



Partnerships for Shared Prosperity

Trade and Investment Integration: Opportunities for the Arab World

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Agenda

Trade: Weaknesses & Opportunities in the Arab World/ GCC

Investment Patterns

Infrastructure: Necessary for future growth

Labour force & Remittances

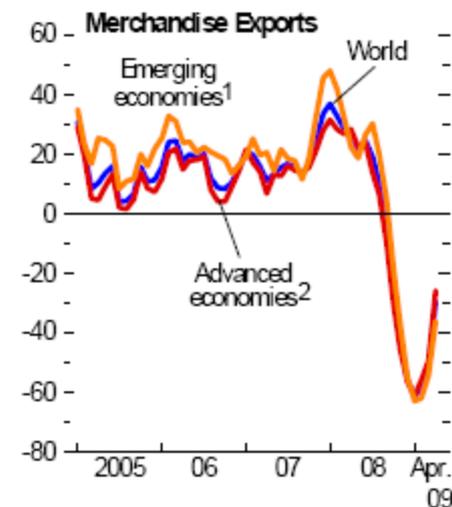
Policy Issues

Decline in Global Trade

IMF forecasts a 12.2% decline in world trade in 2009

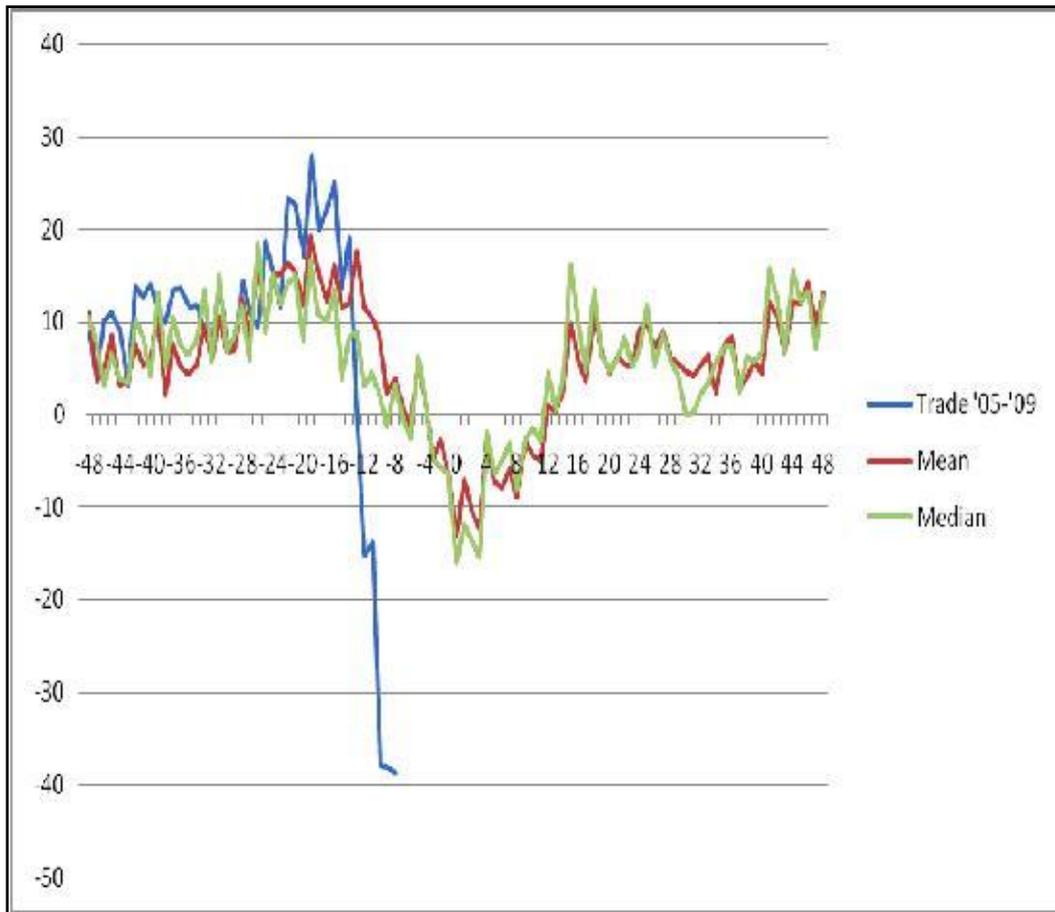
	Year over Year						Q4 over Q4		
	2007	2008	Projections		Difference from April 2009 WEO Projections		Estimates 2008	Projections	
			2009	2010	2009	2010		2009	2010
World trade volume (goods and services)	7.2	2.9	-12.2	1.0	-1.2	0.4	...	...	...
Imports									
Advanced economies	4.7	0.4	-13.6	0.6	-1.5	0.2	...	...	...
Emerging and developing economies	13.8	9.4	-9.6	0.8	-0.8	0.2	...	...	...
Exports									
Advanced economies	6.2	2.0	-15.0	1.3	-1.5	0.8	...	...	...
Emerging and developing economies	9.5	4.1	-6.5	1.4	-0.1	0.2	...	...	...

