



Breaking Down Barriers to Prosperity

Partnerships for Shared Prosperity

Trade and Investment Integration: Opportunities for the Arab World

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October 5, 2009



'Defining Moments'; Lessons for Change & Reform

- **External events and shocks (9/11, wars and financial crisis of 2008) driving change and reform:**
 - **9-11: impetus towards increased regional business, tourism & investment**
 - **2008 crisis: impetus to develop money & capital markets**
- **New Economic Geography: 2008 crisis will accelerate the shift in the epicentre of economic geography with mutually reinforcing South-South relationships in trade, investment, capital and labour flows.**
- **MENA region is well positioned to take full advantage of these opportunities, on condition that it enhances both its physical and institutional infrastructure, including legal & regulatory**
- **Lessons:**
 - **Diversify the production base to diversify trade and reduce reliance on hydrocarbon exports and government revenue**
 - **Build and develop the money and capital markets**
 - **Build economic policy-making capacity**
 - **Move towards greater economic and financial integration**

Building Blocks for Arab Regional Economic Integration (1)

1. Strong political leadership is required to drive Arab REI: need reform of regional institutions and their upgrading

2. 'Core integrating role' of the GCC in driving REI:

- Extend infrastructure networks
- Capital exporters: source of FDI, capital & technology
- Labour importers: remittance flows
- Policy reformers

3. Renegotiate the GAFTA to encompass services and establish an Arab Regional Integration Agreement (ARIA): Comprehensive service sector integration gains more important than goods trade.

"Deep integration" is required; evidence suggests large gains from integration

ARIA would become a 'policy commitment mechanism'

Building Blocks for Arab REI (2)

4. Regional Integrated Infrastructure should be basis for an Arab REI: leads to lower logistics costs, favours FDI, economies of scale & scope. ➔Regional Public Goods

Massive investment required in networks:

- Extend Trans-EuroMed Networks to the GCC: electricity, oil and gas
- Road & Rail Network: ITSAM linked to GCC and EuroMed R&R.
- Develop a Water network
- Information and communications Network: Arab Broadband Network or Arab *Info*structure

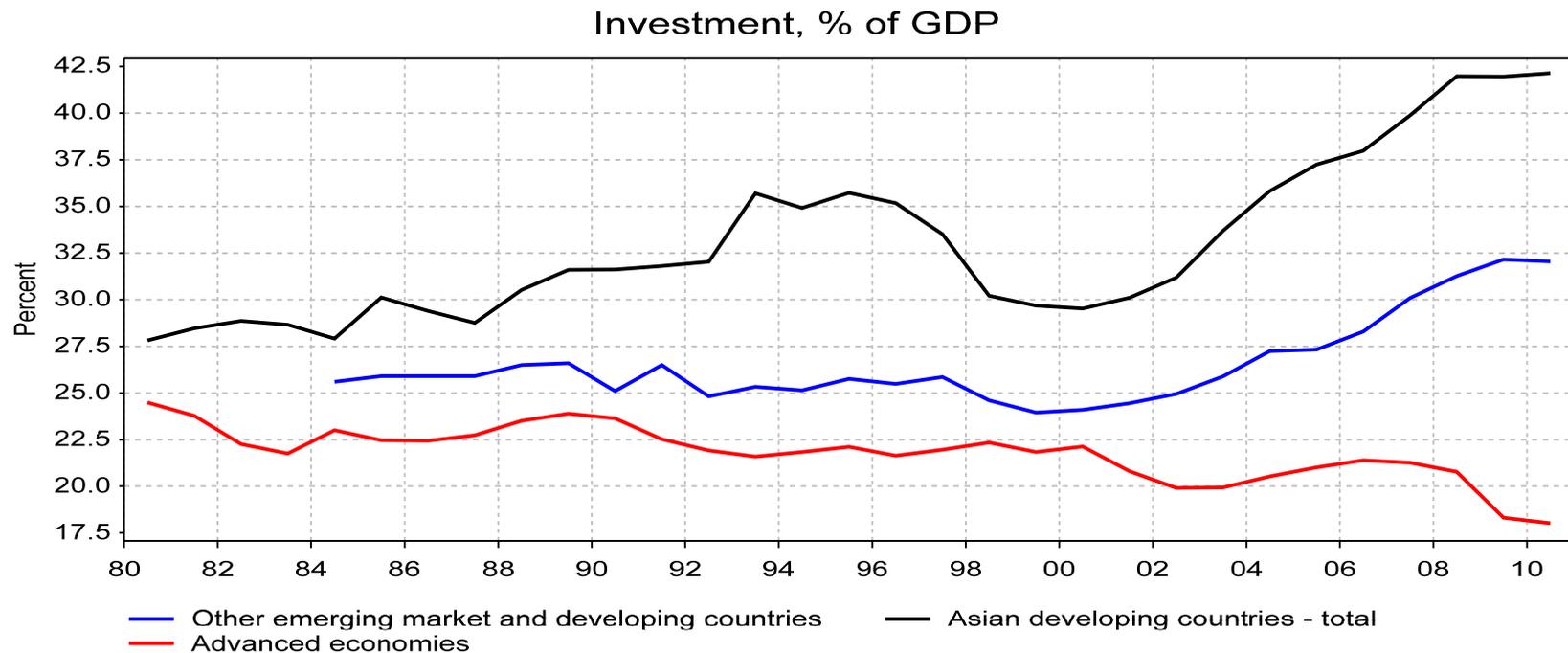
5. Develop Debt and Capital Markets to:

