



ESCWA

United Nations Economic and Social Commission for Western Asia

ESCWA's Arab Economic Integration System of Indices

Workshop on
"Monitoring and Evaluating Trade Integration toolkits"
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The ESCWA's Arab Economic Integration System of Indices is

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

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

Outline

Building an Arab Economic Integration evaluation and monitoring system

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

Political Economy: What for?

Political economy: Integration is costly

For smoother transition, the system had to be

- **Effective diagnosis tool**
- **Policymaking tool:** easily readable findings
- **Communication tool:** inform and increase the quality of the political debate for a **greater involvement of the civil society**, and build **credibility**

Analytical framework: measure what?

The length

Global

Regional level

Country level

A process

Agreements



Instrument,
Policies



Results
(integration)



Final Goals

3 Types

Functional: Integration in key regional markets such as

Energy
Agriculture
Gas and oil
Etc..

Economic integration

Trade
Finance
Labour
Etc..

Policies harmonization

Monitoring Systems:



Combinations of STEPS and MODELS of integration

ASEAN Integration Index Jennis, Yusof, 2003	Asia Regional Integration Center	UNECA 8 sectors 2008	Trade and Development Index
<p>Trade</p> <ul style="list-style-type: none"> Intra-ASEAN export index Intra-ASEAN import index Intra-ASEAN trade index Intra-industry trade index CEPT usage index <p>FDI</p> <ul style="list-style-type: none"> ASEAN FDI Index Intra-ASEAN FDI index ASEAN trans-nationality index <p>Money and Finance</p> <ul style="list-style-type: none"> Foreign assets and liabilities indicator Portfolio equity and FDI indicator <p>These 11 key integration indicators have been selected to be used in the initial stages of monitoring but 145 indicators are actually used</p>	<p>REGIONAL LEVEL</p> <p>Trade</p> <ul style="list-style-type: none"> Export growth (%) Export Intensity Index (%) and Export share (%) Import growth (%) and Import share (%) Intra-regional Trade Intensity Index (%) and share (%) Total trade growth (%) and in millions USD Trade intensity Index and Trade share (%) <p>FDI</p> <ul style="list-style-type: none"> Cumulative FDI inflows, USD and share (%) FDI inflows, USD and FDI share (%) <p>Money and Finance</p> <ul style="list-style-type: none"> Bond market rate correlation and differential Coefficient of variation of bond market rates Coefficient of variation of lending market rates Lending market rate correlation and differential Money market rate correlation and differential Portfolio Inv assets: LT debt security, USD Portfolio Inv assets: total debt security, USD Portfolio Inv assets: ST equity security, USD Portfolio share (%) Stock markets returns correlation Total portfolio Investment assets, USD <p>GLOBAL LEVEL</p> <p>Trade</p> <ul style="list-style-type: none"> Trade openness (total trade as % of GDP) Trade openness by commodity (total %GDP) <p>FDI</p> <ul style="list-style-type: none"> Cross border M&A, Purchase and sale, USD FDI openness (total %GDP) <p>Money and Finance</p> <ul style="list-style-type: none"> International debt securities by residence of issuer (BIS) USD 	<p>Free movements of persons</p> <ul style="list-style-type: none"> Visa free entry Laws on rights of residence and establishment Countries issuing visa upon arrival Time taken to issue visa Costs of visa by MS <p>Trade</p> <ul style="list-style-type: none"> Harmonized border operations hrs No of NTBs removed Countries using single windows Value of inter-African trade Countries joining RCE <p>Statistics</p> <ul style="list-style-type: none"> Ratification on charter on statistics Independence of NSOs Harmonization of statistics practices No of data bits produced per year <p>Political and governance</p> <ul style="list-style-type: none"> Legislative act to end violence against women Government intervention into the judicial system Transfer of power in elections Review of APRM by MS <p>Industry</p> <ul style="list-style-type: none"> Levels of intra-Africa Country's level of investment in R&D Joint venture firms in MS No of industrial zone in MS <p>3 dimensions but 1 problem: agreement implementation</p>	<p>(a) structural and institutional factors, Human capital</p> <ul style="list-style-type: none"> Health expenditure per capita Health expenditure per student Expenditure on education are more scarce <p>Physical infrastructure</p> <ul style="list-style-type: none"> % of paved roads in total roads Number of tel mainlines per 1000 <p>Financial environment</p> <ul style="list-style-type: none"> Domestic credit to the private sector/GDP Institutional quality Bureaucratic quality Corruption <p>Economic structure</p> <ul style="list-style-type: none"> Share of agriculture in total GDP <p>Environmental sustainability</p> <ul style="list-style-type: none"> % pop with access to an improved water source % pop with access to sanitation Energy per unit of GDP in PPP terms <p>(b) Trade policies and processes</p> <ul style="list-style-type: none"> Openness to trade: tariff and NTB Applied trade-weighted average tariff Share of tariff lines with national peaks Share of lines with international peaks NTB Share of lines with specific tariffs <p>Effective access to foreign markets</p> <ul style="list-style-type: none"> Trade weighted average tariff in receiving country Share of manufacturing exports in total exports Standard index of export concentration (export sector structure) <p>(c) level of development Economic and social development</p> <ul style="list-style-type: none"> GDP per capita PPP Social development index Adult literacy Gross school enrollment ratio Life expectancy at birth <p>Gender development</p> <ul style="list-style-type: none"> UNDP gender development index

