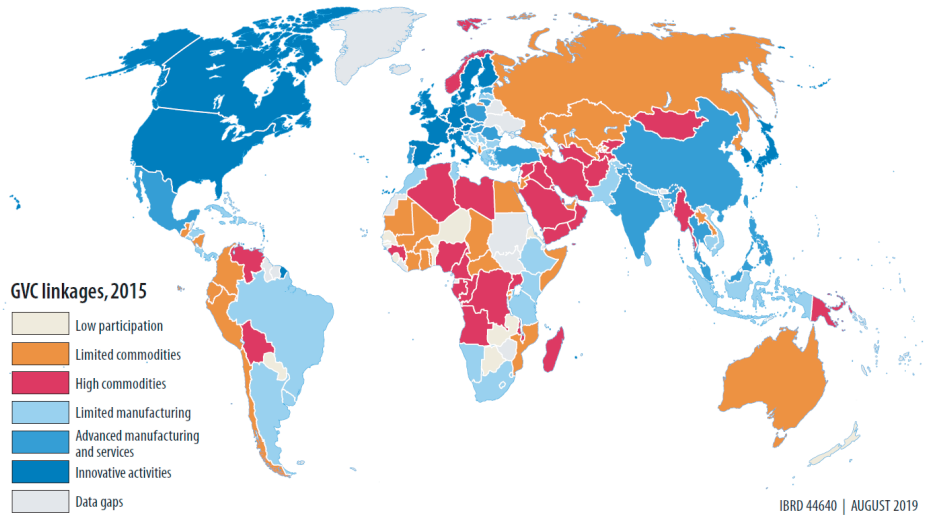
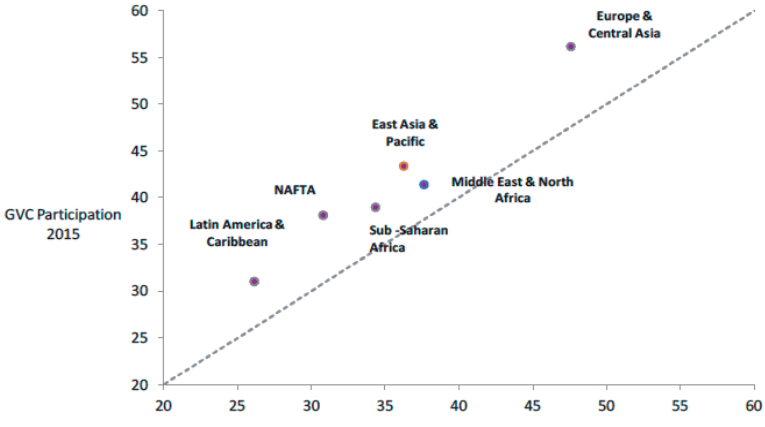
Map IIB2.1. All countries participate in GVCs—but not in the same way, 2015



Source: World Bank, 2020d.

There are clear differences among regions. East Asia, Europe, and North America are engaged in advanced manufacturing and services GVCs, and innovative GVC activities. Countries from Africa, central Asia, and Latin America are mostly in commodities and limited manufacturing GVCs. The situation of MENA countries is varied. Countries such as Bahrain, Lebanon, Morocco and Tunisia are more integrated in limited manufacturing GVCs. Algeria, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia and Yemen are more integrated in high commodities. High GVC participation for major commodity exporters in the MENA region, such as Algeria and Saudi Arabia, reflect extensive forward integration as natural resources are the most upstream sectors.

Figure IIB2.1. GVC participation by major geographic regions



Source: De Melo and Twum (2020).
Note: GVC participation measures the share of country's exports that either makes use of value-added imported from another country or is exported to another country for further processing. It is the share of GVC related trade for a country over its total gross exports.

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Transitions from one category of GVC participation to a more advanced one were common in East Asia and Europe, where countries were actively engaged in sectors most open to GVCs, such as electronics and machinery. However, between 1990 and 2015, the type of GVC integration of MENA countries did not change much. Exceptions are Iran and Iraq, which transitioned from the limited commodities to the high commodities, due to oil. The rest of MENA did not transition into more sophisticated forms of GVC participation. To this day, the MENA region's integration in GVCs is limited despite its favorable geographic position. Figure IIB2.1 compares the GVC participation rate of MENA with that of other major geographic regions.

Box II.3. Global and regional overview of the global value chains pre and post-pandemic.

Trade growth prior to the pandemic.

The overall share of GVC trade in total world trade grew rapidly in the 1990s and early 2000s, engendered by the increases in internet use that were enabled by reliable and affordable information and communications technology (broadband internet and mobile cellular telephony) and falling average tariffs. After the 2008 financial crisis, the share of GVCs in overall trade stagnated because, among other things, global economic growth and investment slowed and there was no major trade liberalization (Ferrantino and Taglioni 2014). Still, about half of world trade appears linked to a GVC (see Figure IIB3.1).

Global production networks are concentrated around three main regions: Europe and Central Asia (ECA; with Germany as the core), East Asia and the Pacific (EAP; with China as the core), and North America (with the United States as the core). GVC participation increased globally and regionally between 1990 and 2015, overall and in each of the regions (see Figure IIB3.2). Together with South Asia, MENA is the least regionally integrated region. Indeed, MENA's GVC activities are heavily global rather than regional, as is the case with the South Asia and sub-Saharan Africa regions. Between 1990 and 2015, MENA's global GVC participation share grew by 3 percentage points to 39 percent, while MENA's regional GVC participation barely grew by a point and remained below 2 percent.

Figure IIB3.1. Overall GVC growth 1990-2015

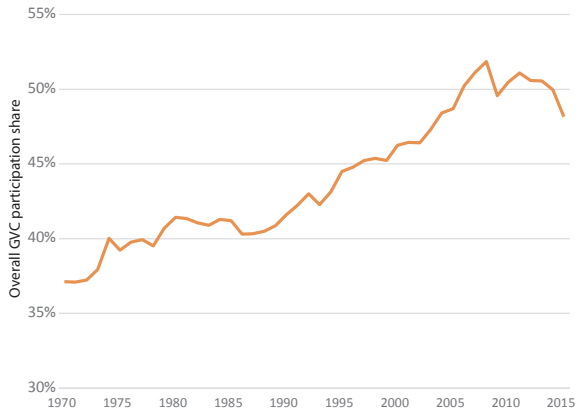
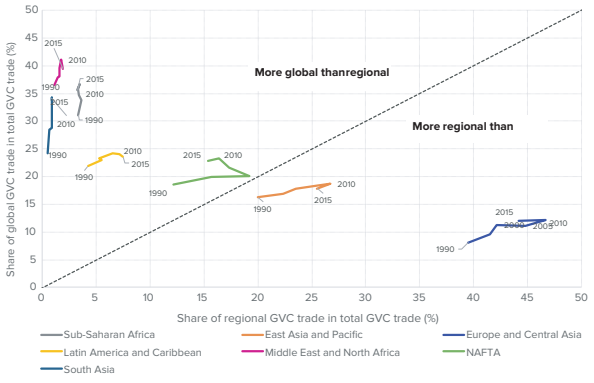


Figure IIB3.2. Global & Regional GVC growth, by region 1990-2015



Source: World Bank 2020d.

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For both the EAP and ECA regions, GVC participation was much more regional than global, and comprised more complex value chains. Europe is the most regionally integrated, with four times as many regional linkages as global linkages. The extent of regionalism in the GVC participation shares for the EAP, ECA and North American regions, the three main centers of global production networks, declined between 2010 and 2015

US-China tensions pre-Covid-19 and impact on GVCs

Meanwhile, the 2020 World Development Report highlighted how US–China trade tensions before the pandemic have affected GVCs (World Bank 2020d). It showed how tariffs imposed by the United States on intermediate goods are likely to lead to a reallocation of sourcing of inputs across value chains between the United States and China. This could cause adjustment costs in the sectors and locations affected by trade diversion. Bilateral trade barriers may affect products and/or countries not directly targeted. At first glance, there seems to be limited concern for MENA countries. MENA countries' combined shares of value added in Chinese exports to the United States, or in US exports to China, are small. Iran, Oman and Kuwait have the most value added in China exports to the United States, but their shares are all tiny—less than 0.15 percent for Iran and less than 0.1 percent for Oman and Kuwait. Saudi Arabia, Algeria and Kuwait have the most value-added in US exports to China, but none have a share higher than 0.2 percent.

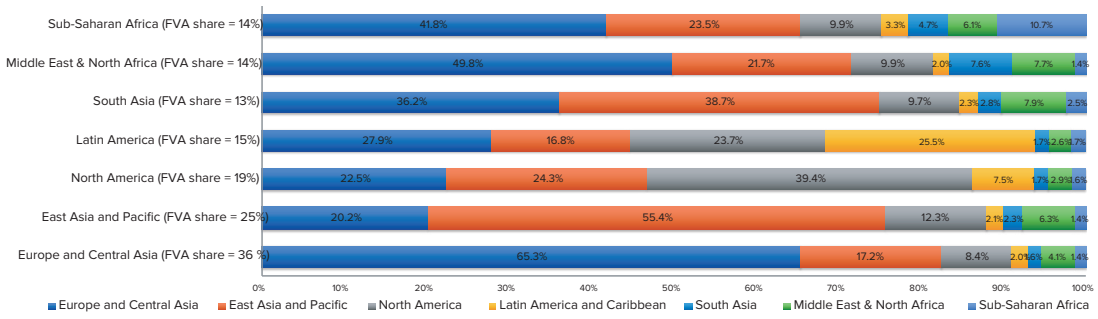
Post-pandemic GVC participation reflects pre-pandemic trends

GVCs have been hit by the pandemic, which will likely amplify the decline in GVC participation that has been underway since the 2008 global crisis. In contrast, RVC participation is likely to increase. Successive shock waves are playing out, as regional production centers sequentially bear the impact of the lockdowns induced by Covid-19. Killic and Marin (2020) find that lower post-2008 GVC growth is associated with lower global investments, dampened by a significant increase in global uncertainty. The World Uncertainty Index (WUI) increased by 200 percent between 2008 and (the Euro area debt crisis of) 2012 (Ahir and others 2018). Because uncertainty is even higher today, the GVC contraction trend persists. Notably, in contrast with a 70 percent increase in the WUI due to the SARS outbreak in 2003, the Covid-19 pandemic is likely to increase uncertainty by about 300 percent which, according to Killic and Marin (2020), would reduce GVC activity by 35.4 percentage points. However, the observed reduction in GVC activity could be partly countered by the COVID-19-induced acceleration in the use of digital technologies that enable improvements in supply chain management and tracking, including over long distances.

As the rise in uncertainty increases production costs, due to unreliable supply networks, GVCs after 2008 and again during the pandemic are becoming more regional and local, rather than global. In response, companies are diversifying their range of suppliers and, in some instances, are pulling back from reliance on distant suppliers, resulting in the reshoring or near-shoring of production activities. This trend is most notable for firms based in Europe and north America, while within East Asia and the Pacific (EAP) some manufacturing activity is being relocated from China to other EAP countries (World Bank, 2020g). Vietnam is benefiting from the latter trend, given its electronics manufacturing capabilities and economic resilience following its early control of the pandemic outbreak.

Of the industries with the most reshoring activity (chemicals, metal products, and electrical/electronic products), the chemical industry stands out as the top reshorer in Germany, Italy, France, and the United States (Killic and Marin, 2020). This reshoring/near-shoring by firms in advanced economies, is reinforced by low interest rates, which make it cheaper to invest in factory robots to offset the higher labor costs in the home countries. Increased uncertainty and lower interest rates, in addition to rising wages in China, are reducing the value of the low-wage benefits China has enjoyed that enabled it to become the preeminent "factory to the world." Countries and regions nearer the European Union and the United States could benefit from the reshoring/nearshoring trend. So far, Eastern European countries, which began to invest in robots before the pandemic, are already benefitting from the European Union's reshoring. The question remains as to whether MENA countries, notably Lebanon, Morocco and Tunisia, can similarly benefit through their linkages in limited manufacturing GVCs.

Figure II.8 Share of foreign value added in exports of each region, by source region



Source: Adapted from the World Bank, 2020d.

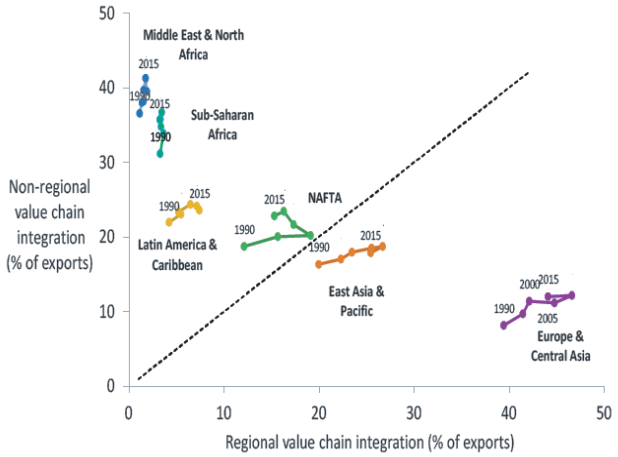
Status of MENA in RVCs and GVCs. A snapshot of backward linkages, shown in Figure II.8, confirms that production networks in MENA are anything but regional. In an average MENA country, only 7.7 percent of the imported intermediates embodied in its exports in 2018 originated from other MENA countries. This is in stark contrast with Europe (65.3 originated regionally), East Asia (55.4 percent) and North America (39.4 percent).

Figure II.9, Panel a, displays some interesting findings about the supply chain trade and the MENA region, including the extremely low growth of regional supply chains. MENA's regional GVC participation is among the lowest in the world, along with sub-Saharan Africa (SSA). Also, unlike other regions, most of MENA's supply chain trade is non-regional. De Melo and Twum (2020) argue that these patterns may "reflect a weak governance and regulatory environment that hampers the development of" regional supply chains. This contrasts with the EAP and ECA regions, which mostly focused on regional supply chains, capitalizing on a combination of strong and skill-based agglomeration economies (in which a large number of industries and services are concentrated), trade facilitation policies and quality institutions.

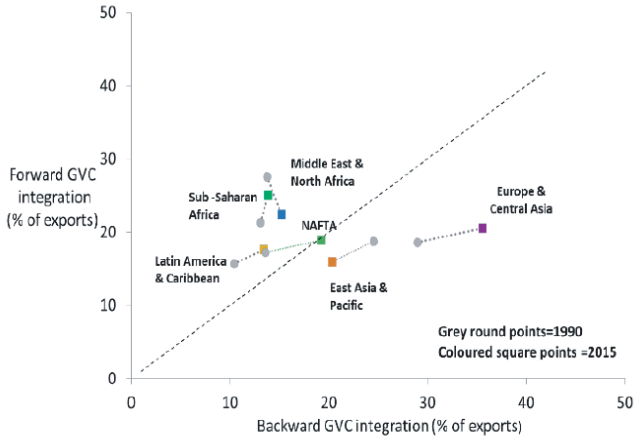
Figure II.9, Panel b, shows that the MENA region has mainly had forward participation in supply chains, which provides enterprises with new opportunities to access global markets. By fragmenting the production of final goods, GVCs not only expand the number of exportable goods, but also the nature of these goods (Augier et al., 2019). Enterprises can specialize in a segment of the manufacturing process of a product, for which a firm, particularly a small one operating in an emerging country, is more likely to be competitive than if it produced the final good. This expansion of the number of exportable intermediate goods provides SMEs with greater opportunities to exploit their comparative advantages in international markets.

Figure II.9 SGVC participation by major geographic regions and by type

a. Regional vs non-regional GVC participation



b. Backward vs forward GVC participation



Source: De Melo and Twum (2020).

Backward participation, on the other hand, involves importing foreign intermediates. Exporting firms use imported intermediate goods, thus providing SMEs in emerging countries with access to more sophisticated inputs that comprise a higher technological level than domestic inputs. This downstream path, however, as observed in the EAP and ECA regions, requires smooth coordination across regional partners, which is lacking in MENA countries.

In other words, most GVC exports from MENA countries are used by the importing countries to produce intermediate goods. These products are then exported to produce higher value-added final goods. The capacity of countries to embrace and adapt to technological innovations affects their position in GVCs. In that respect, there are specific technology rising stars that could offer integration potential in MENA countries (see Box II.4).

Box II.4. Global trends in trade: How could MENA benefit?

The MENA region has had only limited GVC integration. MENA could integrate further because of its position at the crossroads of three continents, its human capital, its rich endowment of natural resources, and its proximity to large markets. In addition to increasing its exports, integrating into GVCs could benefit the MENA countries in several other ways:

- Employment would grow, whatever the level of specialization, which would help meet the pressing challenge of youth unemployment in the region.
- Foreign investment would become more attractive and workers' skills would increase. The region has numerous features that are attractive to foreign investors. It has a relatively low cost of labor, a strategic location, and a great potential for deeper trade integration. Moreover, most MENA product exports heavily use skilled blue-collar workers, who are always sought after in manufacturing (Aboushady and Zaki, 2018).
- SMEs would benefit from growth, access to technology and information, and exposure to new products. As noted by Jaud and Freund (2015), "MENA has champions (the individual firms at the top of the distributions) of a size comparable to other regions, but it lacks teams of world-class exporters to surround and emulate the number ones." SMEs, which represent most MENA enterprises, have so far played little role in exporting.

Under the current trends in global trade, countries will likely bring at least some of their production activities close to home. GVCs are likely to become more regional in nature by moving closer to consumer markets and more consolidated in terms of activities. The capacity of countries to embrace and adapt to technological innovations could determine their position in GVCs, as digital technologies will also reduce countries' traditional comparative advantages (Pandit, 2020). In this regard, MENA countries are in a difficult position. The share of MENA high-technology exports in manufactured exports stood at only 7 percent in 2018 (Comtrade/WITS). While the UAE's share is 11 percent, countries such as Algeria are below 1 percent. Meanwhile, exports within the MENA region are dominated by goods with low- and medium-technology levels.

Yet, there are sectors and products that offer an integration potential for MENA countries. Forum Euroméditerranéen des Instituts de Sciences Économiques (FEMISE), under The Next Society project, tried to identify dynamic opportunities for export growth in selected MENA countries and isolated those products and/or sectors that appear to be performing well. To do this, country performances in world markets were analyzed over time and compared to changes in world demand. This allowed the identification of technology rising stars, which are high- and medium-high tech products for which the share in national exports grew faster than the share in world demand.