- World trade has witnessed a sharp decline
- Recent export data from the Emerging Market Economies in Asia (esp. China) have shown **signs of rebound**
- Fall in oil prices from previous high implies the region will witness a drop in export revenues.
- Need for trade diversification; UAE/ Dubai a good example.



Trade collapses post-crisis

↑ in elasticity of real world trade to real world income => collapse in world trade



- The chart shows trade growth (yoy) in this crisis and in the previous downturns
- What is striking is that the decline in trade in 2009 has been much steeper and more severe than other recent episodes.
- This likely reflects the magnitude of this downturn and the increased responsiveness of trade to income in recent years.
- Elasticity of trade to income during the downturn of between 3.5 and 5 + deceleration in real world income growth of 4.7 percentage points (WB estimate) => deceleration in real trade growth between 16-24 percentage points in 2009

Global trade and trade finance

- **Since statistics are scarce it is impossible to be precise about the most challenging features of the financial crisis from a trade perspective**
- **Spreads on short-term trade credit facilities soared in late 2008 to 300 to 600 basis points above LIBOR, compared to 10 to 20 bps in normal times.**
- **Some 80% to 90% of world trade relies on trade finance**
- **Trade credit and insurance/guarantees, mostly of a short-term nature have experienced difficult times in H1 2009 despite the fact that they are at the lower end of the credit risk spectrum**

Global trade and trade finance II

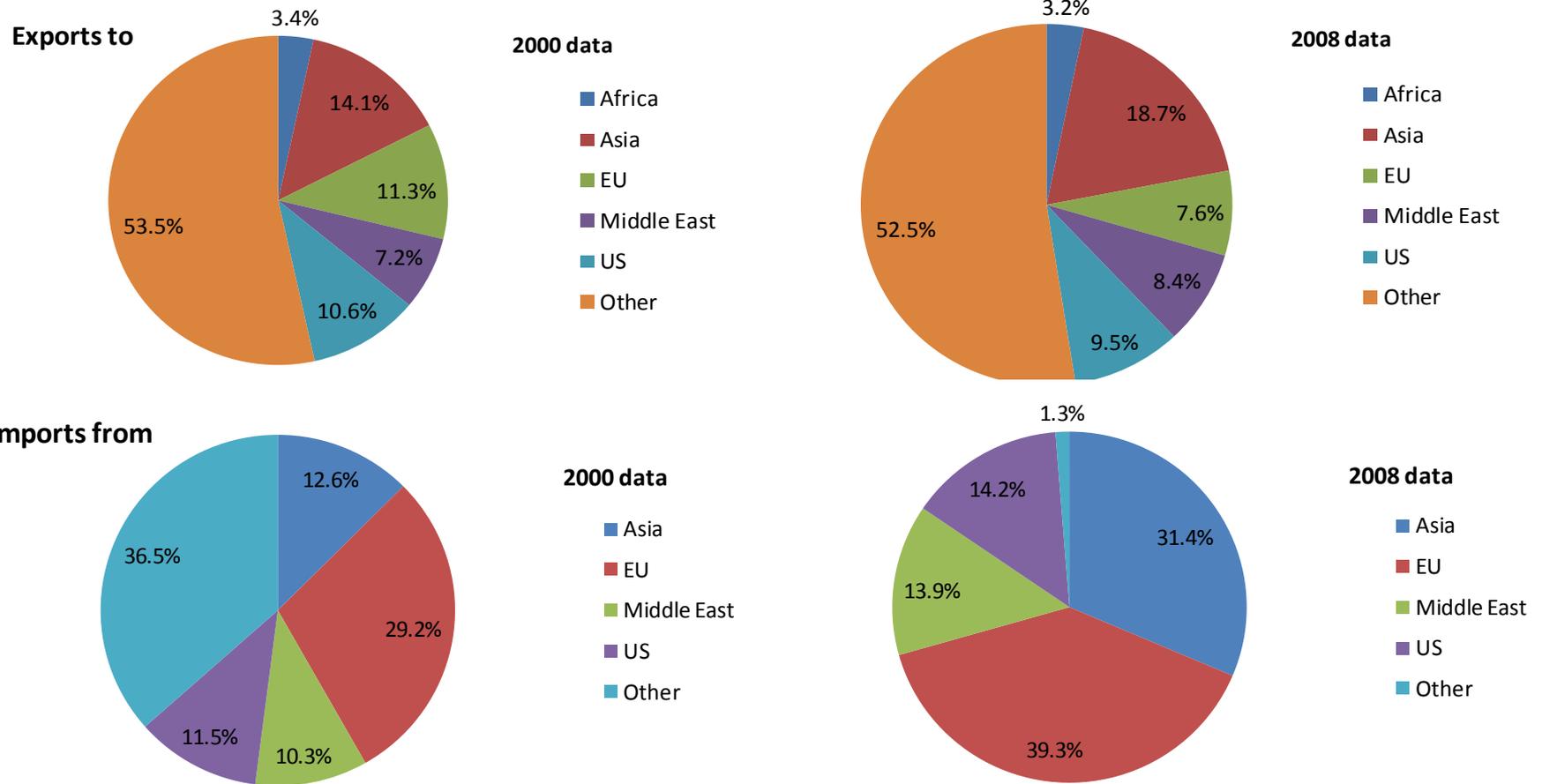
- **Emerging countries are prime victims in the general reassessment of risks and liquidity shortages that characterize periods of financial crisis**
- **In such periods all suppliers – including private banks (which account for some 80% of the trade finance market), export credit agencies, and regional development banks – should pool their resources**
- **A market gap has emerged among the largest suppliers of trade finance, estimated by the main private Wall Street banks to be around \$25 billion in November 2008 – out of a global market for trade finance estimated at some \$10 trillion a year.**