1 dimension:
economic
A model: the
market first

A question:
Regional

Versus Global

The
economies'
potential
Strengths to
integrate

1 dimension:
Economic
The outcomes

A model: for
development
The final purpose

The nature of the integration process

- Promote a **model** of regional integration: **NO**
- Solve a **particular problem**: Arab region encounters difficulties at each stages

and heterogeneous so **maximum coverage**

The scope of the integration process

Enablers

Policies

Impacts

**Final design:
What does the monitoring and
evaluation system look like?**

COMPOSITE INDEXES+ SCOREBOARDS

Organization of the information

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

EXPORTS, FDI, Workers' Remittances

Indicators: criteria for choice

- Clear and strong causality
- Significant impact

SIMPLE AVERAGE

Methodology

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

Structure: 3 levels

Global

GLOBALIZATION Index

Are Arab countries falling behind the top best performers?

What are the main channels of countries integration?

Is there regional patterns?

Regional

FLOW INTENSITY Index

What are the country(ies) that are engine of economic integration at the regional level?

What linkages between regional and global integration?

What is countries' level of vulnerability to foreign shocks?

How integration can help as an engine of economic growth?

Bilateral

Bilateral FLOW INTENSITY Index

Is the framework in which countries are operating conducive? Are the obstacles structural or not?

What is the relative intensity of governments' efforts?

What are the nature, channels, potential for further intra-regional integration?

What is each country comparative advantage?

...

3 SCOREBOARDS

Enablers

Structure of the economy

Mining VA as % of GDP
 Fossil fuel energy conso (% total)
 Gross national savings
 Lending rates

Labor Force quality

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

Infrastructure quality

Internet bandwidth
 Electricity production

Conflicts

Policies

Trade

R&D expenditure (% GDP)

Investment

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

Labor force

Gov exp in education (% total exp)
 Gov exp in education (% GDP)
 Health exp Gov (% total exp)
 Health exp Gov (% GDP)

Infrastructure

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

Outcomes

Logistics

Container port throughput (TEU)
 Liner shipping connectivity index
 Air transport, passengers carried

Trade

Merchandise and services exports and imports (% GDP)

Investment

FDI stocks & flows, in /outflows
 Portfolio stocks & flows, in/outflows

People

Emigrants and Immigrants, tourists, students

Macro convergence

Net ODA
 Foreign Reserves
 Inflation
 GDP per capita

How to use it?

Findings

A size effect.

A natural-resource rich effect.

A catching up effect.

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

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

Middle ranked diversified countries improved.

But might be because others fell into the rankings

Arab LDCs improved markedly.

Questions:

Does globalization contribute to improve Arab countries economic prospects?

What are the risks of such a strategy?