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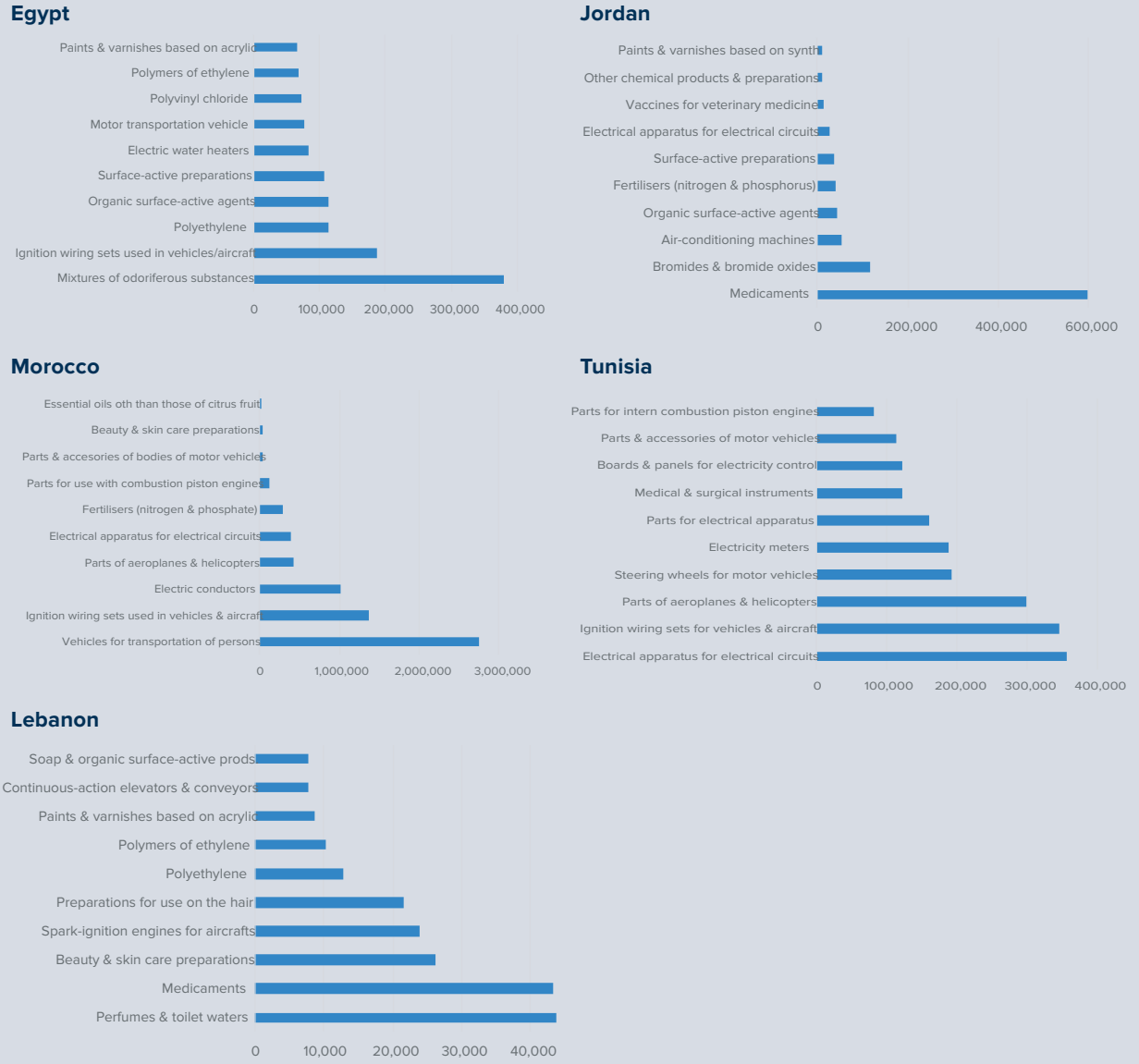
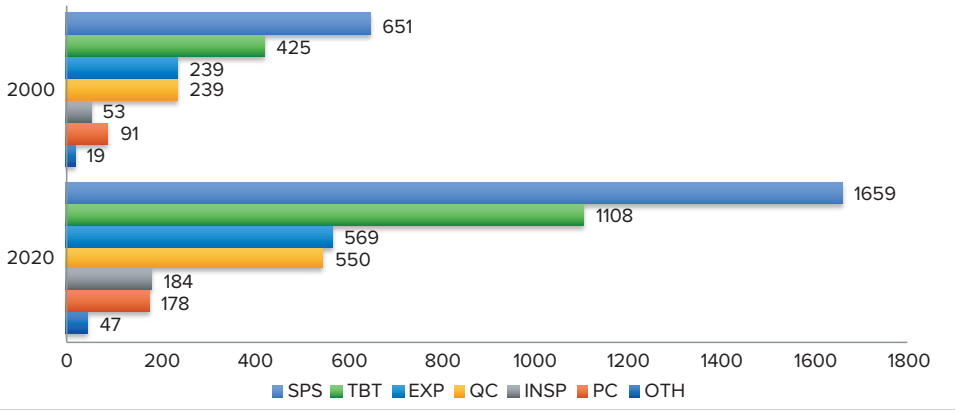
The top 10 *technology rising stars* products for Egypt, Jordan, Morocco, Tunisia and Lebanon are shown in figure IIB4.1. Also identified are technology new stars, which are newly exported high- and medium-to-high- tech products. The best performing *technology rising stars*, and *technology new stars* suggest the potential of such sectors as machinery, vehicles, chemicals and pharmaceuticals, which could be further deepened by integrating into GVCs. The World Development Report (World Bank, 2020d) suggests that countries have potential to transition into more sophisticated forms of GVC participation as they progressively become engaged in the sectors most amenable to GVCs, such as electronics and machinery. As Figure IIB4.1 illustrates, there are specific machinery products that could carry GVC potential for Lebanon (Spark-ignition engines for aircrafts), Tunisia (electrical apparatus for electrical circuits, ignition wiring sets for vehicles & aircraft, parts of airplanes & helicopters), Morocco (vehicles for transportation of persons, ignition wiring sets used in vehicles & aircraft, electric conductors, parts of airplanes & helicopters) and Jordan (air-conditioning machines, electrical apparatus for electrical circuits).

Figure IIB4.1. Top 10 Technology Rising Stars products in selected MENA countries (thousands of US dollars)



Source: The Next Society (2019-2020), Country Profiles, produced by FEMISE using COMTRADE data. The Next Society is a project launched by ANIMA Investment Network, co-funded by the EU. https://www.thenextsociety.co/

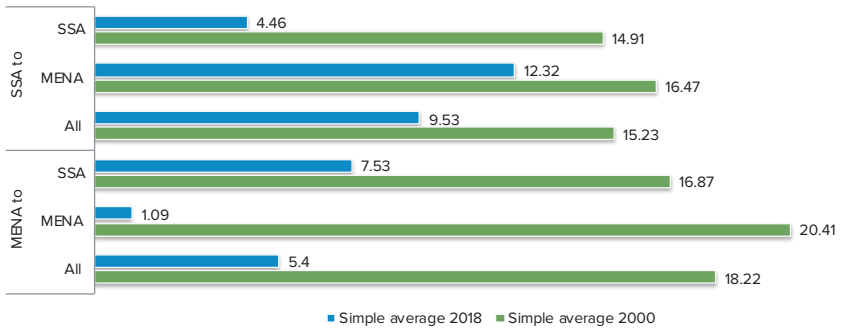
Figure II.10 Number of NTMs applied by MENA, by type of measure in 2000 and in 2020



Sources: UNCTAD NTMs TRAINS Database (https://trains.unctad.org/).
Note: SPS = Sanitary and Phytosanitary. TBT = Technical Barriers to Trade. INSP = Pre-shipment inspection. QC = Quantity Control. PC = Price control measures. OTH = Other measures. EXP = Export-related measures.

Identifying obstacles and explaining the costs of trade. The limited global integration of MENA countries can be explained by obstacles that persistently hinder trade among them. The five policy indicators that determine the extent of trade integration (tariffs, FDI, political stability, customs efficiency, and logistics quality) were discussed for MENA as a commodity exporter in relation to other regions and GVC types. How they affect intraregional trade is discussed in Annex D, which shows that these factors can take various forms, including *restrictive trade rules*, such as non-tariff measures (NTMs) and regulatory barriers to services trade; *business environment constraints* that hamper joint investment efforts and projects; and *logistical factors*.

Figure II.11 Effectively Applied Tariffs, by trading blocs (SSA, MENA, all)

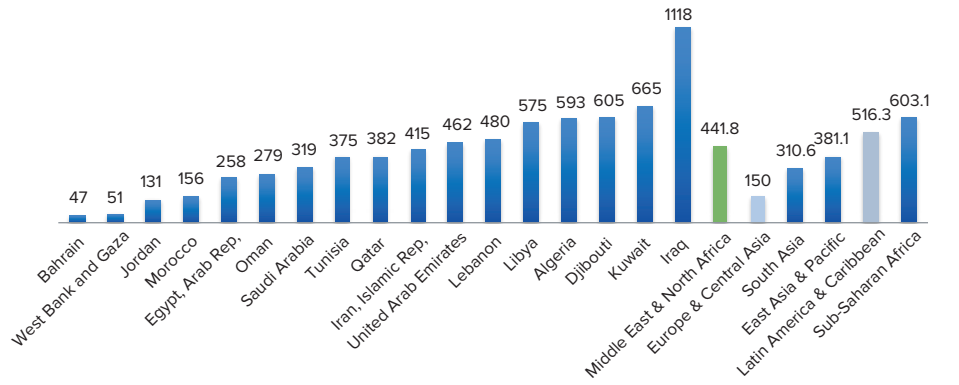


Source: WITS.

Non-tariff measures. Comparator countries apply several NTMs—sanitary (animal and plant) requirements, technical barriers, and pre-shipment inspection—that are often stricter than those applied by MENA economies. However, MENA countries apply more NTMs than in other regions. For all categories of measures, their number has at least doubled between 2000 and 2020 in MENA (see Figure II.10). Sanitary measures increased from 497 in 2000 to 1,496 in 2020. They represent about 40 percent of the total NTMs applied by MENA countries. Technical barriers to trade increased from 408 in 2000 to 1,080 in 2020. They account for about a quarter of NTMs.

Tariffs. The intra-MENA effectively applied rate is low on average (1.09 percent) and has drastically decreased since 2000 (see Figure II.11). But the effective tariff applied by the MENA region to SSA countries (7.53 percent) is higher than the one applied to the world as a whole (5.4 percent). Likewise, sub-Saharan Africa applies higher tariffs to MENA countries (12.32 percent) than to the world (7.53 percent). Furthermore, the MENA region applies high tariffs on specific products, including medical products.

Figure II.12 Cost to export: Border compliance (USD)



Source: World Bank, 2020f.

Business environment. In 2020 four of the top 10 countries that improved their business environments were in the MENA region—Bahrain, Jordan, Kuwait, and Saudi Arabia. Trade-related reforms included establishing a one-stop shop for company incorporation and enhancing the electronic trade single window (Saudi Arabia), enhancing the customs risk management system (Bahrain), and introducing e-payment of port fees (Morocco). However, other MENA economies do much worse. Overall, in terms of the business environment to facilitate trade, the MENA region underperforms in obtaining credit and trading across borders. *Getting credit* in the MENA region is harder than anywhere else in the world. The region ranks 118 out of 186 countries. The performance can be attributed partly to insufficient protections for lenders and borrowers in collateral and bankruptcy laws, which is reflected in a weak "Strength of legal rights index." Credit constraints can be an impediment to trade because trade credit finance plays a key role in determining trade performance (Vaubourg, 2016). *Trading across borders* is impeded by costly compliance requirements for exporting, which average US$442 (see Figure II.12) and take 53 hours to fulfill—three times more expensive and four times longer than the averages for OECD high-income economies. The lack of a modern insolvency framework and the unpredictability of enforcement are also important obstacles. Low labor mobility is also an issue (see Box II.5).

Logistics. MENA performance is much lower than that of Asian economies for this important facilitator of trade. MENA countries also rank well below important trading countries such as China or the United States (see Table II.1). The main issues in low-ranked MENA countries appear to be logistics quality and competence, infrastructure, and customs.

Table II.1: Logistics Performance Index, MENA average vs selected countries/regions: scores out of 5, overall (1=low to 5=high)

	Overall LPI score	Customs	Infrastructure	International shipments	Logistics quality and competence	Tracking and tracing	Timeliness
MENA region (average)	2.76	2.51	2.72	2.73	2.67	2.79	3.15
Mercosur (average)	2.74	2.53	2.54	2.76	2.65	2.76	3.16
ASEAN (average)	3.02	2.79	2.80	3.03	3.01	3.09	3.40
China	3.61	3.29	3.75	3.54	3.59	3.65	3.84
United States	3.89	3.78	4.05	3.51	3.87	4.09	4.08

Source: LPI data

Box II.5. Labor Mobility Challenges

The movement of people is essential for international business operations. Mobility of persons across borders is crucial for trade in business services, which in turn is an important channel for knowledge transfer (OECD, 2017). Increased labor mobility can have a dual pay-off: reducing unemployment in countries that workers leave and enhancing growth through a more efficient use of the available resources, especially human capital in destination countries (Marouani and David, 2017).

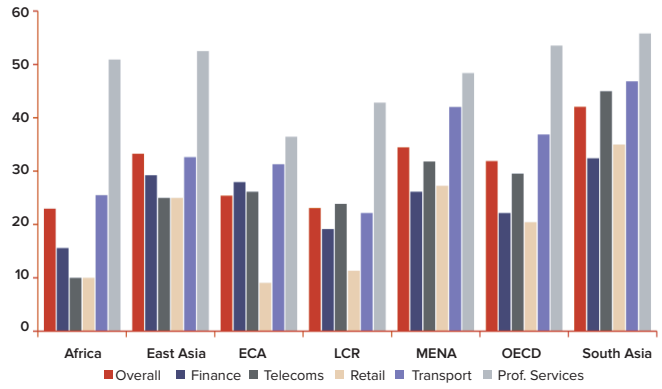
Ching and Chen (2000) find evidence that immigration may lead to greater international trade between countries, based upon the study of immigrant entrepreneurs of Taiwanese origin in Canada. Meanwhile, migrants can play a role in facilitating trade and investment flows between origin and destination countries and, as consumers they can create new demand for goods and services (Head and Ries, 1998, Plaza and Ratha, 2011). The relationship between immigrants and trade can operate through two broad channels. First, migrants stimulate trade by lowering transaction costs—because they have superior knowledge of home country markets, languages, business practices, laws and other matters. Second, immigrants might find that certain goods they are used to consuming in their home country are unavailable in the host country, which boosts imports of such commodities (Çağatay and Genç, 2013).

Genc and others (2011) find that immigration boosts trade, but the impact is less on the trade of homogeneous goods. An increase in the number of immigrants by 10 percent increases the volume of trade by about 1.5 percent. Based on UK data, Ottaviano and others (2015) find that a one percentage point increase in immigrants from a particular country into a local labor market leads firms in that area to export 6 percent to 10 percent more services to that country. This effect is driven primarily by export growth among firms already serving the market. Furthermore, this effect is strongest for services that are intensive in the use of language, which is consistent with the view that, for services in which cultural content plays an important role, migrants are an effective channel of services-trade creation. Martuscelli and Gasiorek (2019) suggest that geographical mobility is the key to the even distribution of the gains from trade. They argue that regional integration processes, which together with trade liberalization measures increase the mobility of labor, are well suited as policy tools to amplify the positive effects of trade on welfare and poverty.

However, human mobility across countries and regions is not always simple and populations from MENA countries often face restrictive migration procedures (among them, lengthy recruitment processes and restrictive quotas on the number of foreign workers). Meanwhile, labor market data for many MENA counties is inadequate, which makes it difficult to assess mobility within the region. Arezki and others (2020) highlight issues of mismeasurement and definitions of labor market outcomes. Nonetheless, labor mobility and labor markets must be considered in the context of global trends in production and trade, which are altering wage determinants of competitiveness. As noted in Box II.3, GVCs have been moving toward greater regionalization in response to increased uncertainty since 2008. Advanced country enterprises in the three main regional GVCs—(the European Union, East Asia and the Pacific and North America) are reshoring and/or near-shoring production activities—a trend the pandemic is likely to reinforce.

At the same time, as noted above, instead of replacing low-wage labor in distant countries with higher-wage labor onshore or closer to home, companies are investing in robots. The implications of this robotization trend is concerning for lesser-developed countries because low wages are an important source of their competitiveness. As a largely commodity-exporting region, MENA is somewhat shielded from the threat of robotization-induced reshoring. Nonetheless, the trend must be taken into consideration—for example, Tunisia's exports are concentrated in goods most vulnerable to automation (Artuc, Bastos, and Rijkers, 2018).

Figure II.13 Overall Services Trade Restrictiveness by Region, 2010

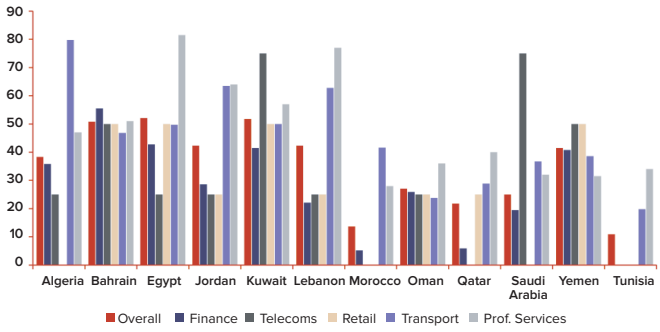


Source: Hoekman, 2016, compiled from World Bank data.
Note: Indices range from 0 to 100, with 100 being completely closed to foreign competition.

Increasing trade in services could be a catalyst for MENA growth. Trade in services represented 19 percent of MENA GDP in 2019. This is higher than the shares observed in South Asia (10.9 percent) and Sub-Saharan Africa (11.4 percent), but lower than the share of services in the EU (26.9 percent) (World Bank, 2020h). MENA countries with the highest services-to-GDP ratio were Lebanon (54.4 percent in 2018) and Bahrain (53.5 percent in 2018). But, while several MENA countries have liberalized (at least partially) their trade in goods, the region is among the most restrictive on trade in services, as shown by the Service Trade Restrictiveness Index (STRI) in Figure II.13. Morocco and Tunisia have the least restrictive services trade policies among MENA economies (see Figure II.14), while Egypt, Kuwait and Bahrain are among the highest. Professional and transport services tend to be the most restricted sectors in the region. The restrictiveness of transport services, in turn has harmful consequences for the efficiency of logistics-related services. Transport services represented 21 percent of total service exports in MENA for 2019, which is equal to the share the sector represents in Sub-Saharan Africa. Countries with the highest share of transport services in total service exports are Qatar (56 percent), Iran (49 percent) and Oman (48 percent) (World Bank, 2020h).

Meanwhile, ICT services in MENA represent 14.8 percent of total service exports. Countries such as Kuwait (43.3 percent) and Yemen (25.4 percent) are well above the regional average. However, when high-income countries are excluded, the regional MENA average falls to only 6 percent, close to the Sub-Saharan Africa average (4.4 percent). In contrast, when looking at South Asia the average share of ICT in total service exports is 39.1 percent (World Bank, 2020h).

Figure II.14 Overall Services Trade Restrictiveness by Country, 2010



Source: Hoekman, 2016, compiled from World Bank data.
Note: Indices range from 0 to 100, with 100 being completely closed to foreign competition.

The ad valorem tariff equivalents implied by the STRIs (see Table E1, annex E), show significant variance across sectors and countries. Morocco has the lowest levels of discrimination against foreign providers of air and road transport among MENA countries, but maintains high protection in the maritime transport sector. Despite its proximity to the sea, Lebanon is very restrictive in maritime services (and in transport services overall). Egypt is the least restrictive in road transport but is very restrictive in rail transport. Such levels of restrictiveness reduce the ability of firms to transport goods (such as intermediates and perishable agricultural products) efficiently and hinder participation in value chains.