Global trade and trade finance III

- **According to a survey conducted jointly by the IMF and the Banker's Association for Trade and Finance, flows of trade finance to developing countries seem to have fallen by some 6% year-on-year – significantly more than the reduction in trade flows, which makes the \$25bn figure quite conservative.**
- **The crunch in trade finance is one of the areas where coordinated policy action is very urgent and where the benefits are potentially enormous.**
- **Disruptions to the supply chain operations by lack of financing for developing country suppliers, need to be avoided in the future.**

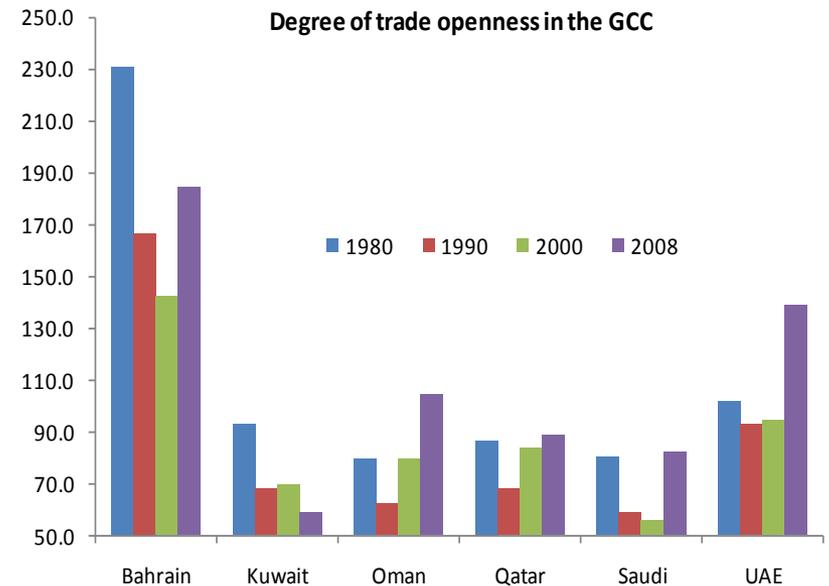
Trade partners of the GCC

Shift towards European and Asian trade partners



... but Intra-GCC trade remains low!