Is intra-Arab integration a building block? a shock absorber?

Who are the leaders and channels of intra-Arab integration?

Which prospects?

Relevance: The analyze covers a large part of the flows

The GCC and oil exporting foster intra-regional integration

The UAE, Saudi Arabia and Iraq

Through FDI and also

WR which is key to poverty but impact on economic growth is not straightforward

No impact of the various RTAs, meager for the GCC

Few Arab countries very successful and geography matters

Global and regional integration, no clear intra-regional preference

Other questions:

Role of non-Arab partners.

The EU generally speaking, the US and Eastward shift

Negative effect : Exposure to exogenous shocks

Positive effect: Partners Diversification

Import standards

Regional integration index



THANK YOU!

Arab intra-regional integration: Channels



Labor

Traditionally effective integration channel
Flow stable, provide hard currency
Countercyclical

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

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

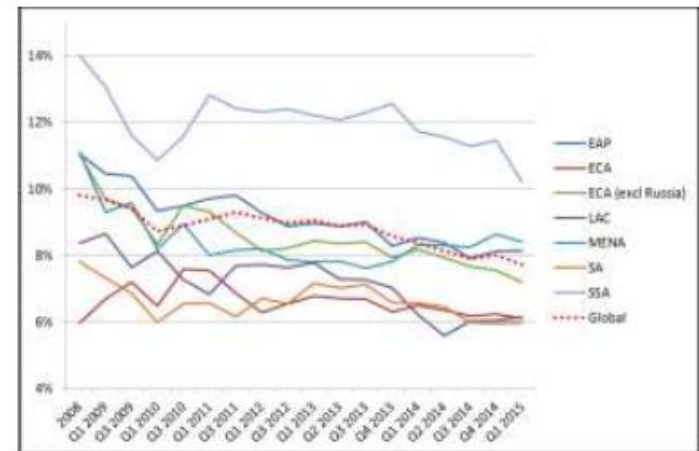
Reforms needed:

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

Main contributors

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

Cost of sending money



Source The World Bank, 2015, Remittances prices worldwide, issue no. 13, March

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

Arab intra-regional integration: Channels



Trade

Arab countries are falling behind

ASEAN share of world GDP = 3.2% but share in world trade = 13.2% = LAS share of world GDP = 3.6% (2.2% for GCC alone)

RTAs non efficient

No strong intra-regional preference at the difference of the EU and the ASEAN, except for the GCC