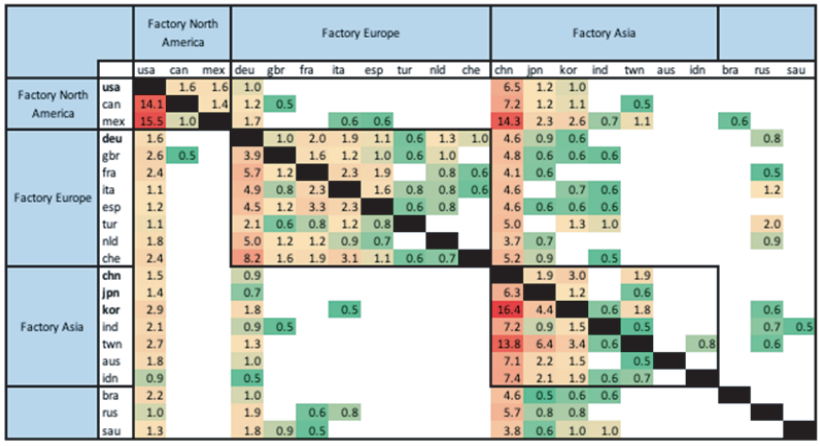
Bottini and others (2011) assessed barriers to service provision in the banking, telecom, insurance, and transport (air and maritime) sectors of Egypt, Jordan, Lebanon, and Morocco. They found that a rent-creating effect seems to dominate restrictions on banking and fixed telecom sectors, while a cost-inefficiency effect seems to be present in the mobile telecom sector. MENA countries have higher fees on the insurance and transport sectors.

Growth and employment cannot be generated without a more effective participation in world markets, which in turn requires competitive firms. Competitiveness depends on the cost and quality of inputs (including services inputs). Therefore, service trade liberalization is crucial to make MENA firms more competitive. It would also make it easier for MENA to attract FDI and its technological spillovers (Karam and Zaki, 2019). The most recent data on service trade restrictiveness in the MENA region is a decade old. It would be useful to update the data as the OECD did for its member countries in 2016. An assessment of service reforms undertaken by MENA countries is also needed.

5. Deeper regional trade integration is an untapped opportunity for growth and job creation in MENA.

Regional trade integration allows countries to expand their markets in a manner that facilitates skill improvements among workers and more efficient diversification of production activities. Because so-called upskilling and diversification depend on knowledge diffusion and learning through trade, investment and other economic interactions, the choice of a country's trade partner matters (Keller 2002). Lower intensity of product and labor market frictions, and shorter distances between markets within a region, result in lower costs, making it less burdensome for firms to invest in productive activities. Greater labor mobility under a functioning regional agreement, and the ability of migrant labor to adapt to a host country intra-regionally, also lower the costs of tapping into a wider regional labor market (Bown and others, 2016).

Figure II.15 Total exposure of row nations to column nation's manufacturing sectors.



Sources: Baldwin and Freeman (2020) elaboration of OCED Inter-Country Input Output Tables (available online at https://www.oecd.org/sti/ind/inter-country-input-output-tables.htm).
Note: The figures are the value-added share of direct and indirect inputs from the column nation in the row nation's total manufacturing output. Shares below 0.5 percent are zeroed for clarity as are 'own provisions' on the diagonal. For example, 4.8 percent of the United Kingdom's (GBR) total manufacturing production relies upon direct and indirect manufacturing inputs from China.

The trend toward regionalism, substitution of robots for higher-wage labor where feasible, and avoidance of global supply chain risks, suggest that activities and jobs lost in China are unlikely to move to other low-wage markets. In advanced economies, companies can use their own capital to invest in robots to replace some jobs and offset some of their relatively higher labor costs. To mitigate risks, enterprises in the main regional production hubs (the European Union, East Asia and the Pacific, and North America) are pursuing opportunities within the hub or nearby, as discussed in Box II.3.

Because of their relatively weak business environments and few forward linkages to the three regional GVC production hubs, MENA countries are unlikely to benefit much in the near term from the GVC regionalization trends, unless they undertake critical reforms. Figure II.15 presents a heat map showing how manufacturing sectors in the three main production centers are interlinked. Green cells indicate lowest intensity linkages, yellow cells designate medium intensity linkages, while orange and red cells highlight strong linkages. In red cells, contraction in the column country would have significant negative impact on the row country—for example, a lockdown in China would induce a 14.3 percent slowdown in Mexico's manufacturing production.

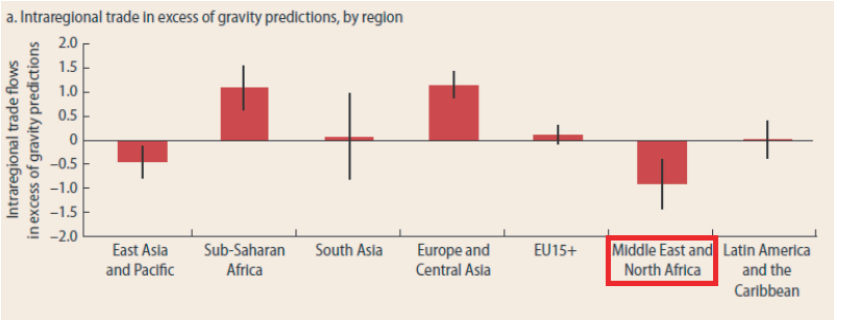
The only MENA country represented in the matrix is Saudi Arabia, which is only moderately impacted—mainly by reduced oil demand from an economic slowdown in China, and to a much lesser extent by a contraction in Germany or the United States.

Bown and others (2016) outline an approach to globalization based on expanding intraregional trade integration. In this vein, enhancing trade integration within the region, and expanding integration with Europe and sub-Saharan Africa could facilitate MENA's integration in regional and global manufacturing hubs. Exploiting the complementarities between regional and global integration can contribute to growth and stability.

However, Peridy and Abedini (2014) show limited effects of the 17-member Greater Arab Free Trade Area (GAFTA) on regional trade because of market segmentation and the predominance of inter-industry trade. But, the fitted (or statistically predicted) intra-GAFTA trade values are far higher than the actual ones, which suggests that GAFTA countries could benefit from deeper regional trade integration, if they pursue appropriate policy reforms. Meanwhile, trade facilitation in the GAFTA has the potential to enhance export competitiveness and lead to a significant increase in overall and intra-industry trade export value for all countries, particularly for the Mashreq and Maghreb countries. As a result, all sub-regions would see an export boost, for example, in the agro-food industries, particularly for those products in which the Mashreq and the Maghreb countries have a comparative advantage.

Parra and others (2016) find that North–South free trade agreements (between advanced and developing economies) and South–South agreements (involving only developing economies) would increase trade in MENA countries in different ways. North-South agreements would be more beneficial for MENA country exports, but both would result in greater global market integration. FTAs that include agricultural products, in which MENA countries have a clear comparative advantage, have more favorable effects for MENA countries than those that cover only industrial products. Beyene (2017) found immense potential for the MENA region and sub-Saharan Africa to integrate in ores and metals, food, and agricultural raw materials trade.

Figure II.16 Intraregional trade by region – predicted vs actual



Source: Bown and others (2016).

Because intraregional MENA trade is lower than predicted in economic models that take account of the economic size and proximity of trading partners (Gravity model), there is potential for greater trade among MENA countries (see Figure II.16). Furthermore, a country's location affects its global competitiveness—in part because factors such as transportation and logistics, electricity and gas, information and communication technology (ICT) and financial services, can lower costs of regionally traded goods and services, and enhance efficiency—thereby increasing productivity. In addition, lower conflict linked to greater cooperation improves the business environment for all firms in the region, while conflict in one country in the region can dampen potential foreign investment in the others. Thus, regional integration efforts that are open to trading partners outside the region are viewed as equivalent to global integration.

However, poor quality infrastructure and associated services (ICT, electricity, transportation, and logistics) raise costs enough that they prevent MENA countries from taking advantage of proximity and other benefits normally associated with intra-regional trade (Bown and others., 2016).

On the basis of this analysis, MENA countries should consider:

- Reducing external tariffs under a unified tariff umbrella;
- Deepening integration between sub-regions, particularly for small economies;
- Harmonizing rules—such as tariffs, rules of origin, and regulatory frameworks for regionally traded goods—to enhance global competitiveness; and
- Reducing trade costs by investing in infrastructure and associated services (ICT, electricity, transportation and logistics).

6. Covid-19 pandemic: an opportunity to rethink economic and social policies, and regional trade integration with Africa

The double shock of a pandemic-induced health crisis and oil price slump (as discussed in Chapter I) has pushed the MENA region into a deep recession. Border closures to stem the spread of the virus have exacerbated the toll on trade. Trade volumes are estimated to have fallen sharply and the downturn is expected to accelerate in sectors such as electronics and automotive products. Services trade, such as tourism, is directly affected by the pandemic through transport and travel restrictions.

At the same time, the wholesale, retail, and construction sectors face a sharp fall in consumer demand. The social consequences of the pandemic are significant, especially for young people, women, and informal workers—many of whom have lost jobs and fallen into extreme poverty.

The economic, financial, and social costs of the pandemic have been substantial for the global economy and worse for the MENA region. An analysis of a global computable general equilibrium (CGE) simulation of the economic impact of Covid-19 on the MENA region is presented in Annex B. The simulation suggested that the decline would be most significant in the services sector if the spread of the virus is severe. In the "severe global pandemic" scenario, the biggest negative shock is expected in the output of domestic services (-9.3 percent) affected by the pandemic, as well as traded tourism services (-8.8 percent). Global exports and MENA exports, in particular, could be hit hard as well (see Box I.1). Lockdowns and border closings would also disproportionally affect the poor and vulnerable (especially women), particularly cross border traders and unskilled workers in the informal sector.

As alarming as the findings are, they also suggest that the Covid-19 pandemic can offer an opportunity for MENA countries to rethink economic and social policies. They also highlight the importance of regional economic diversification programs aimed at reducing oil dependence. The pandemic could accelerate prioritizing technology and human-capital-intensive businesses in the sectors that are most sustainable and resilient to economic shocks.

Meanwhile, the pandemic has exposed the deficiencies in trade and border management procedures, as many countries have struggled to keep trade moving while increasing imports of essential supplies and impeding the spread of the disease. Countries in the MENA region need to strengthen RVCs and expand trade towards GVCs to foster diversification, reduce oil dependency, and contain the negative externalities of the shocks. World Bank (2020i) outlines the way forward in this regard for Iraq, which has potential to regain its place as a regional logistics hub. In addition to the Mediterranean countries, the

African continent may provide great economic and trade opportunities. Trade integration along the Europe-MENA-Africa axis offers the most potential.

Maghreb countries should leverage the newly minted AfCFTA to reignite trade and investment with African countries as an anchor for long-term growth, integration, and resilience. Creating a continent-wide market among sub-Saharan and Maghreb countries, with strengthened links to Mashreq and Gulf countries, would require a determined effort to reduce all trade costs—necessitating coordinated political will and reforms, yielding updated legislation to enable goods, capital, and information to flow freely and easily across borders. Mashreq countries could potentially benefit from enhancing cooperation along the EU-Gulf-Asia axis. Trade opportunities for the Mashreq could be enhanced through better trade facilitation procedures, improvements in the transport corridor, and digital infrastructure. There is high potential for Mashreq countries to cooperate intra-regionally and inter-regionally through the liberalization in the services sector.

II.3. Laying the foundation for MENA regional trade integration after the pandemic

As a result of the Covid-19 pandemic, a large share of goods exports will shift around countries, due to economic as well as non-economic factors (such as governments changing policy to promote domestic production of essential goods). The prospect of a significant geographic rebalancing in global supply chains could be a risk, but also a potential opportunity for those countries that manage to capture shares of new production. Policy choices in MENA countries could lay the foundations for deeper regional trade integration to boost growth, while paving the way for better integration in the global economy. A key challenge will be dealing with political economy factors that create high transaction costs, uncertainty, inefficiency, and, ultimately, limited socioeconomic gains.

As part of any initiative aiming at deeper regional integration, there should be domestic policies to facilitate structural changes, as well as adequate parallel measures to ameliorate any increase in inequality from trade liberalization.

Ultimately, to stimulate job creation, make economic growth inclusive, and ensure stability, future MENA trade policies will need to be pragmatic. To promote inclusiveness and empower marginalized and hard-hit groups, sectors such as farming and light manufacturing (such as textiles where MENA countries perform well) must be targeted. At the same time, facilitating access to information and technology will also foster inclusiveness. Policies that improve infrastructure and networks, lessen the tariff and non-tariff costs of trade, improve the business environment, reinforce institutions, and facilitate access to finance should contribute to opening new trade channels for more diversified and upscaled production. A MENA regional and global market access agenda should reduce tariff and non-tariff barriers, promote transparency, and ultimately boost policy stability.

Removing MENA trade restrictions to promote diversification and upscaling

Improving logistics and trade facilitation is a prerequisite. The ability of firms to integrate and progress in RVCs and GVCs will depend on the quality of the overall business environment, which policymakers should help improve. Tackling logistics, financing, market knowledge, human resources, and innovation could significantly boost SMEs capacity to integrate. A massive investment in infrastructure, transport and logistics programs, especially in the non-GCC countries, could support diversification in manufacturing and services, cut delays and improve market access.

Morocco's national logistics competitiveness strategy for the period 2010 to 2015, resulted in several improvements such as the creation of the AMDL (Moroccan Logistics Development Agency), the development of logistics platforms within industrial zones, and the mobilization of private funds (Augier 2019).

In all the MENA region, the design of integrated logistics platforms should aim at tailoring them to the needs of SMEs, to encourage these firms to cluster and rationalize the cost of services. Meanwhile, reforms in logistics should include creating integrated logistics zones closer to living areas, which would bring greater coherence to housing policy and the location of industrial areas and transport.

Much needed logistics reform should also have an international dimension. Each country should align a freight development strategy (maritime, air, road) with its commercial ambitions that could include sub-Saharan Africa, Europe, and/or GVCs in which they wish to be integrated. Indeed, economic actors in MENA cannot further develop trade flows with African neighbors and other trade partners without a robust road network, defined sea routes, adequate air freight, and better integrated logistics platforms.

Improving access to finance is needed. Well-functioning financial markets are necessary to support SME expansion and facilitate their insertion in RVCs and GVCs. Access to capital is essential and will continue to be a priority in the post Covid-19 period, to finance both physical and human capital investments, including new technologies to facilitate recovery. Developing incentives and regulations that ensure the sustainability of financial intermediaries is an urgent priority.

Future MENA financial sector policies should also be designed to support social entrepreneurship (SE) and social impact finance—which speed up inclusion. SE aims to find innovative answers to socioeconomic problems that can be neglected when budgets are being cut. Innovative social entrepreneurs are active in the region in several sectors, including services and trade-related activities, but they often lack access to liquidity. This suggests a need for a widespread presence of financial institutions managing social finance (Tsakas and Moukaddem, 2019). Many tools are available—Islamic finance, microfinance, crowdfunding, or even Social Impact Bonds, which allow programs to be financed by private investors—and they deserve to be better supported by policymakers nationally and regionally (Hausser and others, 2019).

Tunisia taken action in this area. On June 17, 2020, it approved a bill that seeks to balance economic growth and social equity by promoting an equitable coexistence of the public, private and other actors in the financial market within a common regulatory framework. It also aims to promote the economic and social inclusion of disadvantaged and marginalized people, such as those in isolated rural areas and unemployed youth, by enabling them to join with cooperatives, mutual credit associations or other groups to create jobs. The law creates funding mechanisms specific to the social and solidarity economy.

Addressing regulatory reform for services sector trade, focusing on regional and cross-border harmonization, is required. Trade in the services sector, already below its potential in the region, has been further hurt by the pandemic. Tourism, transport and distribution services, have suffered as a result of mobility restrictions and social distancing measures. Disruptions in services supply are having a broad economic and social impact—for example, unemployment has increased.

Open and well-regulated services markets would ease entry into GVCs. Much-needed reforms in the services sector, still restricted in MENA, would reduce trade costs, boost SMEs, contribute to the digital economy, and ultimately lead to inclusive growth. MENA reforms should focus on regional and cross-border harmonization of services trade reforms

Rather than tackling the restrictions only at the individual country level, which is necessary, efforts should focus on harmonizing regulatory policies regionally. Countries trade more with partners that have similar regulations. MENA countries should first reduce the level of services trade restrictiveness with forward-looking regulatory cooperation, which will become more prominent as restrictions decrease. Ultimately, through regulatory cooperation, compliance costs for exporters should be reduced (OECD, 2017).

Moving towards greater digital trade facilitation within future trade agreements should be a priority. The digital economy could improve inclusiveness. In the long run, the main source of economic growth is technological progress (OECD, 2017). Technological development relies on global access to knowledge and to the networks that carry knowledge (services, goods). Currently, the Covid-19 crisis is accelerating the digitalization agenda across the world and leveraging the digital economy for commerce has the potential to expand intraregional MENA trade opportunities (see Box II.6). Development of ICT is usually accompanied by new business models and sophisticated products. This means that service sector reforms in MENA should go hand in hand with education and vocational training reforms that provide the necessary skills for the digital economy. Most regional trade agreements now include digital trade facilitation measures, which are essential for reducing trade costs. For instance, Singapore, with its electronic Single Window, reduced processing times from four days to 15 minutes and lowered the cost of submission per document by 71 percent. Policies that would encourage MENA partners to simultaneously implement digital trade facilitation, should be envisaged (see discussion in Box II.7). They could include the creation of an electronic single window, the registration of information online, or the implementation of a cross-border paperless trading system (OECD, 2018).

To attract services-trade-related FDI, MENA countries also must rethink rules governing the temporary movement of individuals and be more inclusive to one another. This includes investing in processing facilities such as electronic visas for service traders. International trade agreements like the General Agreement on Trade in Services have provisions for the movement of natural persons providing services, as a category distinct from migrants in general. However, few countries make that distinction in their migration laws and regulations (OECD, 2017). As part of deepening their relations with Africa (AfCFTA) and the European Union (DCFTAs), MENA countries should be among the first to make that distinction and explore harmonizing rules related to temporary movement of traders of services within the MENA region.

Box II.6. Expanding digital trade in MENA after Covid-19

The Covid-19 crisis has accelerated the digitalization agenda across the world, which will have significant effects on the future of work, workforce skills, and trade for MENA countries. In this vein, leveraging the digital economy for commerce has the potential to expand intraregional MENA trade opportunities and create jobs during and after the pandemic. Increased digitization enables connections between distant markets and would strengthen commercial linkages within the MENA region and beyond. Evidence indicates that the internet increases trade in physical goods and digital services (Borga and Konczner 2011; Freund and Weinhold 2004; Olarreaga and Austin 2012). About 40 percent of the region's population is younger than 20, meaning that millions of young people in MENA countries could become consumers, entrepreneurs and technicians, and help expand MENA's digital economy.

E-commerce in MENA grew 25 percent annually to US$8.3 billion between 2014 and 2017 (see Figure IIB6.1). Yet compared with benchmarks, e-commerce in MENA countries is low, suggesting that there is potential for further growth (see Figure IIB6.2). Gaps in several policy areas need to be addressed to enable and broaden e-commerce domestically and across national borders. Arezki and others (2018) noted that MENA lags other regions in terms of internet access, digital skills, access to ICT goods and services, and the affordability and reliability of Internet connections.