- Shift from protectionist policies to openness and exports as an engine of growth.
- **GCC region has the most open economies** liberal trade policies => low external tariffs, participation in the WTO and greater regional economic integration.
- **Intra-GCC imports grew** to USD 27.7bn (in 2008) from USD 3.4bn (in 1980).
- Size of intra-GCC imports grew more than 8-fold during 1980-2008; **share in overall imports has remained low, at less than 10%.**
- While intra-GCC trade has picked up, **there exists potential for sustained growth**, given the region's comparative lack of integration like Europe (71.2%) or Asia (57.4%), probably in part due to a void of regional trade agreements.



Regional Trade Agreements

- Rapid increase in the number of regional trade agreements worldwide.
- Middle East is the only major area without a region-wide trade body or free trade agreement
- Exception: GCC Single Market - covers a limited number of countries and the GAFTA.
- Establishment of the Customs Union (CU) aimed at improving trade relations (effective Mar '05)
- Features of the Customs Union (CU)
 - unification of customs laws and procedures
 - a single point-of-entry with internally free movement of goods
 - treatment of all goods as national within the GCC.
- At the December 2001 Summit, GCC Heads of State formally adopted an across-the-board external tariff of 5% for most products effective from January 2003.
- However, the GCC Custom Union is still incomplete: pending issue is the calculation of custom revenues

List of RTAs in force

Bahrain: *GCC, PAFTA, US-Bahrain*
Kuwait: *GCC, PAFTA*
Oman: *GCC, PAFTA*
Qatar: *GCC, PAFTA*
Saudi Arabia: *GCC, PAFTA*
UAE: *GCC, PAFTA*

List of RTAs – under negotiation

Bahrain: *Australia-GCC, Japan-GCC*
Kuwait: *Australia-GCC, Japan-GCC*
Oman: *Australia-GCC, Japan-GCC, US-Oman*
Qatar: *Australia-GCC, Japan-GCC*
Saudi Arabia: *Australia-GCC, Japan-GCC*
UAE: *Australia-GCC, Japan-GCC*

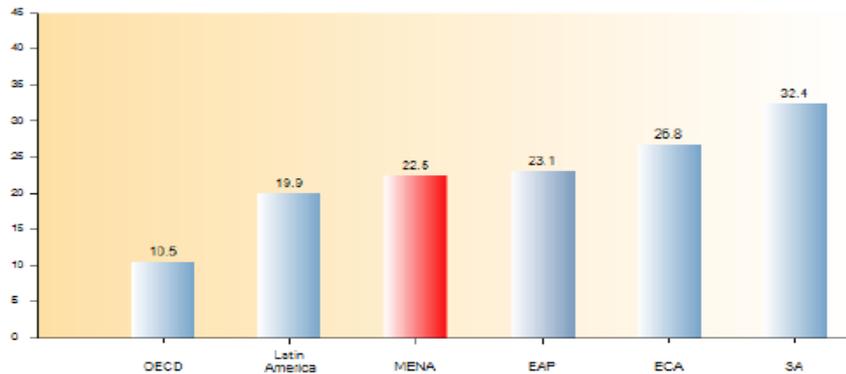
*Note: PAFTA refers to Pan-American Free Trade Agreement.

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

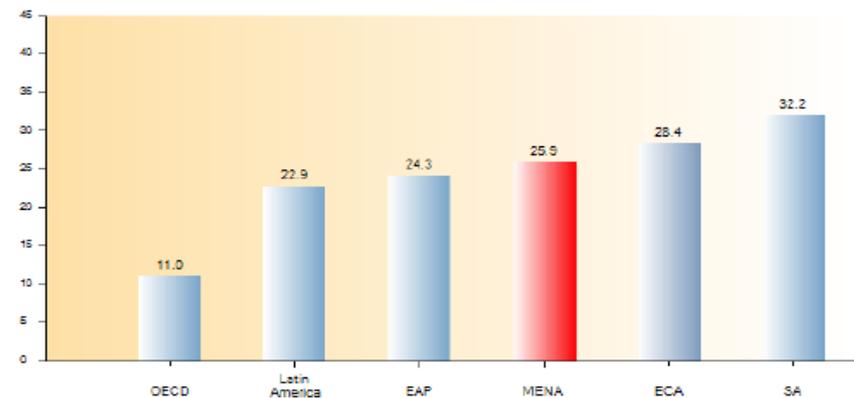
Average Time to Export (days)