Success of the ASEAN due to

Large intra-regional and foreign investment flows

Outsourcing strategy and regional value chains

Cheap labor force

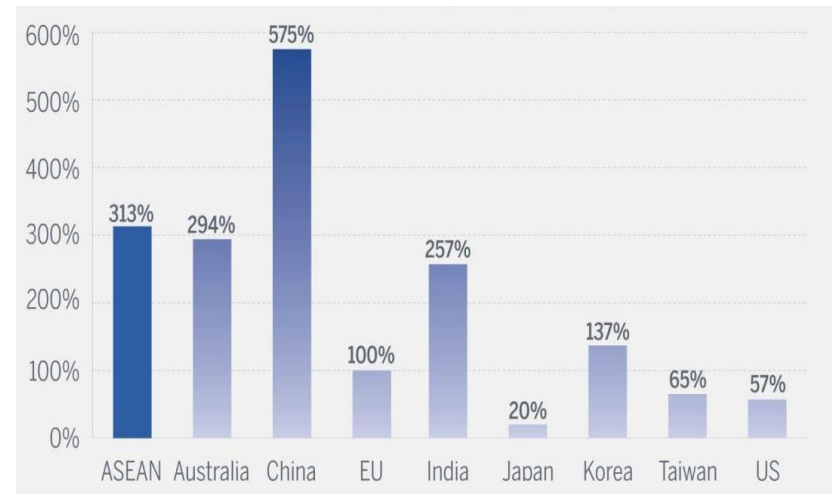
Financial system quality

Vulnerability to foreign crisis

Similar bottlenecks

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

GDP growth comparison, 2001-2013



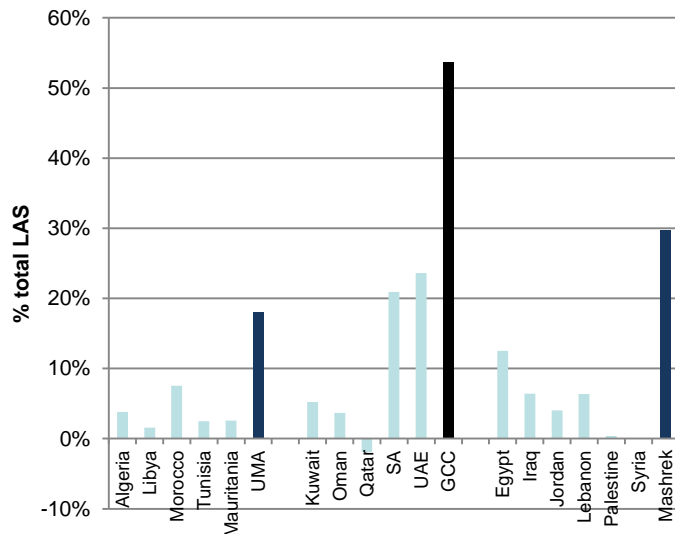
Arab intra-regional integration: Channels



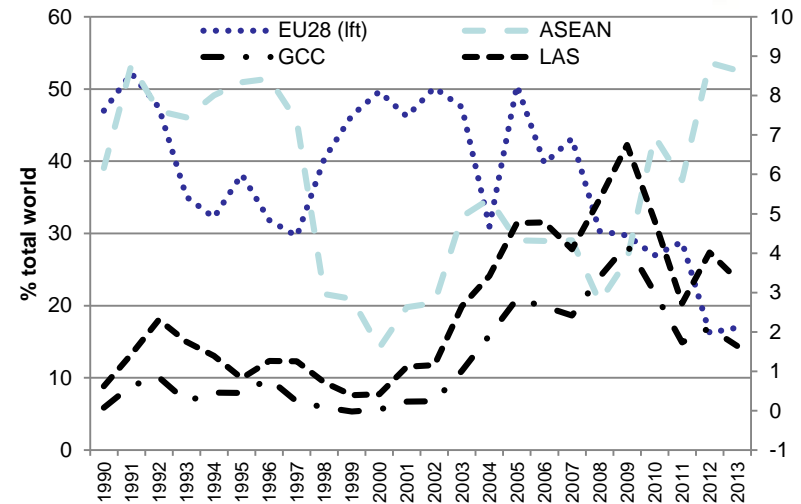
FDI

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

FDI inflows to LAS, share by country, 2013



FDI share of total world, 1990-2013 by region



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

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

But poor data quality, flow largely informal, relationships are certainly closer

Regional integration index



THANK YOU!

Global level

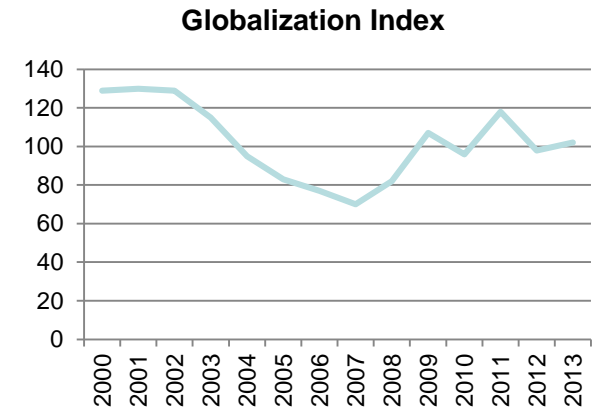
- Recorded the greatest improvement of all Arab countries between 2000 and 2005. gains reverted in 2008-2013
- Main channels: FDI and WR
- Rank high in intensity of flow index compare to globalization, dependence from foreign countries, pressure on the external accounts

Regional level

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

Bilateral level

- Geography matters: close to Saudi Arabia, Jordan, Libya, Kuwait and the UAE
- Main channels: FDI, WR
- Trade: ground lost since 2008