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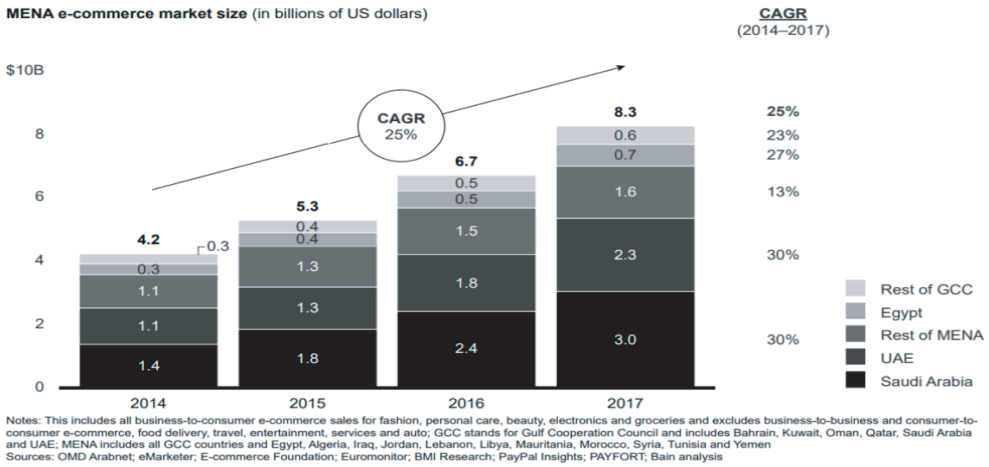
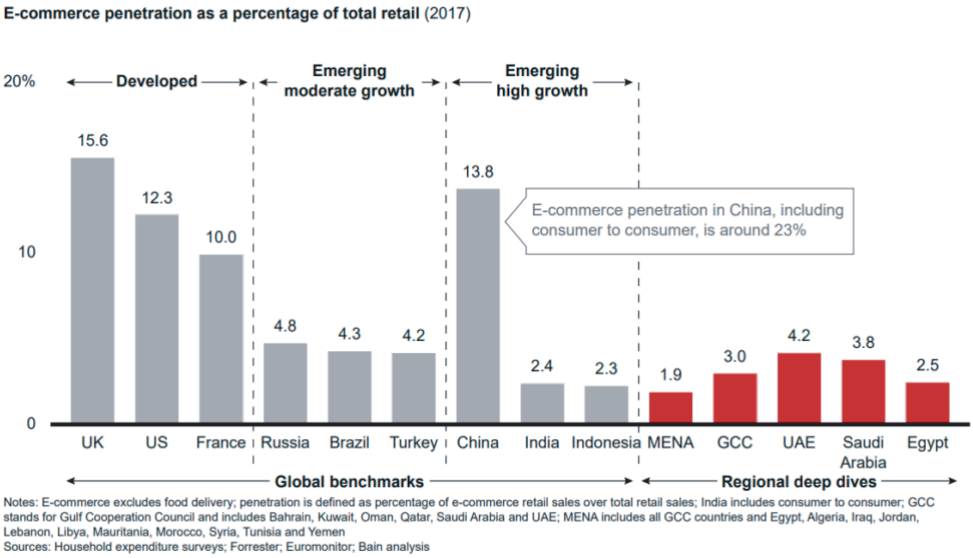
Figure IIB6.1. MENA e-commerce has grown by 25 percent annually since 2014



Source: Google and Bain & Company, 2019.

Figure IIB6.2. There is still room for growth in e-commerce in MENA



Source: Google and Bain & Company, 2019.

Accelerating e-commerce will require the expansion of ICT to facilitate the reliability, speed, and affordability of internet and mobile cellular connections. MENA's average Internet speeds are slow. According to the Data collected by Cable (cable.co.uk), the speed of the internet in Yemen is 0.34 megabytes per second (Mbps) compared to Singapore at 55.13 Mbps. The region lags all countries and, in particular, all other developing regions in terms of the number of fixed broadband subscribers per 100 inhabitants (Figure IIB6.3). The cost of accessing the internet in MENA countries is higher than in other countries, and internet plans are less affordable for households, especially for women. Cable data show that monthly internet prices are high in some of the GCC countries ranging from US$85 per month in Saudi Arabia to US$155 in the UAE compared to less than US$10 a month in Russia.

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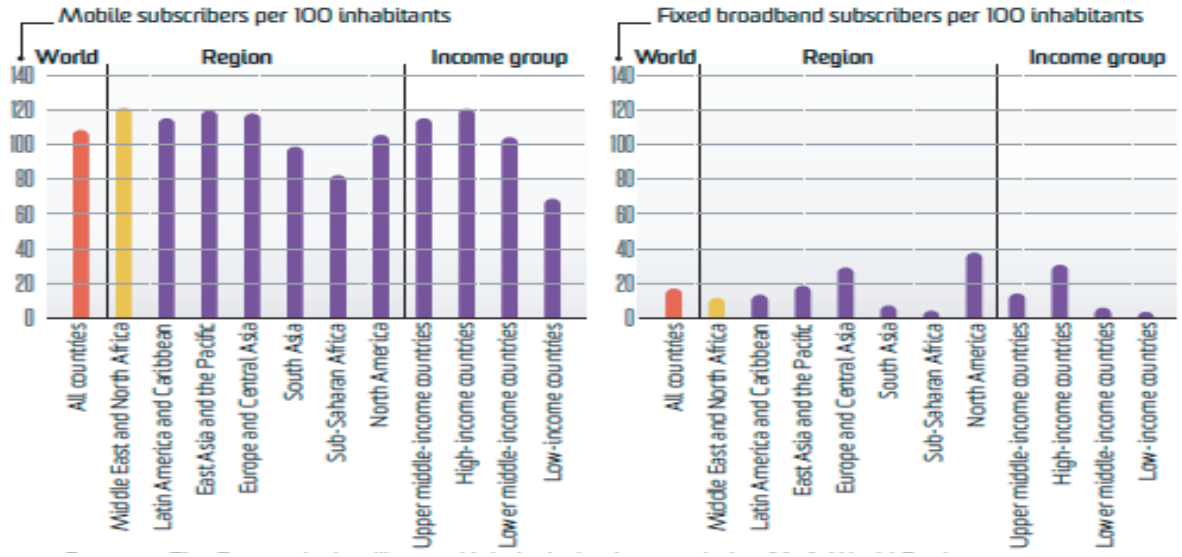
In terms of the average number of electronic transactions per capita, MENA is behind all other developing regions, except for sub-Saharan Africa. Instead of online and mobile payments, cash-on-delivery remains a primary mode of payment in the region, constraining e-commerce growth. As shown in Figures IIB6.4 and IIB6.5, the MENA region lags all other developing regions on the average number of electronic transactions per capita. In the region, 80 percent of the unbanked population possesses a mobile telephone, while fewer than 7 percent of those with a mobile phone has a mobile money account. MENA also lags all countries on other important measures—such as the bandwidth capacity in bits per internet user and is clearly behind the middle-income countries on fixed broadband internet subscribers.

Figure IIB6.3. High mobile penetration, but limited broadband access



Sources: The Economist Intelligence Unit, Inclusive Internet Index 2018, World Bank

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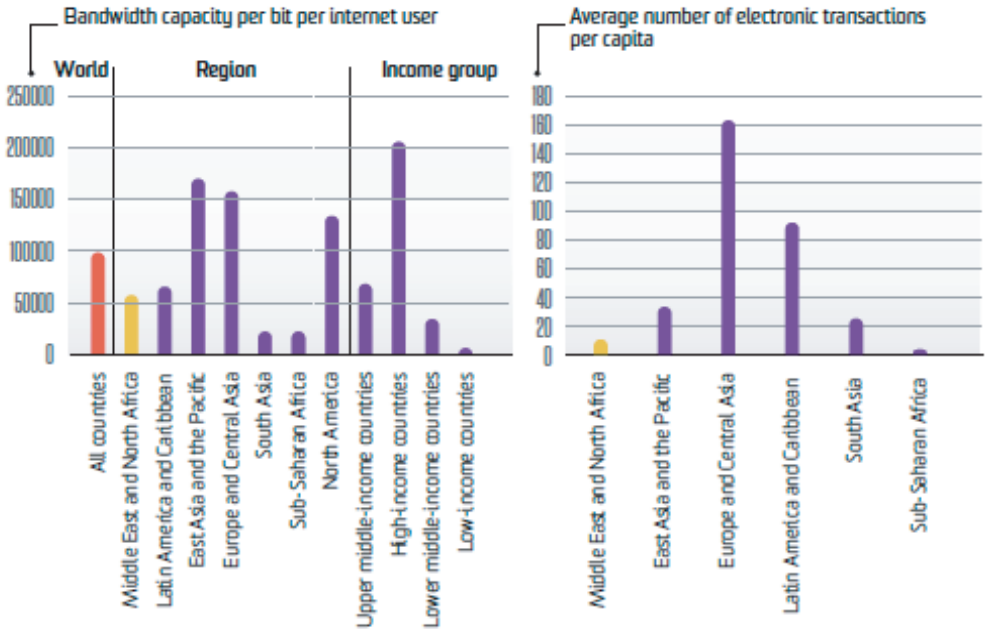
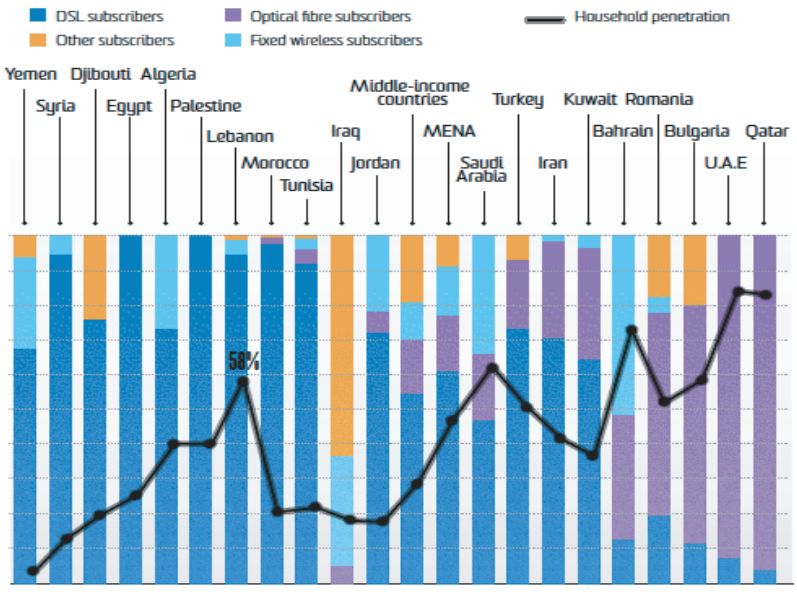
Figure IIB6.4. Poor quality internet connections and almost non-existent electronic payments



Sources: The Economist Intelligence Unit, Inclusive Internet Index 2018, World Bank.

Figure IIB6.5. Fixed broadband internet in the MENA region



Source: Telegeography, 2017.

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Improving access to ICT, particularly in countries outside the Gulf, is critical. On the one hand, digital technologies are a fundamental lever for growth and job creation in sectors such as health, education, the environment, and a reforming public sector. On the other hand, they represent a key vector for regional integration because they could facilitate increases in intra-regional flows of goods and services while opening new channels for e-trade exchanges with other trade partners, such as the European Union and sub-Saharan Africa. This could also help achieve post-pandemic recovery in a more inclusive and sustainable manner.

Expanding e-commerce could also act as a job accelerator, especially for young and educated women in the MENA region. Women in the region had fewer employment opportunities than men before the pandemic and have even fewer now. About two-thirds of employed women in MENA countries work in the health sector and informal economy, both of which have been hit hard during the crisis, leading to more women losing their jobs than men. Expanding e-commerce has the potential to provide more opportunities for female business owners affected by the pandemic. Given cultural and restrictive social norms, e-commerce offers women the flexibility of working and expanding their businesses, even during a crisis. In this vein, swift action is needed on both policy and skill improvement to ensure women have digital access, mentoring, training, and the ability to obtain financing. In addition, building the capacity of female entrepreneurs affected by the crisis to join or rejoin e-commerce platforms and expand their exports through participation in local, regional, and global supply chains could build their resilience to future shocks.

Positioning MENA to take its place in regional and global value chains

Regional Integration after the pandemic will require better convergence in NTMs.

For MENA countries to better integrate in GVCs, they must make convergent NTM reforms. Only then can trade policy become a central instrument in restoring growth and employment prospects**.** This needs to be conducted in a regional consultation framework. In most countries, the responsibility of designing NTMs is dispersed over several ministries and agencies that have no incentive to talk to each other. As noted earlier, the effectiveness of these policies will depend on how they are discussed, accepted, and applied, and on the degree of "mutual trust." To converge and simplify NTMs, MENA countries could consider mandating an existing regional agency to be dedicated to harmonizing and reducing non-tariff restrictions, with the support and participation of national agencies, or a regional mechanism allowing them to coordinate systematically. Technical cooperation at the regional level has proven effective in other parts of the world. For instance, the ASEAN Economic Community focuses on the removal of NTMs that affect intra-regional trade; the ASEAN secretariat is responsible for collecting and classifying non-trade barriers as *green* for NTMs that are not trade barriers, *amber* for NTMs whose trade-restrictiveness could be discussed, and *red* for clear-cut non-tariff barriers. The classifications are reviewed by member countries, and the measures are scrutinized and prioritized for elimination by the negotiating bodies. To maintain credibility, such regional institutions must be grounded in law and have sufficient financial and independent human resources (Cadot, Munadi and Yan Ing, 2017).

Meanwhile, until now, many NTMs from individual countries have been implemented without a "bigger picture" in mind. The AfCFTA offers a great opportunity for MENA and sub-Saharan Africa to simplify and harmonize their NTMs, especially with regards to export-related measures and technical barriers that remain too restrictive. Therefore, drawing up an inventory of all the NTMs applied by each MENA country could prove useful in deciding to eliminate certain restrictive measures to intra-MENA trade, and, after an in-depth analysis, set up mutual recognition agreements for products in priority sectors.

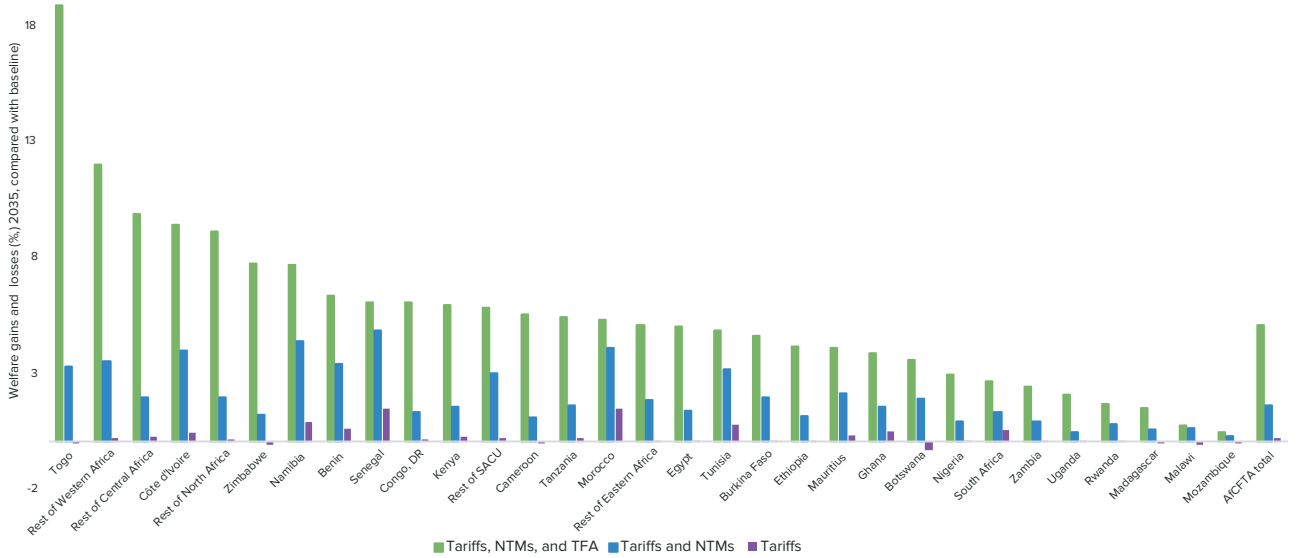
Moreover, some NTMs have an "inclusiveness" component and could be considered as facilitators to reaching the special development goals (SDGs) set by the United Nations**.** For example, intellectual property measures—including copyrights, patents, trademarks and geographical indications—support SDG 9, which promotes innovation, and SDG 17, which covers technology innovation as one of the pillars of the means of implementation for sustainable development. Patents also provide a needed incentive to companies to make expensive research and development investments in, for example, new medicines needed to achieve SDG 3 on health and well-being, something that becomes more important during a pandemic and its aftermath. Harmonization of STMs across MENA countries will be key.

Trading across the Mediterranean and renewing agreements with the European Union. Diversification and upscaling will also require additional Euro-Med liberalization in sectors previously excluded, mainly agriculture and services. Both the European Union and its southern partners from the MENA region strongly protect their agricultural/agroindustry sectors. In countries such as Tunisia, this applies especially to milk, meat, cereals and beverages, while the European Union protects products such as olive oil, fruits, and vegetables. Yet, because the agricultural sector plays a key role in food security and employment, it needs to be included in the post-pandemic EU-Med agenda. Gains can also be expected from transforming the FTAs into the broader DCFTAs, provided negotiations lead to symmetric, fair, and inclusive solutions.

Strengthening MENA-SSA trade linkages. There are numerous opportunities for the MENA region to intensify linkages with sub-Saharan Africa through the AfCFTA. While a new trade liberalization agreement does not necessarily guarantee trade flows, it does affect the incentives to make trade with other partners more accessible and appealing.

MENA countries could explore extending their trade agreements (North Africa-Middle East) following a similar model. A new World Bank study finds that successful implementation of AfCFTA would help cushion the adverse effects of Covid-19 on Africa's economic growth by supporting regional trade and RVCs through reduced trade costs (World Bank, 2020a). The study finds that the volume of total exports could increase by almost 29 percent and intracontinental exports would grow more than 81 percent, while exports to non-African countries would increase by 19 percent by 2035. The most significant increase in exports to regional partners is expected in manufacturing, followed by energy-intensive manufacturing, chemical, rubber, and plastic products, and also processed food products. Among services, the largest expansion to regional partners is expected in health and education, transport, and other business services.

Figure II.17 Real welfare gains from AfCFTA, by country and policy reform



Source: World Bank, 2020a, adapted from World Bank, 2020d.

Under AfCFTA, total imports from non-AfCFTA members should also increase, particularly in manufacturing. Three sectors—chemical, rubber, and plastic products; processed foods; and textiles—should also see expanded imports. Among the services sectors, imports would increase the fastest in other business services, with the largest increase in imports from the European Union.

Real welfare gains from full implementation of the AfCFTA could increase by 7 percent by 2035, the equivalent of US$450 billion in 2014 prices and market exchange rates (World Bank, 2020a). Effects would be expected to vary across countries and sectors. MENA countries directly participating in the AfCFTA, such as Morocco, Egypt, and Tunisia, could realize welfare gains close to 5.3 percent, 5 percent, and 4.8 percent respectively (see Figure II.17). The rest of the North Africa region could have a welfare gain up to 9.1 percent. Unlike tariffs, NTMs in some African countries (including in North Africa) are still high and prevalent, remaining an important impediment to trade. Easing of those NTMs will affect trade of all continental-African countries, including several MENA countries, since they are direct beneficiaries as members of AfCFTA.