- Finance infrastructure
- Support reform of public finance allowing a break in the link between oil revenues and investment spending
- Support and finance REI
- Facilitate foreign investment
- International integration of region's economies

6. Establish a set of institutions to enable and support ARIA including a Regional Infrastructure & Development Bank or Facility

Infrastructure Investment

- Growth in the Middle East and GCC have a close correlation with investment. Investment as a % of GDP has grown at a faster pace in the EMEs
- Infrastructure investment especially has helped create a structural change in the EMEs.
- International investment portfolios can hence benefit from the important role of infrastructure investment in the emerging markets.



Source: Reuters EcoWin

Gulf Projects by Country

The total value of projects planned, under way or completed in the Gulf region is US\$2.6 trillion (MEED Project Tracker, Aug 31, 2009); GCC: \$2.16 trillion

| | Value of projects planned and under way on 31 August 2009 (\$m) | Value of projects planned and under way on 24 August 2009 (\$m) | % change on week | Value of projects planned and under way on 31 August 2008(\$m) | % change on year | Value of on hold projects on 31 August 2009 (\$m) |
|-------------------|---|---|------------------|--|------------------|---|
| Bahrain | \$60,906 | \$60,906 | 0.0% | \$46,343 | 31.4% | \$5,953 |
| Kuwait | \$266,994 | \$266,994 | 0.0% | \$296,319 | -9.9% | \$40,190 |
| Oman | \$93,761 | \$93,761 | 0.0% | \$91,931 | 2.0% | \$12,209 |
| Qatar | \$212,240 | \$212,240 | 0.0% | \$204,399 | 3.8% | \$8,025 |
| Saudi Arabia | \$598,054 | \$598,054 | 0.0% | \$563,750 | 6.1% | \$39,229 |
| UAE | \$923,808 | \$917,751 | 0.7% | \$963,786 | -4.1% | \$406,756 |
| GCC total | \$2,155,763 | \$2,149,706 | 0.3% | \$2,166,528 | -0.5% | \$512,362 |
| Iran | \$307,853 | \$307,853 | 0.0% | \$243,913 | 26.2% | \$3,100 |
| Iraq | \$157,885 | \$157,885 | 0.0% | \$79,526 | 98.5% | \$5,250 |
| Gulf total | \$2,621,501 | \$2,615,444 | 0.2% | \$2,489,967 | 5.3% | \$520,712 |