Note: A lower score reflects an improvement in the country's globalization performances

Structural feature: Labor force quality:

- Low literacy and
- female participation rates (improving)
- hinder effective use of available human resources

Policies

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

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

Outcomes

Labour productivity increased (* 2) but at slow pace

- Jordan: 6.1 in 2000, vs. **16.7** in 2012 * 2.7
- Malaysia: 9.9 in 2000 vs. **23.7** in 2012 * 2.4
- Thailand: 3.6 in 2000 vs. **9.9** in 2012 * 2.75

Negative impact on competitiveness

Arab intra-regional integration: EGYPT



Tax policy

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

Outcomes

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

Financial integration policies

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

Outcomes

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

Arab intra-regional integration: EGYPT



Logistics

- Wider road network
- Air freight increased

Outcomes

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

But

- relies on the major transshipment function so which impact on economic growth, labor allocation effectiveness and value creation
- boost competitiveness of exporting sector

Arab intra-regional integration: EGYPT



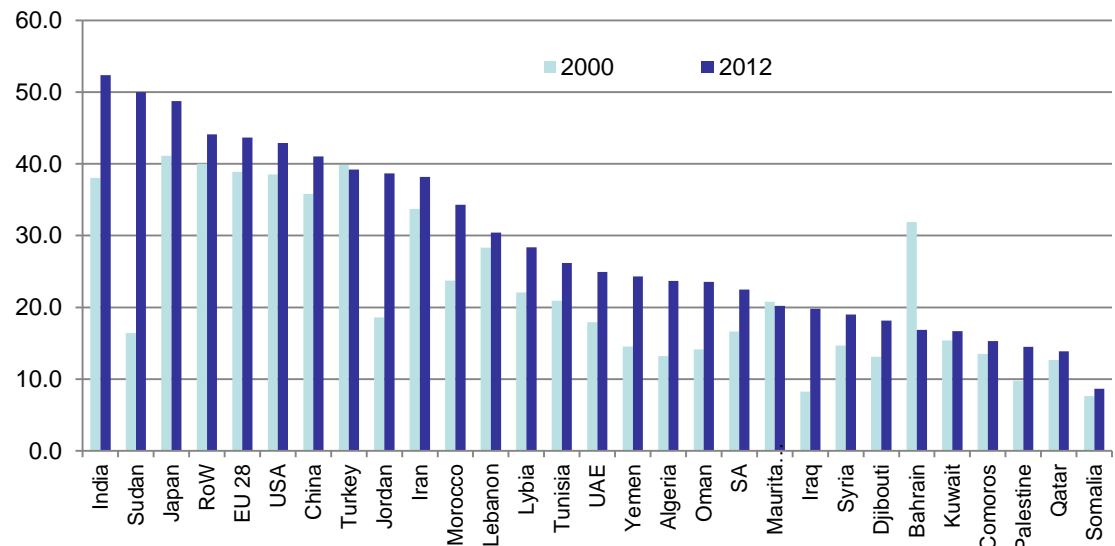
Trade

- weighted mean of Egyptian tariffs on all products has been steadily declining since 2000: 24% in 2002, 13% in 2005, 8% in 2009
- Between 2000 and 2012, imports of goods into Egypt more than tripled, from \$15 billion in 2000 (16% of 2000 GDP) to \$52 billion in 2012 (20% of 2012 GDP).
- member of the GATT since 1970 and of the WTO since its creation in 1995
- RTAs covering essentially goods with all its main trading partners
- Qualifying Industrial Zones with the US

But

- Exports = 7.4 percent of GDP namely far below the 20 percent plus recorded by Arab diversified economies such as Jordan, Morocco or Tunisia (for Jordan, imports account for 48 percent of the GDP)
- Low complementarity with Arab countries