The development of integrated trade and production networks in Asia provides some lessons for the implementation of AfCFTA, with trade facilitation commitments and border management improvement, which could help reduce trade costs within Africa and, also lead to closer connections with global hubs (World Bank, 2020d). The impact of AfCFTA will greatly depend on how NTMs are removed and how trade facilitation measures are implemented.

Post-Covid-19 trade responses: reallocation of factors and the provision of regional public goods. Many MENA economies are experiencing considerable import drops and are applying exports bans, particularly on food, medical and hygiene items (see Annex F Table F1 and discussion in Box II.7). Ensuring sufficient medical supplies to fight the pandemic has been the priority for policymakers in the MENA region. Algeria took exceptional liberalizing measures to facilitate imports of medical goods and certain other products. On June 18, 2020, Egypt extended by three months its March 17 ban on export of masks, gloves, and disinfectant alcohol. Oman prohibited exports of masks and hand sanitizers, and exempted from customs duties all imports designated to combat Covid-19. On March 2, Saudi Arabia stopped all exports of coronavirus detection and prevention products, and also halted export of medicines, pharmaceutical and medical devices. Supply considerations are also key for investments in pharmaceuticals, medical supplies and healthcare—which are increasingly reliant on GVCs—in response to the crisis, while also paving the way for production diversification and upscaling. The pandemic may create incentives for local companies to invest in these sectors so they can respond to growing demand.

Meanwhile, some measures to facilitate services have been taken. In March, Oman and the UAE unblocked access to Voice over Internet Protocol (VoIP) apps, so as to facilitate work from home and help prevent spread of the virus (WTO, 2020). The National Bank of Oman also waived token and local transaction charges on its Corporate Internet Banking platform, encouraging business customers to use digital banking. Trade in services, in sectors such as banking, education, and health, could be facilitated if such measures were to become permanent.

Food sustainability is also a priority in the MENA region and each country has taken steps to ensure products remain available. For example, on April 1, Morocco suspended import duties on certain food products and on May 7 it extended the suspension of customs duties on common wheat and its products through December 2020. On June 15, Egypt imposed a three-month export prohibition on beans and lentils, while Egypt's Minister of Industry and Trade introduced an export ban on certain types of vegetables. Other import bans and export prohibitions by MENA countries for food security purposes are found in Annex F (Table F1).

MENA countries are taking investment policy measures and rethinking their approach to new patterns in value chains. On March 20, Saudi Arabia announced a SAR 70 billion (US$18.7 billion) private sector support package that includes the temporary suspension of government tax payments, fees, and other dues, to provide liquidity to the private sector and an increase in available financing through the National Development Fund. On July 1 the government said it would offer 94 agricultural investment "opportunities" to the private sector in the near term (IMFc, 2020).

Tunisia is working on a new investment strategy for 2021, concentrating on reshoring and near-shoring strategies for foreign investors that are considering relocating their production lines. (OECD, 2020a). MENA countries are also shifting production towards health products and raw materials, notably in free zones—areas in which goods and services can be freely produced and traded often at low tax and customs rates. Egypt, for example, recently approved 30 new projects to be established within the CBC Egypt for Industrial Development investment zone. In April, the government allowed industrial companies operating in free zones to re-orient their production for six months towards health-related products (facemasks and protective supplies) using existing production lines. Meanwhile, in April, the government also allowed a six-month increase in export allowances to the local market of industrial companies located in free zones, from 20 percent to 50 percent. Companies can also sell up to 20 percent of their raw materials and accessories to the local market with special approval from the free zone authorities. Dubai has launched economic stimulus initiatives, such as allowing intra-corporate transfer of labor between companies and sectors operating in the free zones, through permanent or temporary contracts without penalties during 2020 (OECD, 2020a).

Box II.7. The provision of regional public goods in the post Covid-19 era

Deeper regional integration can generate positive benefits through the provision of regional public goods to coordinate disaster response, contain negative externalities such as the spread of communicable diseases, improve human capital, and enhance environmental responses.

Improving regional digital connectivity infrastructure: MENA countries should improve their regional connectivity with broader markets in Africa and Mediterranean countries to increase productivity, coordinate efficient disaster response, contain negative externalities and create inclusive, resilient, and sustainable jobs in the region (see Section 6). Supporting regional connectivity, developing sub-regional infrastructure, and expanding RVCs and digital trade entail the adoption of new technologies and the provision of "digital public goods," including fast and reliable broadband internet and digital payment solutions. The growth of digital payments in the region is so constrained, especially in North Africa, that much poorer countries in East Africa outperform MENA, including in terms of mobile money use (see Box II.6). For example, in 2019, only 33 percent of adults in MENA made or received digital payments, compared to 44 percent of adults in other developing countries and 91 percent of adults in high-income countries. Even in markets where e-commerce is gaining traction—such as in the UAE, Saudi Arabia, and Egypt—cash remains the preferred payment method: 51 percent of adults pay "cash-on-delivery" for e-commerce purchases (Arezki and others 2018). The development of both digital payments and the broader digital economy can be accelerated through the development and oversight of emerging financial technology companies in the region.

Enhancing regional human capital: Extensive collaboration between countries on improving human capital could make an immense contribution to future growth paths of the region. It could also contribute to saving lives through more reliable and regionally coordinated epidemic preparedness, and improving conditions for the poor and vulnerable, especially those living in fragile areas. The specific focus areas include preparing for pandemics and coordinated responses, building skills and statistical capacity, and data flows and digital service delivery.

Pandemic preparedness and coordination of responses: Regional efforts to prepare for and deal with pandemics could revolve around implementing regionally coordinated pandemic preparedness and response plans. Given the scale of the Covid-19 crisis and its uncertain depth and duration, maximizing the resources, ideas, networks, comparative advantages, and expertise of a diverse spectrum of regional actors is essential. Ensuring that the epidemic preparedness agenda in the region is strengthened and scaled-up due to the huge human, economic and social costs of the outbreak is essential. Regional collaboration should focus on building a virtual system of care continuity and delivery networks and systemizing a regional telemedicine network. The system can provide efficient use of medical and care resources, especially for rural areas and disadvantaged people across the region.

Building skills and statistical capacity: Building regional centers aimed at strengthening skills and statistical capacity are vital for the MENA region's economic transformation and its ability to sustain job creation. These centers would represent a regional effort involving the MENA region, Europe, and Africa because it is not possible for each country to have high-quality centers in every specialized discipline and there is a tremendous learning potential in regional approaches. The centers would bring together students from across the region to pursue common goals and to help build a pipeline of skilled workers into which private sector employers across the region could tap. Regional approaches in skills and capacity-building would allow countries to obtain scale benefits and undertake specialization and build comparative advantages—which could be a positive trigger for deepening integration.

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Data flows and digital services delivery, particularly across borders, could play a critical role in response to the Covid-19 crisis. Data collection and reporting on trade, including service delivery in the MENA region, have historically been problematic, and countries in the region have reported their data unreliably. Because of poor official trade statistics, policymakers are unable to assess fully the magnitude of the impediments to intraregional trade. Without the full picture, they cannot design effective trade and investment policies. Improving the provision of high-quality and high-frequency data to inform policies is a must. There are also opportunities for using high frequency and "big" data to inform public and private sector actions. The scale, reach, and powerful demonstration effects of these regional efforts should be designed to affect many areas while ensuring that each country can benefit from peer-to-peer learning, especially during a period of pandemic and crisis recovery.

Integrating regional environmental responses in energy, water, and food. The disruptions in GVCs are increasing attention on local and regional value chains, providing much-needed impetus for regional integration. Environmental policies should focus on reinforcing resilience to shocks and promoting effective management of challenges that cut across borders. Proactive environmental policies, particularly in response to climate change, include integrating regional water, energy, and food strategies. These strategies could offer significant economic and job creation opportunities for MENA countries. Efforts to connect the energy and digital markets, to support food value chains and to expand the scale of economic activity in energy-efficient activities can help the MENA region recover from the crisis.

Creating a larger renewable energy market through enhancing Euro-Mediterranean electricity market integration would connect MENA countries, which are rich in carbon-free energy resources, to Europe, which has a strong appetite for carbon-free electricity and is willing to pay for it. Connectivity is key to the energy transition and requires the availability and efficient use of transmission lines, which are difficult to finance and implement. Regional market integration throughout Europe would expand access to low-carbon supply sources such as hydro reserves from the North (for example, in Norway) and plentiful solar power in Southern and Eastern MENA countries. MENA countries also need to provide financial incentives and simplify administrative procedures to further attract investors interested in the renewables sector (Ben Saad and others, 2019).

An inadequate supply of water and sanitation results in around US$21 billion in economic losses in the MENA region (World Bank, 2018). Measures to improve the management and distribution of scarce water resources are vital to the region's growth and stability. It is necessary to promote an integrated regional approach to manage water scarcity, mainly by focusing on strengthening collaboration and integration among the different countries sharing access to water. Meeting the future water supply needs of the region requires a resilient and integrated approach in which regional cooperation is at the core. An integrated cooperative framework that embraces all stakeholders is a prerequisite to ensuring efficient and effective management. Moreover, in finding solutions to water scarcity, a strong emphasis should be placed on engaging vulnerable communities and population groups, such as women and youth, who bear most of the burden of inadequate water supply and sanitation.

The MENA region, situated between Europe and Africa, offers enormous trade potential and economies of scale for food security, especially for the GCC countries due to similar resources and common consumption patterns. Agribusiness in East Africa, for example, is luring GCC investors, especially Saudi Arabia and UAE. West Africa, too, is attracting considerable investment from the GCC region. In Senegal, for instance, Dubai-based global ports operator World is expanding its operation by building an integrated port, logistics, and economic zone in the capital Dakar. Moreover, agricultural production has clear positive spillover effects for health and biodiversity, while contributing to the revitalization of rural areas and offering income-earning opportunities in remote locations. Partnerships with national, regional, and global actors should foster development and trust across countries, leveraging the resources and knowledge needed to develop innovative and inclusive solutions.

Deeper trade integration as a means for regional stability. The changes that the world is undergoing and the post Covid-19 scenario that is playing out, opens new opportunities for MENA countries. The pandemic has demonstrated the vulnerabilities of long supply chains, which European companies want to replace with much shorter and reliable chains. Meanwhile, the new reality will require factor reallocations.

As has been discussed, health, food, and the digital economy could be three critical sectors in the MENA region as it moves to recovery and beyond. MENA countries should seize opportunities presented by shifts in the global economy, trade, and investments. Greater access to finance would help promote FDI and build regional value-added chains that could integrate into GVCs. If MENA countries coordinate their engagement with Africa under the AfCFTA, new investments could be used to benefit intraregional integration, which could bring much needed regional stability.

Moreover, to reap the benefits of the global economy without exacerbating trade tensions or protectionism, MENA countries should cooperate on trade within the region and on the broader rules-based multilateral systems. There are many barriers to entry and expansion in several MENA markets and there is vast potential for more intra-MENA trade. Deepening and widening integration in MENA and capitalizing on its geostrategic position would benefit the region by diversifying trade, strengthening FDI and technology transfers, and improving competitiveness. Most important, it could secure economic and political stability in the region. For these reasons, trade reforms should not only deal with technical matters but also deal with the political economy roadblocks—such as mistrust, cronyism, and lack of transparency—to increase regional cooperation and stability.

Such a new MENA integration framework after the pandemic could be inspired by the following suggested pillars from the "New Levant" report (World Bank, 2014b):

- *Political and economic objectives must be balanced*. History has shown that when trade and economic components of agreements are not well thought out, and the impact on the economies of the participants (especially developing ones) is not carefully considered, the agreements usually underperform or become inactive. The relationships between countries may then degrade, resulting in increased tensions and instability. Both regional politics and trade objectives should receive attention in setting up a new framework of integration.

- *Liberalization should benefit all sectors*. Sectoral coverage of existing FTAs signed by MENA partners should not be limited to manufacturing. Agriculture and services, previously excluded from liberalization, need to be included. Liberalization should go beyond removing tariffs to cover all regulatory areas of mutual interest, including trade facilitation, standards and conformity assessment, investment protection, government procurement, and competition policy.

- *Complementary behind-the-border reforms should be envisaged*. Expanding MENA intra-regional trade will improve market access. However, to increase stability within and among member states, substantial improvement in the so-called behind-the-border policies that hinder trade (such as the number of approvals required before a product can be exported) and regional harmonization of the business and investment climate is needed. Closer collaboration in these areas—first within MENA countries and then with Europe (through the EU-Med agreements) and sub-Saharan Africa (through the AfCFTA)—appears essential.

- *Advancing the private sector is crucial.* There are important complementarities between trade promotion and private sector development. Technical assistance from MENA partners at different stages of development in South-South agreements should be explored, which should contribute to building trusting relationships.

- *Clear rules and an effective implementation mechanism are also important.* This could require entrusting existing supranational institutions with the mandate to regulate, monitor, and implement the trade integration provisions. At the most basic level, such regional institutions could simply act as forums to exchange experiences, share information and perhaps conduct analytical work. A more complex institution would include the definition of tools to coordinate joint policy actions, while the fullest integration would be achieved through complete legal harmonization at the country level and delegation of enforcement to an existing supranational institution. Contrary to what is done in other regions (such as the European Commission ensuring community-level antitrust enforcement in the EU) political constraints have largely kept MENA countries from being part of this trend—except for the nearly 40-year-old GCC and COMESA, which Djibouti, Egypt, Libya and Tunisia have joined. Establishing or capitalizing on existent, deeper collaboration frameworks would bring important benefits to MENA countries, including the cost reductions that come from pooling knowledge, expertise and resources. Cooperation frameworks can make it easier to overcome domestic political economy bottlenecks, paving the way for welfare-enhancing reforms.

MENA trade, domestic policies and regional integration: Horizontal and vertical trade integration with specific reforms. The most important challenge will be the creation of a coordinated MENA trade and investment reform agenda, confronting challenges to build RVCs, and attract quality investments for a diversified, inclusive and sustainable regional development strategy.

In the MENA region, the effectiveness of policies will depend on how they are discussed, accepted and applied. Policy content matters, yet what matters more, is how policies are carried forward from an idea-stage to implementation, and how they are sustained over time. MENA countries cannot bypass having joint processes of discussing, negotiating, endorsing and applying policies. Success will depend not only on choosing the right policies but also on implementing the policies in a coordinated and "trustworthy" manner. That said, post-Covid-19 trade should focus on sectors necessary for MENA recovery, especially on health systems and the knowledge economy.

Health reform priorities include decent healthcare service for all and readiness and availability of supplies, especially during a pandemic. MENA countries should cut tariffs on essential medical products, which are above the World Trade Organization average. This could offer greater predictability on availability of key supplies. In addition, for some MENA countries such as Jordan, where the pharmaceuticals sector is a rising star (see Box II.4), this could create immediate opportunities for regional trade integration. Digital technology could provide a significant boost to intra-MENA health services (Tsakas, 2020), which lack infrastructure and staff, particularly in rural areas. The increased use of online services during the pandemic has highlighted technology and connectivity inequalities. Improving data capacity and attracting FDI in the digital sector should be a priority of the reform agenda.

The pandemic shows how important it is to quickly mobilize the numerous pillars of the knowledge economy. According to the World Bank Knowledge Economic Index, the pillars include ICT infrastructure and access, institutional structures that provide incentives for entrepreneurship and the use of knowledge, skilled labor and quality education, and an active innovation ecosystem that comprises academia, the private sector and the civil society. In the current crisis, some businesses are repurposing their production lines and MENA regulatory authorities should consider supporting them as they make these shifts. For instance, as demand for medical textiles rises globally, textile companies are switching production from garments to hygienic masks and medical robes. If firms harness technological and innovative capacity to adapt, they will have a better chance to thrive during times of crises. Innovative capacity is a major determinant of a firm's health, which policymakers should support with adequate regulations.

Facilitating expansion of digital technologies and digital services would be a strategic choice and would improve all sectors of MENA economies. Reforms and enhancements to digital infrastructure and e-commerce strategies, could also yield significant benefits in terms of access to financial services.

Morocco is internalizing the importance of the knowledge economy, late last year approving a five-year roadmap for digitizing the country. A EUR 470 million program aims to make Morocco the digital hub of Africa. Recently, the government announced that it wants to use digital technology to attract MAD10 billion (about US$1.04 billion) in FDI and create more than 120,000 direct and indirect jobs. This initiative includes supporting digital companies, accelerating the digitization of public administrations, improving the governance of the public sector, and strengthening digital sovereignty (Ecofinagency, 2020).

At the MENA regional level, the reform agenda should:

- *Favor policies with economy-wide impact*, rather than sector-targeted policies that risk being captured by particular interest groups. The creation of a common MENA digital market could be one of them.

- *Allow sectoral integration to proceed intelligently***.** In the context of vertical specialization, several own-trade barriers set up to protect domestic production might actually work against their interests**.** For instance, when domestic firms engage in vertical FDI, after treatment abroad, some of the final goods return to the home country for consumption. These are goods produced by affiliates of domestic firms, but because they come from abroad they are subject to import duties (Miroudot and Ragoussis, 2009). The disruptions caused by the pandemic affect multinational enterprises' decisions to restructure the geographical/sectoral spread of their production. MENA policies need to consider this and respond to possible reconfigurations of value chains. Morocco and Tunisia (for electrical machinery), Saudi Arabia (for chemicals), and the UAE (for metal and metal products) should be prepared to respond to disruptions of China's exports of intermediate inputs affecting them (OECD, 2020b). Morocco appears poised to be a success story for post-pandemic sectoral integration. The country's geographic position, advanced trade relations with the European Union and the United States, and its substantial investment in infrastructure should make it an obvious choice for companies looking to shorten their supply chains following the pandemic. It is already a key player in attracting FDI in Africa, especially from France. Its automotive sector is the likeliest beneficiary of the new trends in supply chains because the North African country is home to subsidiaries of major carmakers Renault and PSA, and has become a hub for automakers targeting African and EU markets. The country could significantly benefit from the carmakers' reorganization after the pandemic, as their supply chains are already well developed across the country. Morocco's larger labor force and relatively lower wages would give it an advantage over central and eastern European countries, which could also gain from any restructuring plans by carmakers (Deutsche Welle, 2020).

- *Ensure greater involvement of civil society in decision-making processes.* While trade is necessary for economic development and growth, it must also be fair and inclusive. Large free trade agreements can create losers in vulnerable parts of societies. Therefore, any future DCFTA needs to be examined from a social-justice perspective. In particular, it is essential that there be more dialog between the public and private sectors, especially at the local level. The Start-up Act recently passed and ratified in Tunisia, which states government policies and regulations on startups and posits a series of changes to tax, immigration, and regulatory policies guiding their operations, is a good illustration of a promising initiative from civil society. The Start-up Act in Tunisia was the result of a long process of consultation between the government and civil society organizations around a common vision to eliminate barriers and democratize access to entrepreneurship for the entire population, including those living in remote areas.

- *Adapt education and professional training programs that are gender inclusive***.** GVCs are at the forefront of changing demands for skills, but a large gap remains between the needs of employers and the approaches of education and skills development institutions. Education sector reforms are key. Policy reforms that could enhance youth employability include dual education systems that combine general and vocational education; development of professional training curricula with the private sector; and extended use of apprentice models that allow young people to learn while working (World Bank, 2020d). Reforms should also improve the position of women in society and their broader integration into the economic sphere.

- *Promote labor mobility through trade in services* within the region, but also in the negotiations with the European Union, as this would have a positive effect on skilled jobs, the mobility of workers and job creation.

