Dr. Nasser Saidi *is founder and president of Nasser Saidi & Associates and former chief economist at Dubai International Financial Centre.*

AID-FOR-TRADE NOT AID

The GCC should tie economic policy conditions to its aid of Arab transition countries.

WITH THE ONGOING political instability in Egypt, oil-rich UAE, Saudi Arabia and Kuwait generously provided both financial and in-kind aid (oil, LNG) valued in excess of $12 billion to support political transition. Indeed, Egypt's economy is limping, with growth optimistically expected at 2.3 per cent (whereas 6 per cent is required), unemployment is at 13.4 per cent, and inflation is running at 11.5 per cent, the budget deficit (including grants) is at 12 per cent and government debt is topping 92 per cent of GDP. Absent of radical economic reforms, external intervention is necessary to avoid runaway inflation, a further depreciation of the Egyptian Pound and increasing poverty and economic misery. However, GCC aid to Egypt, Jordan and Morocco is mostly unconditional, missing an opportunity to leverage aid and nudge or condition the aid on governments' undertaking the necessary economic and social policy (safety net) reforms. The risk is that aid will help perpetuate failed and unsustainable policies.

TRADE RATHER THAN AID

The "transition countries" like Egypt, Yemen, Jordan and others need employment creating growth that also generates exports, building international competitiveness. Rather than unconditional aid, providing Aid-for-Trade would be more effective for macroeconomic stability and job creation. Aid-for-Trade leads to more rapid growth of exports and imports, raises productivity, creates jobs and income and helps lift people out of poverty. Across countries, Aid-for-Trade is also strongly correlated with a reduction of trading costs – a doubling of aid for trade facilitation is associated with a decrease in trade costs by 5 per cent. Similarly, a doubling of aid for economic infrastructures is found to result in a 3.5 per cent rise in merchandise exports by recipient nations. Well designed, effective trade agreements supported by Aid-for-Trade are a more potent policy tool for international economic assistance than aid that typically makes countries aid-dependent, fosters corruption, and displaces local production (particularly when the provided aid is in kind).

Rather than unconditional aid, providing Aid-for-Trade would be more effective for macroeconomic stability and job creation.

International evidence shows that the effectiveness of Aid-for-Trade can be boosted if: (a) it is aimed at reducing the cost of trading: focus on easing trade processes including customs clearances, infrastructure & logistics and trade facilitation; (b) it concentrates on skills training and capacity development programmes for the people to be equipped in doing business skills once trade activities increase. Aid-for-Trade investment has to be institutionally embedded to be sustainable. (c) Last but not the least, efficient, effective and realistic monitoring and evaluation of aid for trade programs is necessary for optimal results.

INTRA-REGIONAL TRADE AGREEMENTS HAVE NOT DELIVERED

In a region that is yet to witness the benefits of intra-regional trade in spite of the multiple regional multilateral trade agreements – Greater Arab Free Trade Area (GAFTA), GCC customs union and Agadir Agreement, Aid-for-Trade would brighten the "Arab Winter". Inter-Arab trade only accounts for 8.6 per cent of their total trade in 2013 (WTO), with the bulk being oil and related products. By contrast, intra-EU trade was 62 per cent of the total and NAFTA was 48.5 per cent.

Despite the establishment of the Arab Maghreb Union over two decades ago, the bulk of Maghreb trade is still with Europe, cemented by Euro-Med association agreements that opened up export markets to the Maghreb but did not attract FDI or create jobs, as evidenced by the continuing waves of migrants from the Maghreb. Indeed, existing trade agreements tend to link the Arab countries to Europe and the US and divert trade away from the inter-Arab that would otherwise be favoured by geographical proximity, language and cultural recognition. There is little or no trade in inputs or intermediate products, there is no supply chain trade – the fastest growing form of trade, apart from services.

PROVIDE AID-FOR-TRADE NOT AID

The region continues to suffer from insufficient regional and global integration, and harmonising policies and tariffs would lead to greater trade opportunities, investment and job creation. Although some countries like Lebanon and the GCC have relatively low tariffs, or have taken steps to lower them (e.g. Morocco and Tunisia), the region's average tariff remains high. Additionally, the transition towards higher value-added exports has been slow, in part due to low foreign direct investment. It was to remedy this situation that the first phase of the Aid-for-Trade initiative for the Arab States was initiated in November 2013. However, the programme has already run into the usual glitches, with lack of common purpose, dissension, lack of political will and commitment from some donors cited as major drawbacks. This is damaging because trade-enabling measures have far reaching positive effects by raising growth and employment, improving export competitiveness, attracting FDI as a result of lower entry barriers and trade costs, increased regional and international market integration and positive spillover effects across all sectors of the economy by streamlining procedures and cutting wasteful bureaucratic red tape.

The WEF has recently published the 2014 ranking of 138 countries in terms of a Enabling Trade Index, which has four components: market access, infrastructure, operating environment and border administration. The UAE is highest ranked in our region at 16, but Jordan is at 40, Morocco 43, Egypt at 97 and Yemen at 128. What would happen if trade enabling reforms were undertaken? To illustrate: improving border administration and transport and communications infrastructure halfway to global best practice would raise GDP in MENA non-oil countries by 8.5 per cent, exports by 46 per cent and imports by 34 per cent from current levels. The benefits are clear but need reform, limited investment and political courage, drive and will.

AFP

TRADE REFORMS CAN CREATE JOBS AND GROWTH

So, what reforms should be implemented to achieve the hidden but within-reach and yet untapped trade potential, especially as many countries in the region are going through a transition phase?

One, targeted investment in trade-related infrastructure, logistics and trade facilitation is imperative. In particular, GCC governments wanting to provide aid should orient it towards Aid-for-Trade enabling and facilitating reforms and investments.

Two, the GCC should invite the Arab countries in transition (e.g. Egypt, Yemen, Jordan, Tunis and others) to join its free trade area either as full members or through 'economic association agreements' that would provide market access, supply chain integration, and promote trade, investment and labour mobility. Expanding the foreign trade of the transition countries is the most effective way of raising growth and creating employment, along with massive investment in infrastructure and development projects.

Three, existing trade agreements (GAFTA, GCC customs union, Agadir Agreement) should be deepened and widened to include trade in services and facilitating labour mobility. Last and most strategic, Arab nations need to 'pivot east' as the global economic geography has shifted towards emerging economies and Asia. Both oil and non-oil countries need to integrate into the New Silk Road supply chain whose growth and trade enabling tendrils are rapidly expanding from China and Asia to emerging economies, including geographically contiguous Africa. GB