Egypt: complementarity Index with main trading partners

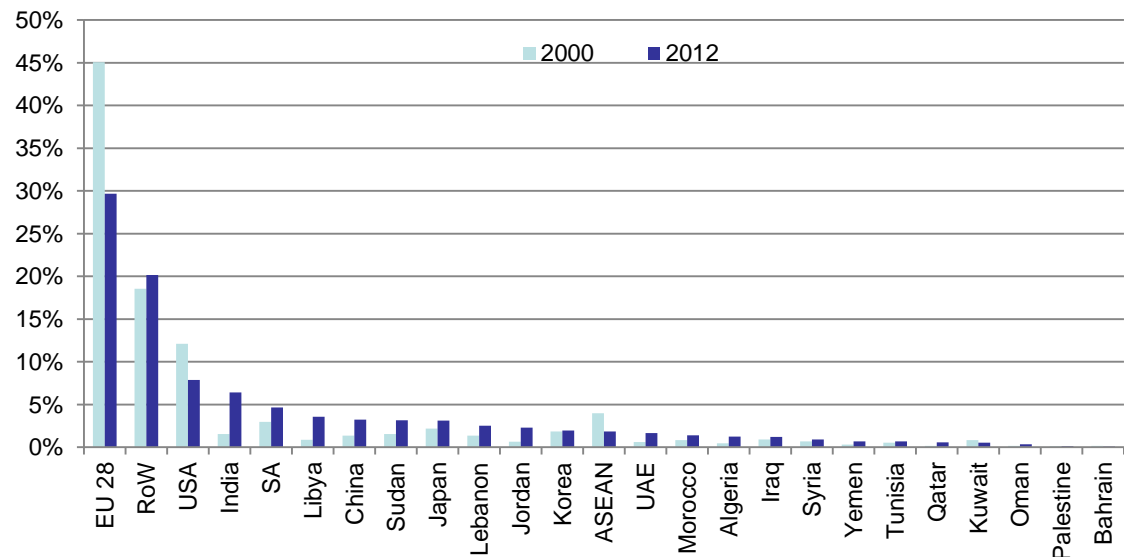


Arab intra-regional integration: EGYPT



- The EU absorbs 29.7% of Egypt's exports in 2012 which is still 10 percentage points below the levels reached prior to the 2008 global crisis
- strengthening relationships with China, India, Japan and Korea. In 2000, ASEAN+3 was counting for 6.9% of Egypt exports while, in 2012, against 14.8% of the total
- Egypt five main Arab trading partners, namely Saudi Arabia, Libya, the Sudan, Lebanon and Jordan account for 7.5% of total exports in 2000, vs. 16.2% in 2012.
- The weight of the ASEAN and Arab regions roughly doubled

Egypt: Distribution of exports



Comparison of trade shares and complementarity index shows

- Eastward shift fuelled by good and improving complementarity
- Geographical closeness matters in the case of Arab countries

Regional integration index



THANK YOU!

Building an Arab Economic Integration evaluation and monitoring system

What is it that we want to
monitor and evaluate?

Monitor evolution of the context and the process of increased integration and globalization

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

Affects challenges and opportunities: The current global context increases competition among countries to reaping the gains of global integration

Analytical introduction and background to economic integration in the Arab region

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

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

ESCWA contribution:

- Monitoring systems to ensure the buy-ins
- Effective evaluation of impacts to inform choices

Regional integration as a tool for structural transformation and economic growth :

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

Main output: comprehensive view of the potential gains

Chapter 5 – Focus Chapter of the 2015 AREI Report

In the coming years the thematic chapter may focus on:

- **Trade in services**
- **The potential impact of the Doha round to be concluded by end of 2017**
- **Etc..**

What Will It Look Like?



Buy-ins inside and outside ESCWA

Indicators: criteria for choice

Clear and strong causality between policies and indicators
Significant impact

Methodology

Simplicity for non-technical audience:
Feasibility

Political economy

Political Economy

Promote a **model** of regional integration: **NO**
Solve a **particular problem**: Arab region encounters
difficulties at each stages so **maximum coverage**
Track progresses towards specific goals: **YES, development**

1st innovation: Tool for **evidence-based policymaking** and to inform the debate

2nd innovation: COVERAGE through 5 dimensions

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

3rd innovation: VERSATILITY

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

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