European policies can also directly contribute to stimulating exports from the South**.** As a major trading partner with interest in ensuring continued trade relations and stability in the region, the European Union could take measures to facilitate exports from their North African trading partners (South Mediterranean). A return to talks on a mobility partnership, to further facilitate legal migration for MENA businesspeople, students and young workers**,** is in order. The partnership may be challenging to achieve in the short-term but would significantly stimulate trade in goods and services. Temporary migration of workers to provide services in an EU partner country is especially important for countries such as Tunisia. Options for working in the ICT sectors appear especially important (Rudloff and Werenfels, 2018). The current EU proposal for services-related migration is a mixed approach, comprising a positive list that grants free market access in designated service sectors, and a negative list that protects establishments. But the European Union so far has not made specific sectoral proposals. Since EU member states disagree among themselves on migration issues, a services liberalization that permits labor migration seems unlikely for now, but a compromise will be needed eventually.

Realistically it will be difficult for MENA countries to achieve convergence and inclusion via strict structural policies imposed by common institutions, as was the case for the European Union. More decentralized processes based on partnerships between equals on a regional scale and/or on regional sub-assemblies should be encouraged (Moreno-Dodson, 2020).

The support of more advanced, especially European, countries will be essential to allowing co-development to occur. For instance, the European Union could participate in coordination and triangular cooperation in an integrated EU-MENA-Africa axis. The shift of North African MENA countries towards their African neighbors deserves attention from Europe, which should seek to coordinate with continental initiatives where possible. Trade ties between Maghreb countries and the Sahel could help advance Europe's desire to promote stability. Supporting African economic integration is one of the goals mentioned in EU guidelines for a new EU-Africa strategy. This can be achieved by contributing to creating better infrastructure links between North African countries and the rest of the continent. Also, there are possibilities for Europe to pursue triangular cooperation with North African countries in sub-Saharan Africa. For example, Egypt, Morocco, and Tunisia have international cooperation agencies that have carried out many projects (in public health, rural electrification, renewable energy, and digitalization, among others) in third countries in association with international institutions and developed countries.

Mashreq countries could potentially benefit from enhancing cooperation along the EU-Gulf-Asia axis. Services trade in Mashreq countries has been dominated by travel, transport, and other services, and exports of communication, financial, and insurance services have witnessed relatively more rapid change over the last decade. Egypt, Iraq, Jordan, Lebanon, Syria, and the West Bank and Gaza have revealed comparative advantage in the export of travel services.

This report has explored a variety of issues linked to regional trade integration and its potential for growth in a post-pandemic world. As a next step, a more detailed sectoral analysis for targeted recommendations could prove useful, including case studies, interviews of key MENA stakeholders (private, public, civil society), and a deeper analysis of the sectoral impact of non-trade obstacles.

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Annex A. Fiscal and Monetary Responses

Table A.1 Fiscal and Monetary Responses in the GCC countries

Country	Monetary and Fiscal Measures
Bahrain	Delayed bank loan instalments for six months for those impacted by the virus. Waived electricity and water bills for all accounts—including individuals and commercial—for three months. Used unemployment fund to sustain wages of 100,000 workers. Cut policy rate by a cumulative 125 basis points (bps).
Oman	Reduced capital conservation buffer to 1.25 percent from 2.5 percent. Raised loan-to-financing ratio to 92.5 percent from 87.5 percent. Deferred loan instalments. Lowered interest rates. Measures total US$20 billion.
Kuwait	Provided US$30.3 billion for an emergency response program. Central bank cut capital adequacy requirements by 2.5 percent and eased risk weighting for mall- and medium-sized enterprises (SMEs) to 25 percent from 75 percent, raised maximum lending limit and maximum financing limit, created a stimulus package of US$16.5 billion for additional bank lending and made a cumulative 125 bps cut in the policy rate.
Qatar	Customs and utility bill exemptions and loan payments suspension. Stock purchases of US$2.7 billion announced for stock purchases and a cumulative policy rate cut of 100 bps. Stimulus package totals US$22.6 billion.
Saudi Arabia	Announced a SAR 70 billion ($18.7 billion) private sector support package that includes suspension of government tax payments, fees, and other dues to provide liquidity and an increase in available financing through the National Development Fund. Created a SAR 50 billion ($13.3 billion) package to support the private sector, particularly SMEs, by providing funding to banks to allow them to defer payments on existing loans and increase lending to businesses. Provided SAR 9 billion ($2.4 billion) to compensate citizens working in facilities affected by the pandemic. Allotted SAR 50 billion (US$13.3 billion) to expedite payment of the private sector dues, offering facilities to commercial, industrial and agricultural sectors, postponing payment of electricity bills and paying salaries of those engaged in passenger transport activities. Provided SAR 47 billion (US$12.5 billion) to raise the health sector's readiness.
United Arab Emirates	Raised loan-to-value ratio for first time mortgages by 5 percentage points. Raised banking sector exposure limit for real estate to 30 percent. Allowed US$13 billion in collateralized lending at 0 percent. Lowered capital requirement on SME loans. Permitted to tap capital buffers. Cut the policy rate by a cumulative 125 bps.

Sources: International Monetary Fund, Nasser Saidi & Associates, JP Morgan, and Kingdom of Saudi Arabia.
Note: Data are as of August 13, 2020.

Table A.2 Fiscal and Monetary Responses in the non-GCC countries

Country	Monetary and Fiscal Measures
Algeria	Allocated 70bn dinars (US$ 545 million) to mitigate the health and economic impacts of the Covid-19 crisis. Will lower current spending by 5.7 percent. Postponed the tax due date. Made allowance and cash transfers to vulnerable households. Reduced the reserve requirement ratio to 6 percent. Lowered the main policy rate by 25.25 basis points to 3 percent. Cut the import bill by at least US$10 billion.
Djibouti	Announced a package of measures to respond to the shock, including Increases in health and emergency spending to support households and firms affected by the pandemic. The Central bank stepped up financial sector surveillance.
Egypt	The price pf gas and electricity for industrial use was reduced. Stamp taxes were reduced. Capital gains were exempted from taxation. Taxes on dividends were reduced. Factories and tourist facilities were given a six-month grace period for real estate tax payment. The central bank cancelled EGP 9.9 billion (US$ 628 million) of loans and provided EGP 20billion (US$ 1.3 billion) to support the stock market. The policy rate was cut by a cumulative 300 basis points (bps).
Iran	Instituted a three-month moratorium on government tax payments. Subsidized loans for affected businesses and vulnerable households. Provided extra funding for the health sector. Transferred cash to vulnerable households. Supported the unemployment insurance fund. The government started to privatize state-owned companies. The central bank provided funds to import medicine, allowed commercial banks to postpone loan repayments and offered temporary penalty waivers for customers with non-performing loans
Iraq	Loaned 50 billion Iraqi dinars (US$42 million) from the contingency reserve to the Ministry of Health. The central bank established a fund to collect donations from financial institutions with initial donations of US$37 million. Announced a moratorium on interest and principal payments by small- and medium-sized enterprises (SMEs) through its directed lending initiative and encouraged banks to extend loan maturities. Reduced spending in non-essential areas and set budgetary allocations to the Ministry of Health. Introduced a cash transfer scheme, targeting workers in the private sector who do not receive salaries or benefits from the government.
Jordan	Postponed tax payments. Allocated 50 percent of maternity insurance revenues (JD 16 million, US$23 million) to assist the elderly and the sick, introduced price ceilings on essential products, Postponed 70 percent of customs duty value for selected companies. Reduced social security contributions from private sector firms from 21.75 percent to 5.25 percent. The central bank reduced most policy rates by 150 basis points and announced a US$704.5 million soft financing program for SMEs. IMF approved Jordan's request for emergency financial assistance under the Rapid Financing Instrument (RFI) equivalent to SDR 291.55 million (about US$ 400 million). The central bank allowed licensed banks to postpone the due loan installments and conduct debt rescheduling until the end of 2020. It also supported bank liquidity by reducing the regulatory reserve ratio to 5% from 7% and modified its existing refinancing program of JD 1.2 billion to support various economic sectors in 2020.

Lebanon	Allocated LL1200 billion (US$ 790 million) for social safety nets. Extended all deadlines related to payment of taxes and fees. Approved disbursement of LL450 billion (US$293 million) of dues to private hospitals. Central Bank to provide banks and financial institutions five-year, zero percent interest rate credit lines in dollars equivalent to the value of exceptional loans granted to their customers.
Libya	Announced a package of LD 500 million (US$ 364 million) in emergency spending to support the health system expand testing and respond to a possible surge in infections. Announced a 20 percent pay cut for civil servants. According to central bank, the total amount of funds to combat Covid-19 reached LD 847 million (US$ 616 million)
Morocco	Expanded employment benefits. Provided tax deferrals. Cut policy rate by a cumulative 75 bps. A special fund dedicated to the management of the pandemic. A funding for lending facility (Damane Oxygene), which provides loans to (very) small- and medium- sized enterprises. A post crisis facility (Damane Relance) to support businesses that will provide financing to cover working capital needs at subsidized interest rate.
Tunisia	Delayed tax payments, including for SMEs. Postponed repayment of low-income employee loans. Provided financial assistance to poor families. Cut policy rate by a cumulative 100 bps.
West Bank and Gaza	Distributed 98,000 food baskets and gave financial assistance to about 125,000 households. Plans to spend 0.7 percent of GDP to cover short-term critical gaps related to Covid-19. Will recruit medical specialists and purchase testing kits and other medical equipment. Will devote 0.1 percent of GDP to support workers, including unemployment benefits, cancelled penalties for late submission of tax returns and extended the tax filing deadline. The West Bank and Gaza" Monetary Authority has postponed monthly/periodic loan repayments for all borrowers, prohibited the collection of fees, commissions, or additional interest on deferred payments and is considering establishing a fund to provide soft loans to SMEs affected by the crisis.

Sources: International Monetary Fund, Nasser Saidi & Associates, JP Morgan.
Note: Data are as of August 13, 2020.

Annex B. Quantifying the Potential Real Impact of Covid-19 on GDP and Trade in MENA

Our empirical estimates of the economic effects of the Covid-19 epidemic rely on the Envisage global computable general equilibrium (CGE) model that was simulated for the global economy and specifically for the East Asia and Pacific (EAP) countries (World Bank 2020c). In the study, the real impact of China's coronavirus outbreak and the global Covid-19 pandemic on individual countries in the EAP region is quantified. Other developing regions, including the MENA region, are treated separately in blocs throughout the simulation.

The channels through which the real economic impact is likely to be felt in the MENA region depends on the country's exposure to China and the world through global value chains (GVCs) and trade. These transmission channels are imports of crude oil, supply chain investment, tourism, and other travel-related services. Countries exposed to the disruption of China's imports of crude oil include those in the Gulf Cooperation Council (GCC—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates (UAE)), Iran, Iraq, and some other oil exporters in the region. Countries that are exposed to the interruption of exports of intermediate inputs are primarily Morocco and Tunisia for electrical machinery, Saudi Arabia for chemicals, and the UAE for metal and metal products.

The analysis in this section is based on a version of the Envisage CGE model calibrated to GTAP Version 10A simulated under four sets of shocks:

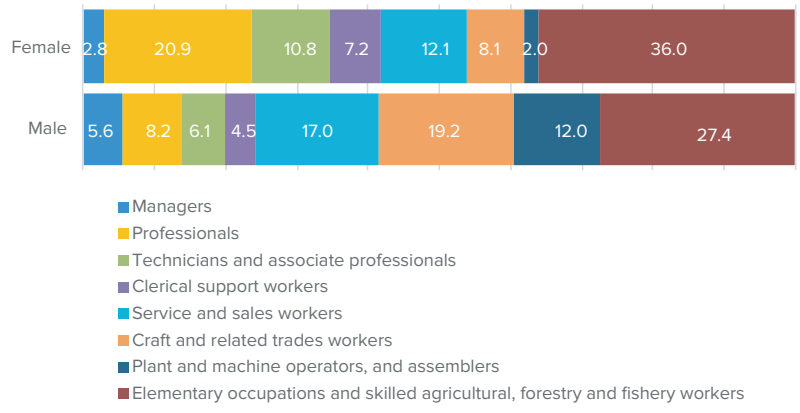
- A 3 percent drop in employment
- A supply shock that increases the international trade costs of imports and exports by 25 percent
- A sharp decline in international tourism captured through a 50 percent tax on consumption of international tourism-related services, such as transport, accommodation
- A switch in demand by households through the purchase of fewer services requiring close human interaction, such as transport, domestic tourism, restaurants, and recreational activities toward consumption of goods and other services.

The global CGE model is simulated under two scenarios: "baseline global pandemic" and "severe global pandemic." The scenarios' assumptions and simulation results are based on the information obtained at the onset of the global Covid-19 pandemic and before the most recent growth forecasts. The baseline scenario aims to capture limited contagion of the disease and rapid recovery, where the shocks are implemented to the full degree in China, while other countries experience about half of the shocks. In the severe scenario, a larger reduction in annual output is assumed due to a deeper and more prolonged pandemic. Here, we will report the simulation results of the severe global pandemic impact scenario on the MENA region's exports, real sectoral output, domestic services, and traded tourists' services. We report the results of both scenarios on GDP.

Results

Simulation results suggest a 2.1 percent (baseline) and 3.9 percent (severe) decline in the global GDP, Chinese GDP falls by 3.7 percent and 4.3 percent, respectively, and MENA GDP is estimated to contract by 1.4 percent and 2.9 percent, respectively. All sectors would experience a decline in output. Still, the most significant percentage drops in growth in the MENA region are recorded in the services sector if the spread of the virus is severe (under the second scenario).

Figure B.1 In MENA more women than men work in the services sector



Source: International Labor Organization.
Note: Elementary occupation consists of selling goods in public places, cleaning, washing, pressing, taking care of apartment houses, hotels, offices, and other buildings, etc.

The Covid-19 pandemic affects every sector in The Covid-19 pandemic affects every sector in MENA economies, including agriculture and non-tradable and tradable services, where most of the low-wage workers and women in the region are employed. The sectoral impact under the severe scenario is a steeper decline in services than in agriculture and manufacturing in MENA. The biggest negative shock is expected in the output of domestic services affected by the pandemic, as well as traded tourist services. The output of services affected by the pandemic shrink by 9.3 percent and tourism services could decline by 8.8 percent, with agricultural and manufacturing output declining by about 3 percent (see discussion in Box I.1). The worst hit services sector affects the poorest and the most vulnerable, who are heavily employed in travel, tourism, retail, accommodation services, and food and beverage services activities. Many of them are women and part-time workers.

On average, across MENA countries, women make up roughly 36 percent of the elementary occupations (such as street vendors, cleaners and other semi-skilled jobs), 21 percent of professionals (including teachers, medical practitioners, musicians, operating theater, nurses, and retail), 11 percent of technicians and associates, and 7 percent of clerical support workers (see Figure B.1). As lockdowns spread across MENA and supply chains continue to be disrupted, female employment most likely will be hardest hit.

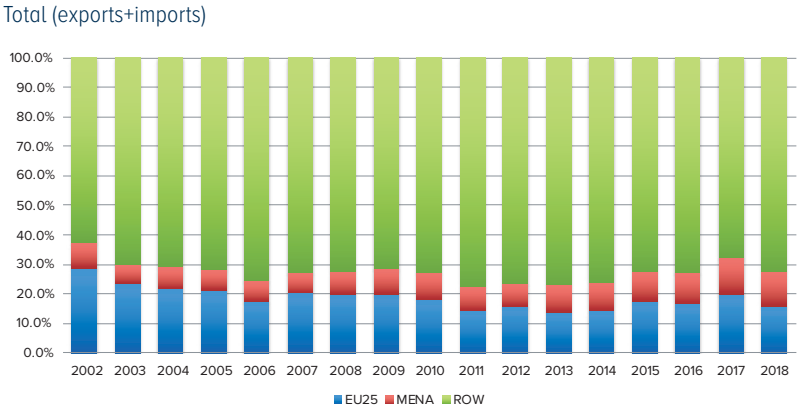
The results of the CGE simulation showed that the Covid-19 pandemic hit MENA's trade volume. Exports drop by 2.1 percent in the baseline scenario and 4.9 percent in the severe scenario. The declines are greater than in sub-Saharan Africa and South Asia, but lower than the global average.

The economic, financial, and social costs of the Covid-19 pandemic are substantial for the global economy and the worsening in MENA's social indicators such as unemployment and poverty exceeded the rest of the world. The simulation results show that under a "severe global pandemic" scenario, where a deeper and prolonged pandemic is expected towards the end of this year, global GDP growth will decline by 3.9 percent in 2020 and MENA's GDP growth by 3 percent, while global exports could fall by 4.6 and 4.9 percent for MENA. Lockdowns and border closings would also disproportionally affect the poor and vulnerable, particularly cross border traders and unskilled workers in the informal sector. Moreover, domestic services and tourist services are two sectors that are being hit hard by the lockdown. These sectors employ more women compared to the rest of the economy, and the likelihood that women lose their jobs is much higher than for men (see Figure B.1).

Annex C. Evolution of MENA Trade and FDI Flows: Internal to the Region and with Europe, in Comparison with the Rest of the World

Trade

Figure C.1 Trade with the European Union, intra-MENA and with the rest of the world



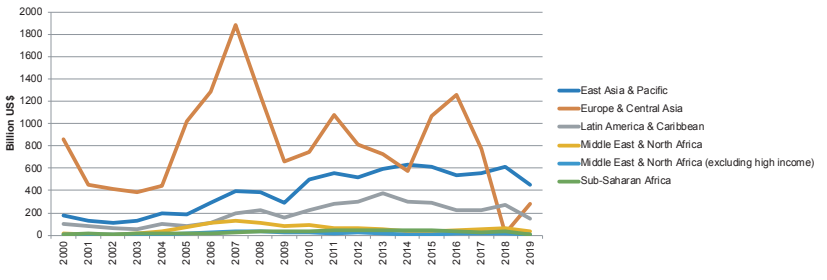
Source: World Bank staff calculations based on COMTRADE.

MENA's trade-to-GDP is around 95 percent, well above the world average (60 percent), the 65 percent average of high-income countries and the 49 percent average for middle-income countries (Karam and Zaki, 2020). The performance of MENA countries is closer to that of small states, which have a trade-to-GDP of 103 percent. This high level is mainly the result of oil and petroleum exports, which account for more than 50 percent of the region's total exports. MENA exports excluding oil are about half the world average (Karam and Zaki, 2017). Figure C.1 shows how the MENA region trades with the European Union, within the region (intra-MENA) and with the rest of the world. The European Union is a less dominant trading partner now than at the start of the century. Trade with the European Union (combined exports and imports) was 15.7 percent of the MENA region's total trade in 2018, down from 28.7 percent in 2002. MENA imports from the European Union accounted for 24.1 percent of total imports in 2018, down from 41.4 percent in 2002. Similarly, the share of MENA exports to the European Union represented only 7.6 percent of total MENA exports in 2018, down from 19.7 percent in 2002 (COMTRADE).