Labour Movements & Migration

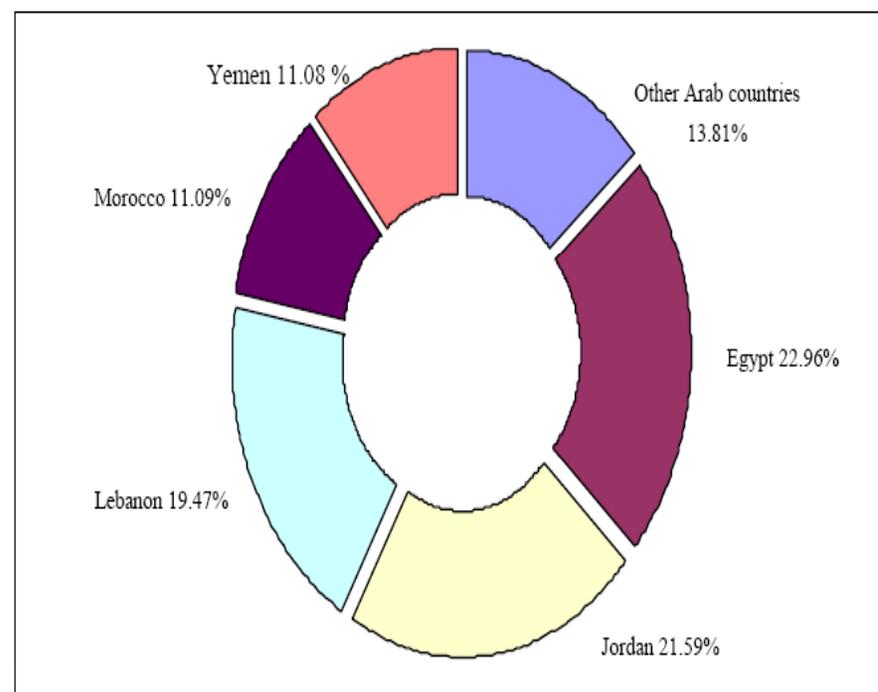
The temporary movement of labour between countries continues to face obstacles: current visa restrictions, the quota system adopted by many States for receiving foreign workers, the economic requirements regarding employing as contracting with foreigners, restrictions on recognition and equivalence of professional skills, policies of pay parity and social entitlements, conditions for joining trade unions and professional associations, etc.

Percentage of nationals and expatriates in the population and labour force of GCC countries, 2005

| Country | Population ^a | | Labour force | |
|----------------------------|-------------------------|---------------|--------------------|-------------------|
| | Total (000s) | % expatriates | Total (000s) | % expatriates |
| BAHRAIN | 727 | 40.7 | 272 ^c | 61.9 |
| KUWAIT (2005) ^b | 2,867 | 66.1 | 1,727 ^d | 81.8 |
| (2007) ^b | 3,328 | 68.8 | 2,048 | 84.8 |
| OMAN | 2,567 | 24.4 | 859 ^d | 64.3 |
| QATAR | 813 | 78.3 | 120 ^c | 81.6 |
| SAUDI ARABIA | 24,573 | 25.9 | 7,176 ^d | 55.8 |
| UAE | 4,496 | 71.4 | 1,356 ^d | 89.8 |
| 2006 ^e | 5,600 | 84.6 | f | f |
| All GCC countries | 35,862 | 35.7 | 11,103 | About 70.0 |

Source: "The Management of Irregular Migration and its Consequence for Development: Gulf Cooperation Council", ILO Working Paper, March 09.

Distribution of the Arab intraregional migrant remittance flows by host country, 2005

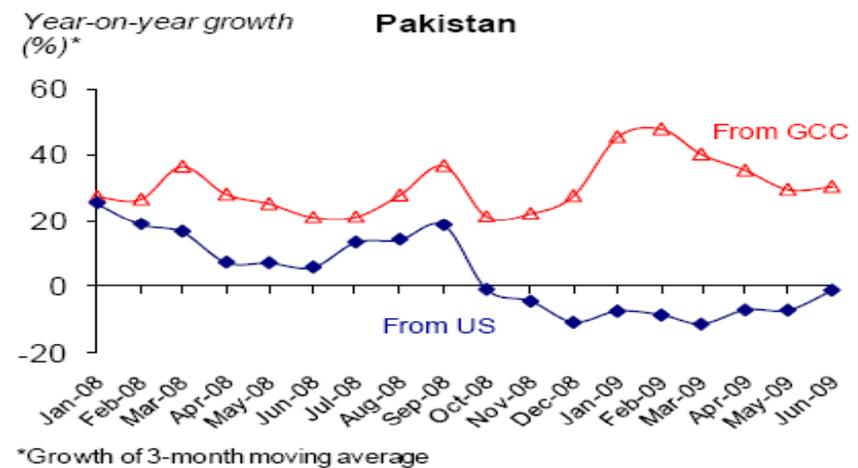
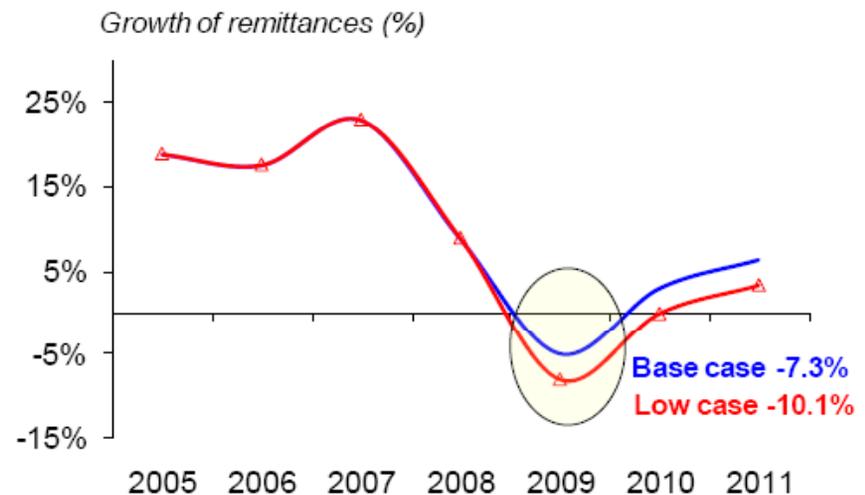