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)



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

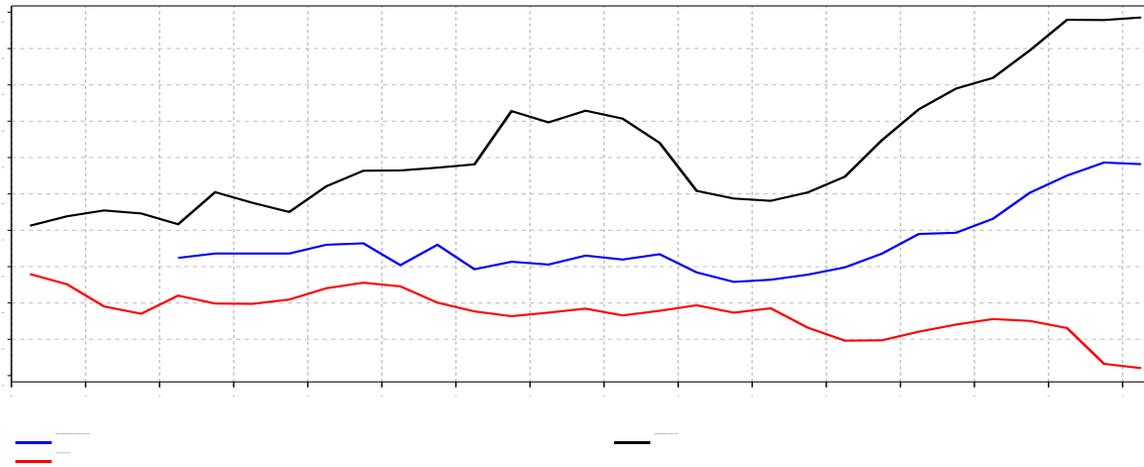
Source: fDi Markets

FDI flows

- **The United Nations Economic and Social Commission for Western Asia's Foreign Direct Investment Report 2008** showed that the current financial and economic crisis negatively impacted FDI flows.
- Inflows declined by around 6.3% to US\$ 60 billion in 2008 from US\$ 64 billion in 2007
- Saudi Arabia, UAE and Egypt accounted for nearly 76% of FDI flows to the region.
- Bahrain, Jordan, Lebanon Sudan and Syria witnessed an increase of incoming FDI during 2008.
- Three main sectors attracting FDI were: petrochemicals, financial services and the real estate.
- Inflows were mainly from EU (UK, France), followed by Japan and the US.
- Major impediments include:
 - ✓ time-consuming procedures for obtaining licenses and implementing contracts,
 - ✓ the lack and/or incompetence of commercial courts to settle disputes between foreign investors and local parties.

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.



Gulf Projects by Country

The total value of projects planned, under way or completed in the Gulf region was 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

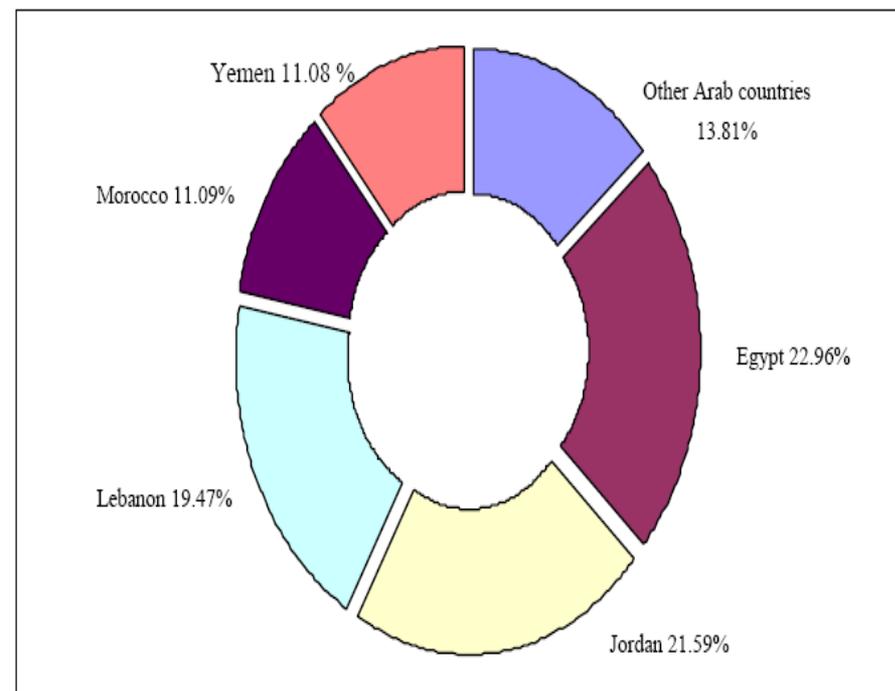
The temporary movement of labour between countries continues to face obstacles: current visa restrictions, the quota system adopted by many States for receiving foreign workers, the economic requirements regarding employing as contracting with foreigners, restrictions on recognition and equivalence of 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