Foreign Direct Investment

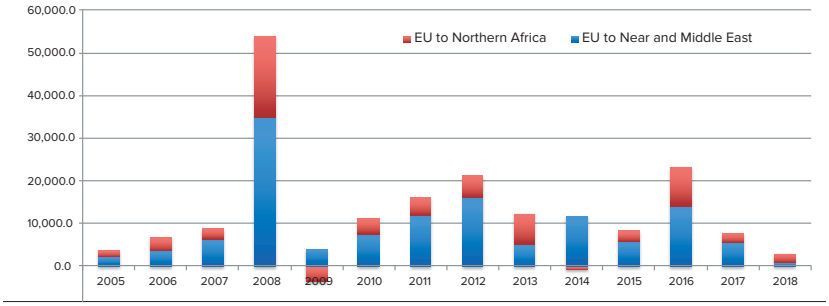
In the MENA region, greenfield investments (in which investors start new operations) represented more than 80 percent of the foreign direct investment (FDI) projects between 2003 and 2012 and created more than 50,000 jobs in Algeria, Egypt, Morocco, Saudi Arabia, Tunisia, and the UAE. However, in Iran, Kuwait, Lebanon, Saudi Arabia, Syria and Yemen, FDI is lower than the average (Milgram Baleix and others 2018). The MENA region received about US$32

Figure C.2 Foreign direct investment, net inflows (balance of payments, billion US$), by region



Source: data.worldbank.org.

Figure C.3 FDI financial flows: Total, EU to MENA, millions of US dollars



Sources: OECDstat, FDI by country and economic activity_BMD4 and historical BMD3 series.
Note: Northern Africa = Algeria, Egypt, Libya, Morocco and Tunisia. Near and Middle East = Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, UAE, Yemen, Armenia, Azerbaijan, Georgia, Jordan, Lebanon, West Bank and Gaza, Syrian Arab Republic.

billion in FDI in 2019, down from US$60.9 billion in 2018. The region receives one of the smallest amounts in the world—five times less than what Latin America and the Caribbean receives and only slightly more than the US$28.5 billion sub-Saharan Africa received. The World Bank identified the biggest regional recipients as the UAE (US$10.4 billion in 2018), Egypt (US$9 billion in 2019) and Oman (US$6.3 billion in 2018). The 2008 international financial crisis and the Arab Spring have significantly affected the region's FDI, which fell below of 3 percent of GDP, a return to the poor performance levels of the early 2000s.

Europe remains an important source of FDI for the MENA region, though a lesser source in recent years. Italy, Germany, Austria and France are the four biggest EU sources, with Japan fifth (OECDstat). According to a survey of eight MENA countries (Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Tunisia, West Bank and Gaza), between 2003 and 2009 the real estate sector accounted for 32 percent of greenfield FDI and coal, oil and gas was 25 percent of a total of US$525.8 billion in investments. The two dominant sectors were followed by chemical manufacturing, services (such as hotels and tourism), and renewable energy.

Mediterranean Partner Countries of the European Union

In terms of direct bilateral trade, the European Union is a very important trade partner for Algeria, Egypt, Morocco, and Tunisia, and is also important for Lebanon and Jordan. Trade between the European Union and its Southern Mediterranean (SM) partners steadily increased in recent years in both directions (Ecorys, CASE and FEMIS, 2020). Between 2016 and 2017 EU imports from SM partners increased 12.26 percent and EU exports to SM partners increased 4.02 percent. The European Union maintained a positive trade balance with its six-partner countries, but the gap narrowed by 16 percent between 2016 and 2017. There are also indirect trade flows within the international supply chain that could make the interdependence of the EU-SM partnerships even stronger (Ecorys, CASE and FEMISE, 2020). One trend that emerges is the small, but gradually increasing, imports of machinery. This could indicate gradual integration of the region, with EU supply chains for such products through intra-industry trade.

Annex D. Identifying Obstacles to the Limited Global Trade Integration of MENA and Explaining the Costs of Trade

Non-Tariff Measures and Regulatory barriers to services trade

Table D.1 shows the number of non-tariff measures (NTMs) currently applied by MENA countries by type of measure. For comparison purposes the number of NTMs used by eight other developed and emerging economies—the European Union, the United States, China, Mexico, Chile, Colombia, Indonesia, and Malaysia—have been added. The total NTMs used by sub-Saharan African countries is also included. Comparing the number of NTMs across countries can give an idea of their relative restrictiveness. However, the total number of NTMs is an imperfect measure of a country's restrictiveness because the nature of each measure (not all impede trade) and its impact on trade may vary. The eight added economies apply technical measures—such as sanitary requirements, both plant and animal (SPS); technical barriers (TBT) and pre-shipment inspections (INSP)—which are often much more stringent than those applied by MENA economies. Notably, the United States and China apply far more of these three technical NTMs combined, than do MENA countries. On the other hand, MENA countries may apply more NTMs overall than do sub-Saharan African economies, while sub-Saharan Africa countries apply more export measures and technical barriers than do MENA countries.

Table D.1 Number of NTMs applied in MENA countries by type of measure and comparison with other countries (August 2020)

	CTPM	EXP	INSP	OTH	PC	QC	SPS	TBT	TOTAL
Algeria		13	4	1	1	34	114	122	**289**
Bahrain		105	24	3	34	59	135	107	**467**
Jordan		29		2	5	33	73	16	**158**
Kuwait		22	5	3	7	40	100	26	**203**
Lebanon		56	29	8	7	50	196	124	**470**
Morocco		42	4	1	6	35	208	91	**387**
Oman		27	2	4	3	42	50	64	**192**
West Bank and Gaza		16	8	1	9	35	88	45	**202**
Qatar		20	2		4	30	57	130	**243**
Saudi Arabia		57	43	4	24	59	102	124	**413**
Tunisia		87	21	12	46	36	96	117	**415**
United Arab Emirates		72	37	5	28	77	277	114	**610**
MENA (total)		**546**	**179**	**44**	**174**	**530**	**1496**	**1080**	**4049**

Sub-Saharan Africa (total)	**3**	**776**	**91**	**35**	**116**	**346**	**1183**	**1390**	**3940**
Europe (Total)	**2**	**153**	**199**	**8**	**35**	**168**	**440**	**799**	**1802**
United States		218	481	1	39	191	3244	2583	**6757**
China		1026	113	58	51	312	1642	4054	**7256**
Mexico	70	139	3	1	3	141	180	335	**802**
Chile	2	28	8		12	122	850	262	**1282**
Colombia	34	78	13	6	16	309	153	205	**780**
Indonesia		130	55	13	19	83	239	432	**971**
Malaysia		140	6		29	49	324	372	**920**

Source: UNCTAD NTMs TRAINS Database, https://trains.unctad.org/.
Note: Technical measures are Sanitary and Phytosanitary (SPS) Technical Barriers to Trade (TBT) and Pre-shipment inspection (INSP). Non-technical measures are Contingent Trade Protective Measures (CTPM), Quantity control measures (QC), Price control measures (PC). Other measures (OTH) and Export-related measures (EXP).
Sub-Saharan Africa =Benin, Botswana, Burkina Faso, Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Guinea, Liberia, Republic of Mali, Mauritania, Mauritius, Niger, Nigeria, Senegal, Togo, Zimbabwe.

The situation is less clear cut for other non-technical measures. MENA countries have no quota measures (CTMP), although emerging economies in Latin America, such as Mexico and Colombia, use some of them (Chile less so). Tunisia (46), Bahrain (34), the UAE (28) and Saudi Arabia (24) apply far more price control measures than other MENA countries, but have fewer price control measures than China. Likewise, when it comes to the measures that affect trade financing, competition and investment (OTH), MENA countries apply 44 measures, more than Indonesia (13) and Colombia (6) and fewer than China (58). For the measures imposed on their own exports (EXP), Bahrain imposes 105, Tunisia 87 and the UAE 72. The rest of the MENA countries use fewer EXP measures both with respect to the countries in the region and comparable emerging economies. However, MENA countries have more quantity control (QC) measures than the United States, the European Union or China, or other countries in the sample.

In overall numbers of NTMs, the UAE takes first place among MENA countries with 610 measures, followed by Lebanon (470), Bahrain (469) and Tunisia (415). The MENA region as a whole applies 4,049 non-tariff measures, more than Europe and slightly more than sub-Saharan Africa but far fewer than the United States and China.

Table D2 shows that over the past 20 years, MENA countries as whole have more than doubled the number of NTMs they apply. Most of them are technical—sanitary and technical barriers to trade account for more than half. The MENA countries that significantly increased their number of NTMs applied are the UAE (474), Bahrain (360), and Saudi Arabia (355).

Table D.2 Difference in the number of NTMs applied in MENA countries by type of measure between 2000 and 2020

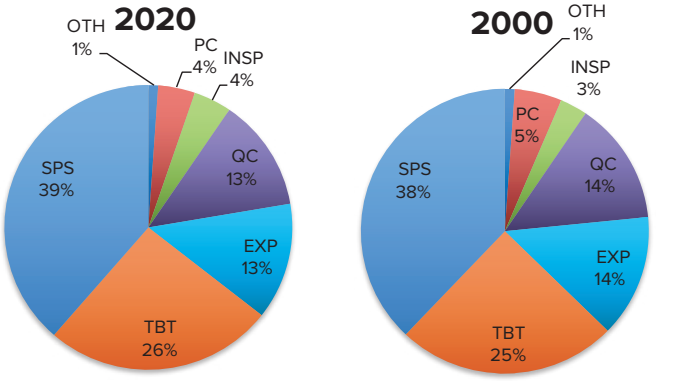
	CTPM	EXP	INSP	OTH	PC	QC	SPS	TBT	TOTAL
Algeria		9	3	1	1	30	55	63	**162**
Bahrain		82	17	1	26	40	114	80	**360**
Jordan		12	0	2	0	24	52	14	**104**
Kuwait		10	3	2	4	17	87	4	**127**
Lebanon		28	20	5	2	17	132	84	**288**
Morocco		15	1	1	0	8	47	23	**95**
Oman		22	2	2	2	19	47	35	**129**
West Bank and Gaza		5	5	0	5	19	24	16	**74**
Qatar		14	2	0	2	19	31	45	**113**
Saudi Arabia		53	33	1	17	45	100	106	**355**
Tunisia		36	15	7	16	25	66	104	**269**
United Arab Emirates		44	29	5	12	42	244	98	**474**
MENA (total)		**330**	**130**	**27**	**87**	**305**	**999**	**672**	**2550**

Source: UNCTAD NTMs TRAINS Database (https://trains.unctad.org/).

Plant and animal sanitary measures today account for 39 percent of the total NTMs applied by MENA countries, about the same share as in 2000 (see Figure D1). Technical barriers account for 26 percent of the total today, little changed from the 25 percent in 2000. Even though the number of inspection measures more than tripled, they still account for only 4 percent of the total NTMs applied by MENA countries.

There likely are several factors behind the increase in NTMs, including protectionism. One interpretation of the significant increase in technical NTMs is a modernization process that reflects concerns for public health, environmental protection, and transparency. Yet, the use of technical regulation as a trade barrier cannot be ignored.

Figure D.1 Share of each type of measure in total NTMs applied by MENA in 2000 and 2020

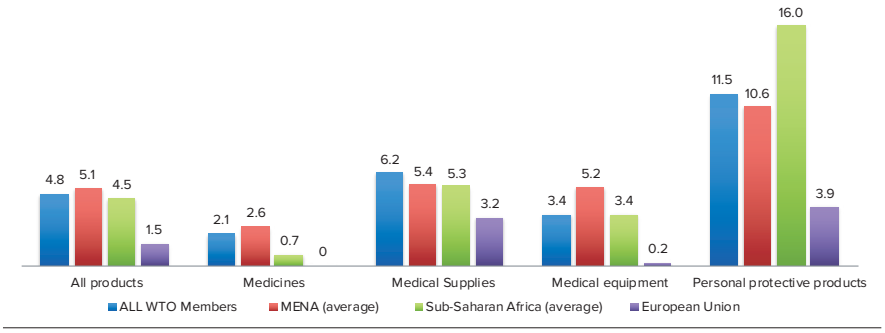


Source: UNCTAD NTMs TRAINS Database (https://trains.unctad.org/).

It is important to stress the limitations of this analysis of NTMs, which does not assess the degree of severity of the NTMs and their ability to influence trade. One measure can have a much more negative effect on trade than many measures combined for the same product.

Tariffs

Figure D.2 Latest Average Applied MFN Tariff (%) for Medical Products, by region



Source: Authors calculations based on World Trade Organization data (Trade in Medical Goods in the Context of Tackling Covid-19).

To a certain extent, levies on imports remain as a barrier to trade. While the intra-MENA effective tariff rate is low—on average at 1.09 percent—and has declined sharply since 2000, the tariff applied by MENA on imports from sub-Saharan African (SSA) countries is 7.53 percent and is 5.4 percent on imports from the world. Likewise, sub-Saharan African countries apply higher tariffs on imports from MENA countries (13.32 percent) than on imports from the world (7.53 percent).

Furthermore, the MENA region applies tariffs on important products, such as medicines and medical equipment, that are above the World Trade Organization average and more restrictive than SSA countries (see Figure D.2). Djibouti, Morocco and Egypt are the most restrictive. Tunisia has a tariff on medicines that is four times the regional average (see Table D.3).

Table D.3 Latest Average Applied MFN Tariff (%) for Medical Products, by country

WTO Member	All products	Medicines	Medical Supplies	Medical equipment	Personal protective products
ALL WTO Members	**4.8**	**2.1**	**6.2**	**3.4**	**11.5**
Oman	2.7	0	3	4.6	5
Qatar	2.7	0	3	4.6	5
Bahrain. Kingdom of	2.8	0	3.1	4.7	5.3
Kuwait. the State of	3.1	0	3.1	4.6	5
United Arab Emirates	3.1	0	3.1	4.6	5
Jordan	3.6	0	3.9	3.4	15.1
Saudi Arabia	4.1	0	4.5	4.6	8.7
Tunisia	5.1	8.8	5.4	0	12.9
Yemen	5.4	4.7	5.4	5	7.7
Egypt	5.8	1.5	5.1	4.2	27.6
Morocco	7.1	9	7.7	2.5	12.3
Djibouti	20	8	19.9	26	26
MENA (average)	**5.5**	**2.7**	**5.6**	**5.7**	**11.3**

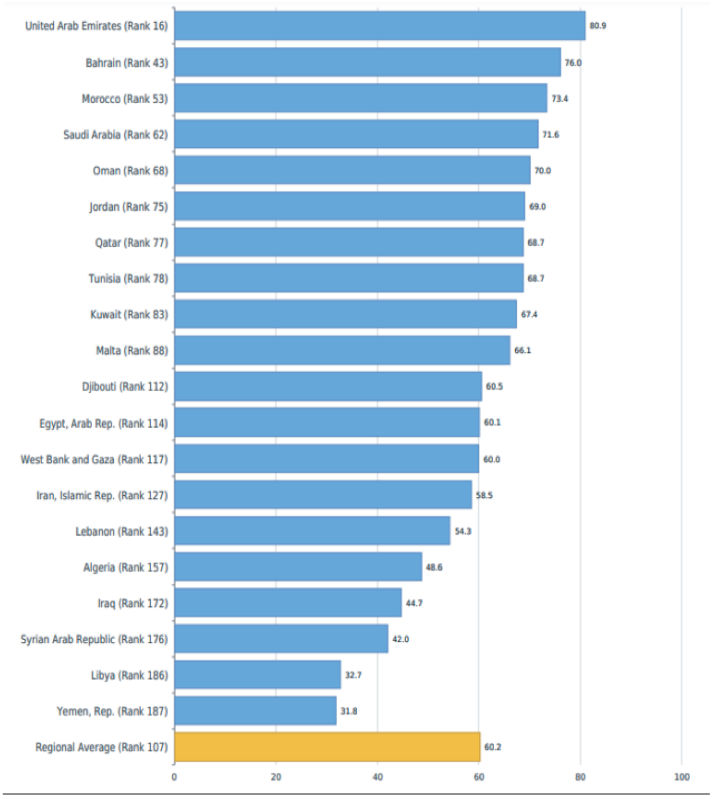
Source: WTO data (Trade in Medical Goods in the Context of Tackling Covid-19).

The Business Environment and Trade Facilitation

In recent years, some MENA countries have been keen to improve their business environment to strengthen the competitiveness of their national economy and attract sustainable inward FDI flows. Not all have, however, which may affect trade performance. In 2020, four of the world's top 10 improvers are in the MENA region—Bahrain, Jordan, Kuwait, and Saudi Arabia (World Bank, 2020f). These four countries accounted for almost half of the business environment reforms made in the MENA region. The UAE remained the strongest performer overall in the region, placing 16 out of 190 in the ease of doing business rankings, followed by Bahrain at 43 and Morocco at 53 (see Figure D.3).

Many reforms were trade related. Saudi Arabia established a one-stop shop for company incorporation, made importing and exporting faster by enhancing the electronic trade single window and launched an online platform for certification of imported goods. Jordan strengthened access to credit by introducing a new secured transactions law. Bahrain strengthened the rights of minority shareholders and overhauled the process of obtaining building permits through a new online platform. Kuwait also made trading across borders easier, by enhancing the customs risk management system and implementing a new electronic clearance system. Morocco strengthened minority-investor protections, reduced the corporate income tax rate, and introduced e-payment of port fees.

Figure D.3 How economies in Middle East and North Africa rank on the ease of doing business



Source: World Bank, 2020f.

However, other MENA economies are doing worse. Among them, Lebanon (143) has made only one reform to improve its business climate in the last five years. The country especially disappoints in the areas of starting a business and dealing with construction permits. Algeria (157) maintains the same position as in 2019, remaining one of the least competitive economies in the region. In the fiscal area, Algeria ranks 158 in paying taxes, 172 in "cross-border trade" and 113 in "execution of contracts." Its rank is even worse for obtaining loans (181) and in "minority-investor protection" (179).

Countries in the MENA region underperform most in:

- **Getting credit**, which remains harder than anywhere else in the world (see Table D4). The poor performance can be partly attributed to insufficient protections for lenders and borrowers in collateral and bankruptcy laws. Access problems can be an impediment to trade. The literature documents the link between trade and access to finance (Vaubourg, 2016). Exports performance strongly depends on a firm's or sectors' access to external finance. More vulnerable firms or sectors export less than others. Trade finance plays a key role in determining trade performance. Meanwhile, finance is also driven by trade patterns. At the micro-level, export participation can lead to a relaxation in a firm's financial constraints. Furthermore, trade openness reforms appear to be more effective in promoting GDP growth when financial systems are well developed.

Table D.4 Getting Credit, by region

Location	Getting Credit rank	Getting Credit score	Strength of legal rights index (0-12)	Depth of credit information index (0-8)	Credit registry coverage (% of adults)	Credit bureau coverage (% of adults)
East Asia & Pacific	82	58.0	7.1	4.5	16.6	23.8
Europe & Central Asia	48	72.2	7.8	6.7	24.0	41.7
Latin America & Caribbean	98	52.0	5.3	5.1	14.6	47.6
Middle East & North Africa	118	41.8	3.1	5.3	15.8	16.3
OECD high income	68	64.3	6.1	6.8	24.4	66.7
South Asia	97	53.1	5.5	5.1	5.1	21.0
Sub-Saharan Africa	113	45.2	5.1	3.9	8.3	11.0

Source: World Bank, 2020f.