Worker remittances, net receipts in USD bn, 1996–2008

| Country | 1996–1999 average | 2000–2005 average | 2006 | 2007 | Estimate 2008 |
|---|----------------------|----------------------|--------------|--------------|------------------|
| MENA region (incl. Iraq) | -11.5 | -10.7 | -13.3 | -10.9 | -7.3 |
| MENA (excl. Iraq) | -11.5 | -10.7 | -13.3 | -10.9 | -7.3 |
| GCC countries | -26.0 | -25.9 | -32.8 | -35.3 | -34.3 |
| Bahrain | -0.1 | 0.5 | 2.2 | 1.4 | 3.7 |
| Kuwait | -1.5 | -2.1 | -3.0 | -3.1 | -3.2 |
| Oman | -1.4 | -1.7 | -2.7 | -3.6 | -3.6 |
| Qatar | -1.2 | -1.9 | -3.9 | -4.1 | -2.2 |
| Saudi Arabia | -14.8 | -14.8 | -15.6 | -16.1 | -16.9 |
| United Arab Emirates | -6.3 | -4.4 | -6.0 | -7.0 | -7.0 |
| Oil exporters with large populations | 2.9 | 4.0 | 4.6 | 5.2 | 5.3 |
| Algeria | 0.9 | 1.5 | 1.6 | 2.1 | 2.3 |
| Iran, Islamic Republic of | 0.6 | 0.9 | 1.0 | 1.1 | 1.1 |
| Iraq | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Libya | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Syrian Arab Republic | 0.2 | 0.5 | 0.8 | 0.8 | 0.8 |
| Yemen | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 |
| Diversified exporters with strong GCC links | 2.1 | 2.4 | 3.2 | 3.9 | 3.9 |
| Djibouti | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Jordan | 1.7 | 2.2 | 2.9 | 3.4 | 3.4 |
| Lebanon | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |
| Diversified exporters integrated with Europe | 9.6 | 8.7 | 11.8 | 15.4 | 17.7 |
| Egypt | 3.2 | 3.3 | 5.2 | 7.5 | 9.5 |
| Morocco | 2.0 | 3.5 | 5.5 | 6.7 | 7.0 |
| Tunisia | 4.4 | 1.9 | 1.1 | 1.2 | 1.2 |

Remittances

- Recorded official remittance flows to developing countries reached \$328 bn in 2008, up 15% from \$285 bn in 2007
- This is forecast to decline by 7-10% in 2009, with a possible recovery in 2010-11.
- India, China & Mexico were the top recipients of remittances among developing countries
- The slowdown in remittance flows that became evident in 4Q08 has continued into the first half 2009.
- However, remittance flows to South Asia and East Asia have continued to post strong growth in 2009
- The GCC countries, a major destination for Asian migrants, have not significantly reduced hiring migrants; hence impact on remittances is low.**



FDI in the Middle East

- The Middle East was the second fastest growing region in the world.
- UAE continued to hold the top spot in 2008 accounting for 50% of total projects, 23% of total capital investment and 37% of jobs created.
- Dubai was the top destination city in the Middle East, attracting 35% of total projects during 2008.
- The number of FDI projects in Dubai grew by 59% on 2007 figures and capital investment soared from \$9bn to \$21bn between 2007 and 2008, a growth of 123%.