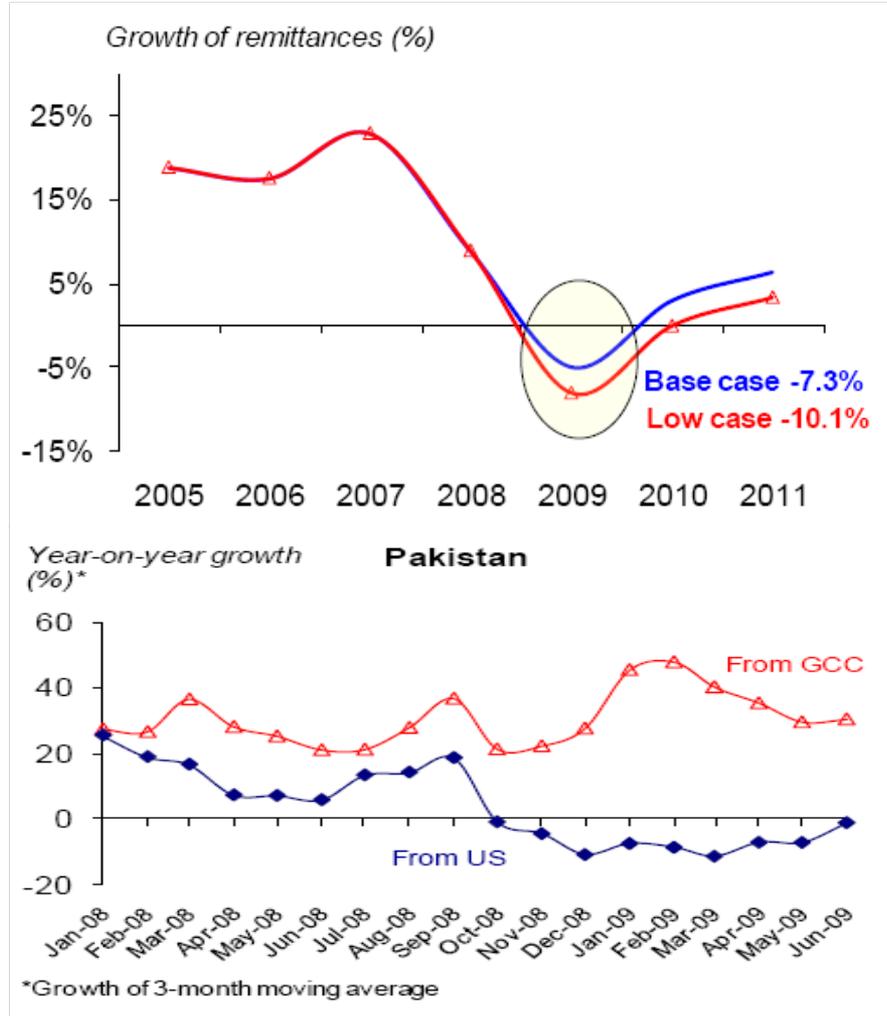
Source: "The Management of Irregular Migration and its Consequence for Development: Gulf Cooperation Council", ILO Working Paper, March 09.

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



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.**



Policy Issues

Move towards regional integration

- Increase Regional Trade Agreements
- Negotiate bilateral FTAs with EMEs like China, India and other Asian economies
- Customs Elimination
- Reduce constraints on “Trade Across Borders” (Improve Doing Business Ranking)
- Regional Development Bank
- Judicial body to rule over “regional” disputes
- Red Tape
- Gulf Monetary Union could lead to faster processing of FTAs with GCC as a bloc
- The integration of the GCC countries through a common market, GMU and common currency can be the kernel of greater Arab economic integration.

Thank you!