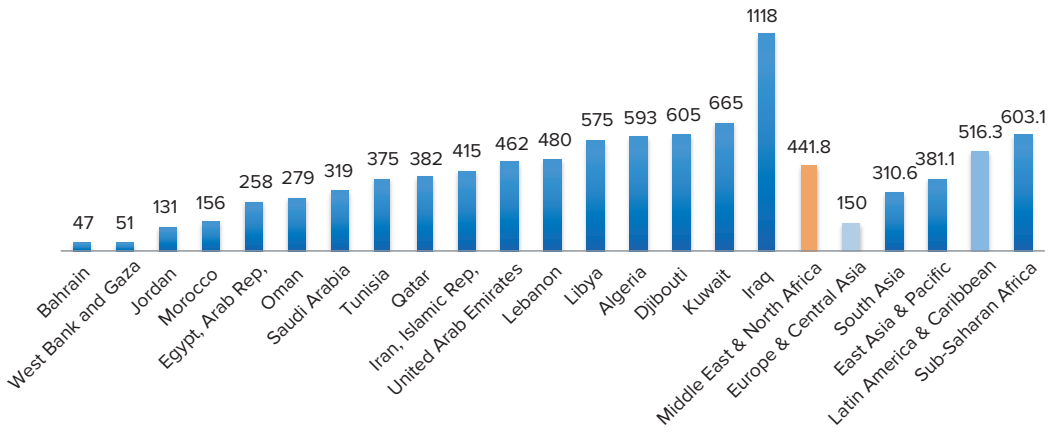
- **Trading across borders and resolving insolvency**. Trade costs remain a key barrier to greater trade integration. The cost of complying with border requirements for exporting averages US$442 and takes 53 hours (see Table D.5), which is three times more expensive and four times longer than the averages among OECD high-income economies. The export cost of border compliance is the highest in Iraq, Kuwait and Djibouti while it is the lowest in Bahrain (Figure D.4). Iraq also has the highest cost of documentary compliance in MENA (Figure D.5). The MENA region fares better in the amount of time it takes to export, although border compliance takes too much time in countries such as Iran, Lebanon, Iraq and Kuwait (Figures D.6 and D.7). Creditors face a difficult time recovering funds from bankrupt firms. The average recovery rate in the region is 27 cents on the dollar, compared with 70 cents in OECD high-income ones.

Table D.5 Trading Across Borders by Region

	Trading across Borders rank	Trading across Borders score	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)
East Asia & Pacific	103	71.6	57.5	381.1	55.6	109.4	68.4	422.8	53.7	108.4
Europe & Central Asia	53	87.3	16.1	150.0	25.1	87.6	20.4	158.8	23.4	85.9
Latin America & Caribbean	106	69.1	55.3	516.3	35.7	100.3	55.6	628.4	43.2	107.3
Middle East & North Africa	117	61.8	52.5	441.8	66.4	240.7	94.2	512.5	72.5	262.6
OECD high income	26	94.3	12.7	136.8	2.3	33.4	8.5	98.1	3.4	23.5
South Asia	109	65.3	53.4	310.6	73.7	157.9	85.7	472.9	93.7	261.7
Sub-Saharan Africa	140	53.6	97.1	603.1	71.9	172.5	126.2	690.6	96.1	287.2

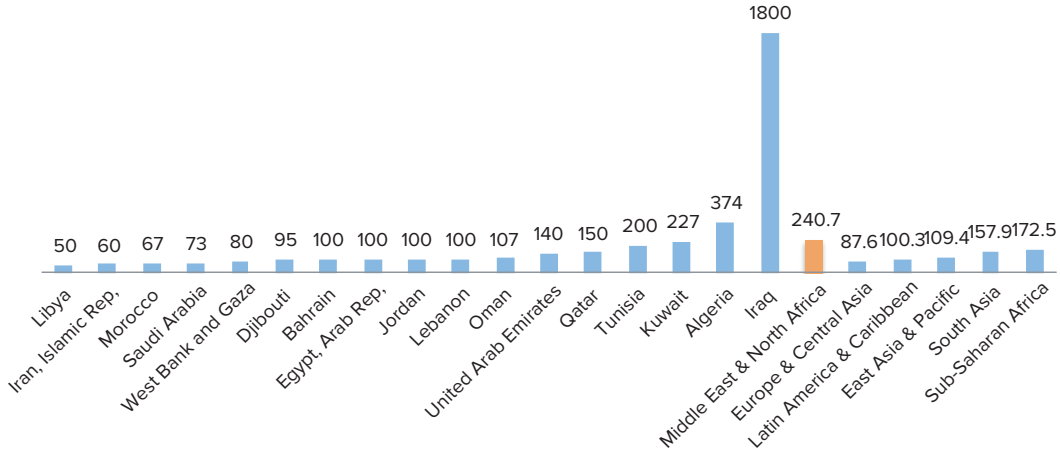
Source: World Bank, 2020f." at bottom of the table.

Figure D.4 Cost to export: Border compliance (USD)



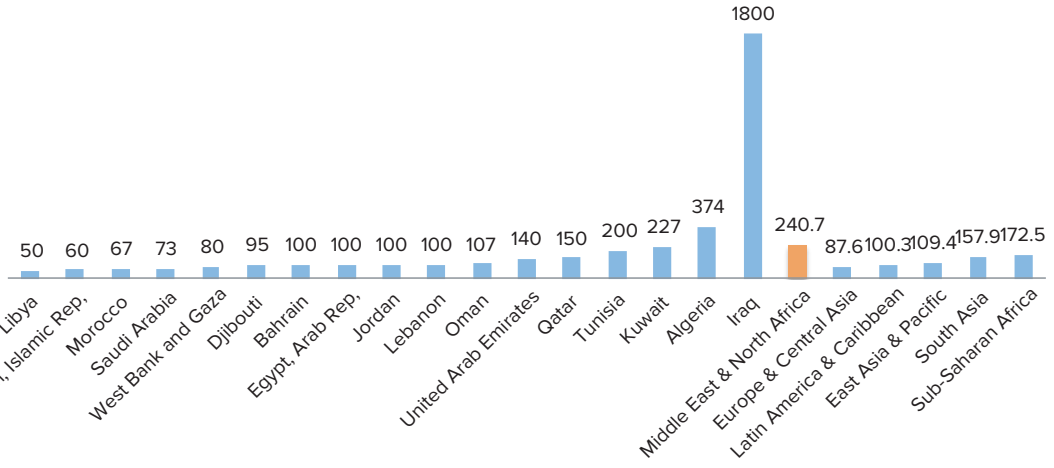
Source: World Bank, 2020f.

Figure D.5 Cost to export: Documentary compliance (USD)



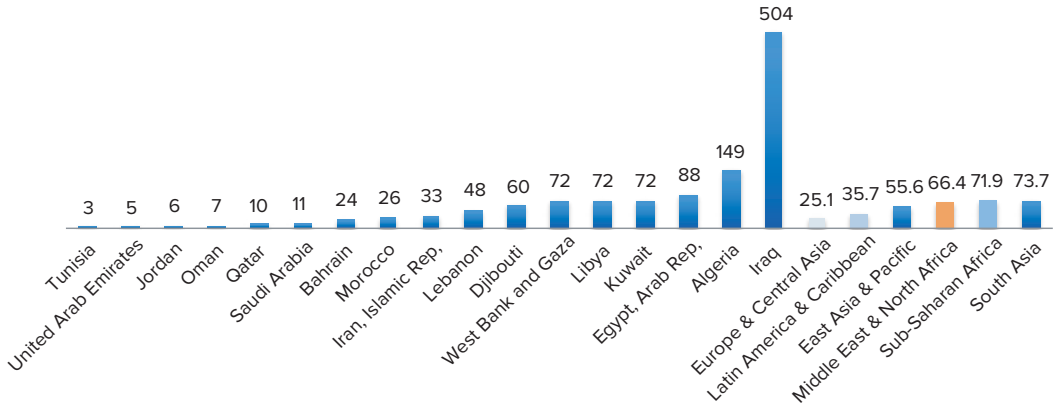
Source: World Bank, 2020f.

Figure D.6 Time to export: Border compliance (hours)



Source: World Bank, 2020f.

Figure D.7 Time to export: Documentary compliance (hours)



Source: World Bank, 2020f.

- **Logistics** are important to facilitating trade. There many aspects to logistics, including transport time, costs, quality, service efficiency and reliability, quality of road, rail, maritime and air infrastructure. It covers the organization of transport, the actual transport of goods, and the warehousing and storage of products. Logistical issues encompass both services and infrastructures, both for domestic trade and for exports and imports. The World Bank's Logistics Performance Index measures logistics efficiency and the latest index shows that the performance of MENA countries is on par with that of Mercosur countries—the South American trade bloc of Argentina, Brazil, Paraguay, and Uruguay (see Table D6). It is, however, much lower than the average score of the 27 Asian economies in the ASEAN group, or China or the United States. In MENA, Libya, Iraq, and Yemen rank lowest and seem most burdened by logistics quality and competence, infrastructure, and customs.

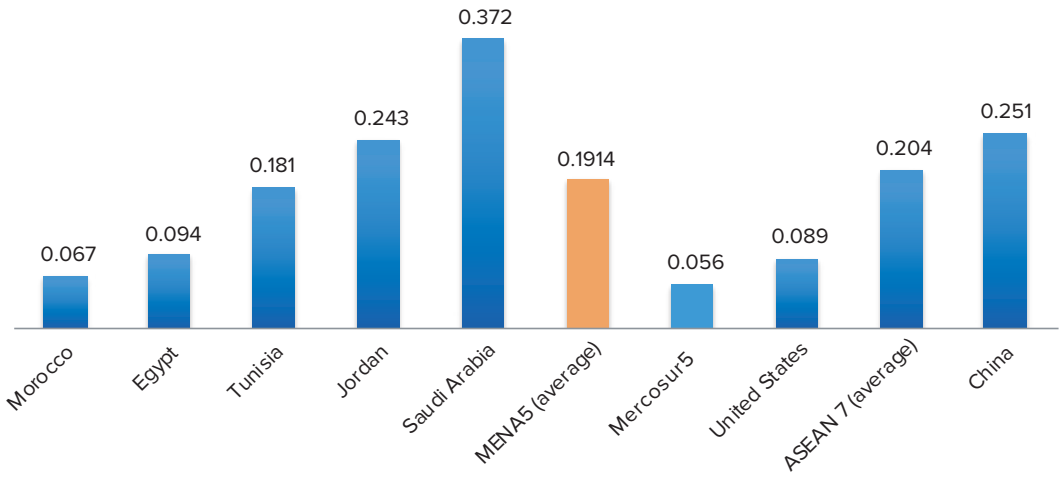
Table D.6 Logistics Performance Index, MENA vs selected countries/regions (scores out of 5)

	overall LPI score	Customs	Infrastructure	International shipments	Logistics quality and competence	Tracking and tracing	Timeliness
Libya	2.11	1.95	2.25	1.99	2.05	1.64	2.77
Iraq	2.18	1.84	2.03	2.32	1.91	2.19	2.72
Yemen, Rep.	2.27	2.40	2.12	2.21	2.26	2.16	2.43
Syrian Arab Republic	2.30	1.82	2.51	2.37	2.29	2.37	2.44
Sudan	2.43	2.14	2.18	2.58	2.51	2.51	2.62
Algeria	2.45	2.13	2.42	2.39	2.39	2.60	2.76
Morocco	2.54	2.33	2.43	2.58	2.49	2.51	2.88
Tunisia	2.57	2.38	2.10	2.50	2.30	2.86	3.24
Djibouti	2.63	2.35	2.79	2.45	2.25	2.85	3.15
Jordan	2.69	2.49	2.72	2.44	2.55	2.77	3.18
Lebanon	2.72	2.38	2.64	2.80	2.47	2.80	3.18
Egypt, Arab Rep.	2.82	2.60	2.82	2.79	2.82	2.72	3.19
Iran, Islamic Rep.	2.85	2.63	2.77	2.76	2.84	2.77	3.36
Bahrain	2.93	2.67	2.72	3.02	2.86	3.01	3.29
Saudi Arabia	3.01	2.66	3.11	2.99	2.86	3.17	3.30
Oman	3.20	2.87	3.16	3.30	3.05	2.97	3.80
Qatar	3.47	3.00	3.38	3.75	3.42	3.56	3.70
United Arab Emirates	3.96	3.63	4.02	3.85	3.92	3.96	4.38
MENA region (average)	**2.73**	**2.46**	**2.68**	**2.73**	**2.62**	**2.75**	**3.13**
Mercosur (average)	**2.74**	**2.53**	**2.54**	**2.76**	**2.65**	**2.76**	**3.16**
ASEAN (average)	**3.02**	**2.79**	**2.80**	**3.03**	**3.01**	**3.09**	**3.40**
China	**3.61**	**3.29**	**3.75**	**3.54**	**3.59**	**3.65**	**3.84**
United States	**3.89**	**3.78**	**4.05**	**3.51**	**3.87**	**4.09**	**4.08**

Source: LPI data.
Note: Mercosur is a South American trade bloc whose members are Argentina, Brazil, Paraguay and Uruguay. ASEAN is a regional organization of 27 southeast Asian countries.

The OECD's FDI Regulatory Restrictiveness Index (see Figure D8 and Table D7) shows that the region is overall much more restrictive than Mercosur, although it appears less restrictive than the ASEAN countries or China. On top of time/financial costs, property rights and rule of law issues, the region is hampered by cumbersome licensing processes, complex regulations and opaque bidding and procurement procedures. Multiple legal and regulatory barriers affect the investment climate—including sector-specific restrictions (including oil and gas, electricity, and 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, especially the six Gulf Cooperation Council countries (OECD, 2018).

Figure D.8 OECD FDI Regulatory Restrictiveness Index, MENA VS selected countries/ regions



Source: OECD.
Note: Mercosur is a South American trade bloc whose members are Argentina, Brazil, Paraguay and Uruguay. ASEAN is a regional organization of 27 southeast Asian countries Mercosur5 includes Venezuela, which has been suspended from the group..

Table D.7 OECD FDI Regulatory Restrictiveness Index decomposed, MENA countries

	Egypt	Israel	Jordan	Morocco	Saudi Arabia	Tunisia
Primary	0.043	0.060	0.110	0.169	0.606	0.163
Agriculture & Forestry	0.080	0.100	0.125	0.050	0.212	0.200
Mining & Quarrying (incl. Oil extraction)	0.005	0.020	0.145	0.000	1.000	0.000
Manufacturing	0.005	0.020	0.045	0.000	0.212	0.004
Electricity	0.005	0.770	0.045	0.000	0.212	0.000
Construction	0.555	0.020	0.545	0.000	0.212	0.375
Distribution	0.255	0.020	0.573	0.000	0.242	0.575
Transport	0.276	0.403	0.562	0.267	0.332	0.389
Hotels & restaurants	0.015	0.020	0.225	0.000	0.212	0.000
Media	0.005	0.264	0.412	0.025	0.441	0.010
Financial services	0.022	0.037	0.178	0.033	0.351	0.223
Real estate investment	0.338	0.220	0.800	0.000	0.970	0.333
Total FDI Index	0.094	0.118	0.243	0.067	0.372	0.181

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, such as restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. Restrictions are evaluated on a 0 (open) to 1 (closed) scale. The overall restrictiveness index is the average of sectoral scores.

Annex E. Services

Table E.1 Estimated ad valorem tariff equivalent of Services Trade Restrictiveness Index indicators" (percent)

Sector	Accounting	Legal services	Air transport	Rail transport	Road	Banking	Insurance	Fixed line	Mobile line	Retail	Maritime
Algeria	56	52	55	93	30	14	28	10	10	5	22
Egypt	56	73	40	93	12	44	35	18	13	7	58
Morocco	27	47	0	59	8	2	26	13	9	1	51
Tunisia	79	69	39	90	21	10	29	12	9	6	54
Turkey	75	73	44	93	15	2	14	6	5	1	26
Bahrain	20	73	58	37	37	14	24	11	1	2	42
Iran	65	64	83	76	76	106	105	13	2	5	67
Jordan	21	73	65	84	84	37	12	5	1	3	20
Kuwait	41	65	69	84	72	19	42	25	1	9	71
Lebanon	38	64	84	84	71	18	30	9	1	4	78
Oman	38	38	58	84	30	21	21	68	1	4	63
Qatar	31	54	64	84	71	103	40	33	2	4	53
Saudi Arabia	50	73	65	0	84	16	24	14	0	10	55
Yemen	65	73	0	84	60	10	28	160	1	8	30

Source: Adapted from Jafari and Tarr (2014).

ANNEX F. Covid-19-related trade measures

Table F.1 Overview of adopted Covid measures (as of August 7, 2020)

Enacting Country	Type of Measure	Affected Products	Effect on Trade	Affected Partners	Status of Measure
Algeria	Export prohibition	food products, medicines, medical supply products	Restrictive	All countries	Active
Algeria	Exceptional measures to facilitate imports	medical supply products	Liberalizing	All countries	Active
Egypt	Export prohibition	beans, peas, lentils	Restrictive	All countries	Active
Egypt	Prohibitions/ restrictions of imports for SPS reasons	garlic, carrots and green ginger	Restrictive	China	Active
Egypt	Export prohibition	masks, gloves, disinfection alcohol	Restrictive	All countries	Active
Iran	Export prohibition	medical supply products	Restrictive	All countries	Terminated
Iran	Export prohibition	medical supply products	Restrictive	All countries	Terminated
Iran	Export prohibition	Masks	Restrictive	All countries	Active
Iran	Import ban	medical supply products	Restrictive	All countries	Active
Iraq	Additional import duties	agricultural products, gypsum	Restrictive	All countries	Active
Israel	Licensing or permit requirements to export	alcohol, face masks, oxygen, swabs, lithium batteries, non-woven fabrics	Restrictive	All countries	Terminated
Israel	Licensing or permit requirements to export	medical supply products	Restrictive	All countries	Active
Jordan	Prohibitions/ restrictions of imports for SPS reasons	animal and plant-based products	Restrictive	China	Active
Jordan	Export prohibition	food products	Restrictive	All countries	Terminated
Kuwait	Export prohibition	foodstuffs, medicines, medical supplies and equipment	Restrictive	All countries	Active
Lebanon	Export prohibition	personal protective equipment, medical supply	Restrictive	All countries	Active
Libya	Export prohibition	face masks, respiratory ventilation aids, sterilizing products	Restrictive	All countries	Active

Morocco	Tariff reduction	wheat, lentils, chickpeas, beans and dried beans	Liberalizing	All countries	Active
Morocco	Licensing or permit requirements to export	personal protective equipment, medical supply products	Restrictive	All countries	Active
Morocco		masks	Restrictive	All countries	Terminated
Oman	Export prohibition	masks, hand sanitizers	Restrictive	All countries	Active
Oman	Tariff reduction	medical supply products	Liberalizing	All countries	Active
Oman	Export prohibition	onions, garlic, flour, and wheat	Restrictive	All countries	Active
Qatar	Tariff reduction	refer to official document	Liberalizing	All countries	Active
Saudi Arabia	Duties on imports are postponed	all imports	Liberalizing	All countries	Active
Saudi Arabia	Export prohibition	medical supply products, masks	Restrictive	All countries	Active
Saudi Arabia	Export prohibition	medicines, pharmaceutical and medical devices	Restrictive	All countries	Active
Sudan	Export prohibition	maize, sorghum	Restrictive	All countries	Active
Syria	Export prohibition	food commodities, sterilization and cleaning materials	Restrictive	All countries	Terminated
Syria	Export prohibition	Medicines	Restrictive	All countries	Active
United Arab Emirates	Export prohibition	ferrous scrap, paper scrap	Restrictive	All countries	Active

Source: ITC (2020), https://www.macmap.org/Covid19.

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