MIDDLE EAST

FDI INFLOWS

| | |
|----------------------------|--------------------------------|
| Total projects | 969 |
| Total capex (\$bn) | 154 |
| Total jobs created | 237,068 |
| Top sector | Financial services |
| Top investor (10 projects) | Compagnie Financiere Richemont |

Source: fDi Markets

TOP FIVE DESTINATION COUNTRIES IN THE MIDDLE EAST, 2008

| DESTINATION COUNTRY | TOTAL PROJECTS | DESTINATION COUNTRY | CAPEX (\$BN) | DESTINATION COUNTRY | NEW JOBS CREATED |
|---------------------|----------------|---------------------|--------------|---------------------|------------------|
| UAE | 480 | UAE | 35 | UAE | 87,097 |
| Saudi Arabia | 106 | Saudi Arabia | 21 | Saudi Arabia | 28,763 |
| Qatar | 80 | Iraq | 20 | Oman | 21,034 |
| Bahrain | 64 | Qatar | 19 | Jordan | 20,035 |
| Oman | 53 | Oman | 14 | Qatar | 18,254 |
| Other | 186 | Other | 45 | Other | 61,885 |
| Total | 969 | Total | 154 | Total | 237,068 |

Source: fDi Markets

TOP FIVE DESTINATION CITIES IN THE MIDDLE EAST, 2008

| DESTINATION CITY | TOTAL PROJECTS | DESTINATION CITY | CAPEX (\$BN) | DESTINATION CITY | NEW JOBS CREATED |
|------------------|----------------|------------------|--------------|------------------|------------------|
| Dubai | 342 | Dubai | 21 | Dubai | 58,161 |
| Abu Dhabi | 80 | Baghdad | 10 | Abu Dhabi | 11,116 |
| Doha | 44 | Aqaba | 10 | Suhar | 8951 |
| Riyadh | 23 | Riyadh | 9 | Doha | 8128 |
| Manama | 21 | Ras Laffan | 8 | Riyadh | 7517 |

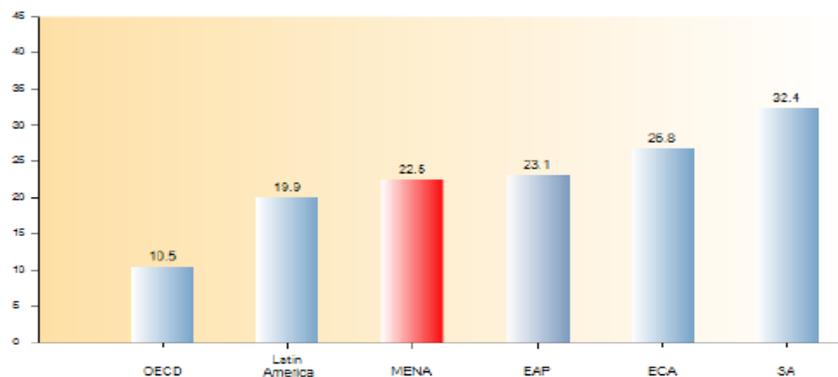
Source: fDi Markets

Trading Across Borders Across Regions

Trading Across Borders Across Regions (Export)

| Region | Documents to export (number) | Time to export (days) | Costs to export (US\$ per container) |
|---|------------------------------|-----------------------|--------------------------------------|
| Middle East & North Africa (MENA) | 6.4 | 22.5 | 1,034.8 |
| East Asia & Pacific (EAP) | 6.7 | 23.1 | 909.3 |
| Eastern Europe & Central Asia (ECA) | 6.5 | 26.8 | 1,581.8 |
| Latin America | 7.2 | 19.9 | 1,309.8 |
| Organization for Economic Co-Operation and Development (OECD) | 4.3 | 10.5 | 1,089.7 |
| South Asia (SA) | 8.5 | 32.4 | 1,364.1 |

Average Time to Export (days)



Trading Across Borders Across Regions (Import)

| Region | Documents to import (number) | Time to import (days) | Cost to import (US\$ per container) |
|---|------------------------------|-----------------------|-------------------------------------|
| Middle East & North Africa (MENA) | 7.4 | 25.9 | 1,221.7 |
| East Asia & Pacific (EAP) | 7.1 | 24.3 | 952.8 |
| Eastern Europe & Central Asia (ECA) | 7.8 | 28.4 | 1,773.5 |
| Latin America | 7.6 | 22.9 | 1,445.2 |
| Organization for Economic Co-Operation and Development (OECD) | 4.9 | 11.0 | 1,145.9 |
| South Asia (SA) | 9.0 | 32.2 | 1,509.1 |

Average Time to Import (days)

