Breaking Down Barriers to Prosperity

Partnerships for Shared Prosperity

Trade and Investment Integration: Opportunities for the Arab World

Dr. Nasser Saidi,
Chief Economist, Dubai International Financial Centre

DIFC Dubai International Financial Centre

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**

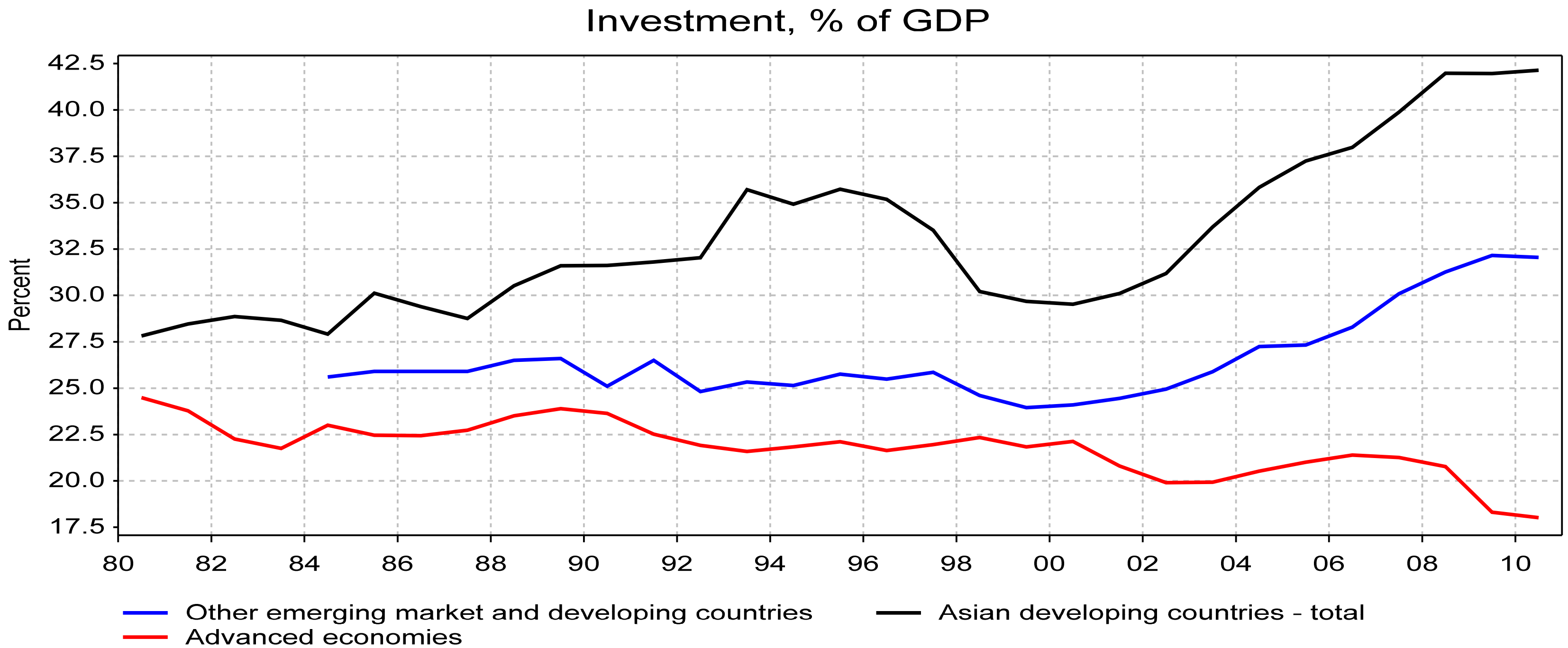
5. Develop Debt and Capital Markets to:

- **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**

Source: MEED Projects

Labour Movements & Migration

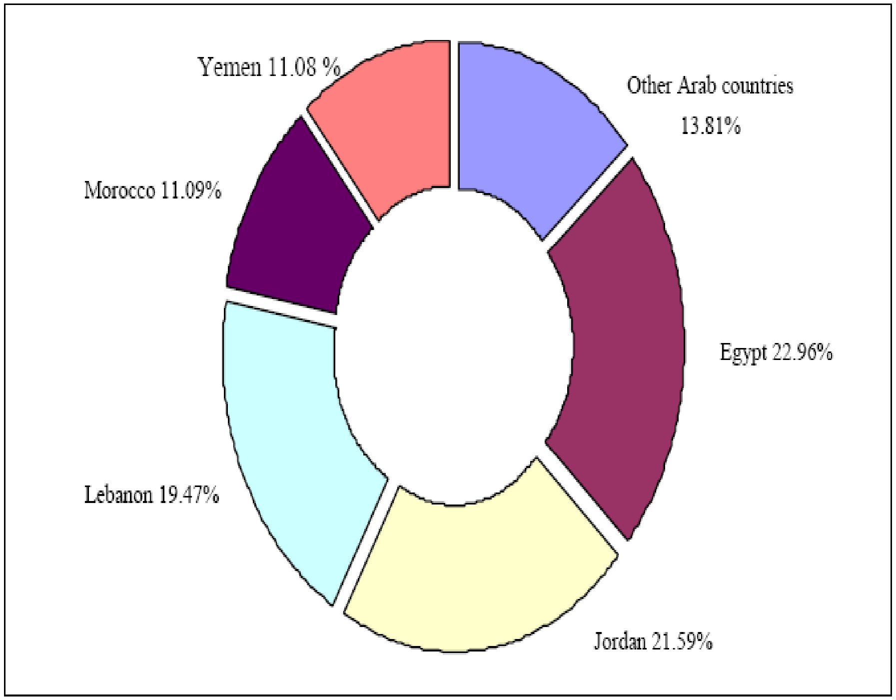
The temporary movement of labour between countries continues to face obstacles: current visa restrictions, the quota system adopted by many States for receiving foreign workers, the economic requirements regarding employing as contracting with foreigners, restrictions on recognition and equivalence of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



Source: **Annual Review of Developments in Globalization and Regional Integration in Arab Countries, 2007.(**Release Date: March, 2009 **)**

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

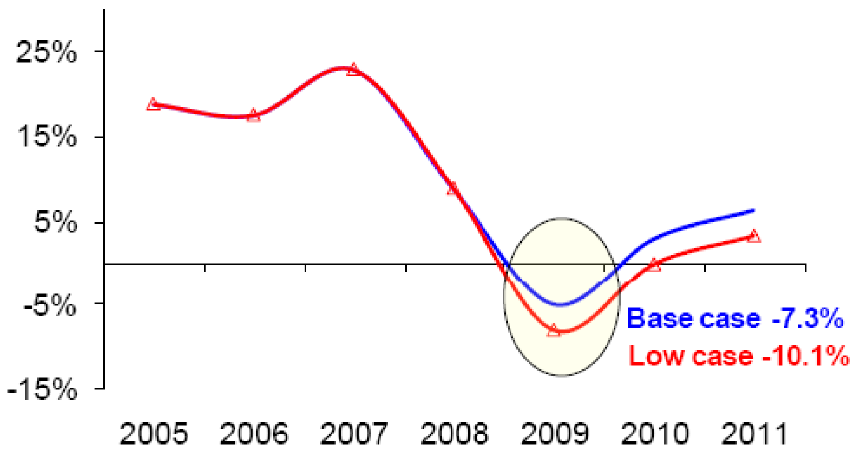
Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**−11.5**	**−10.7**	**−13.3**	**−10.9**	**−7.3**
MENA (excl. Iraq)	**−11.5**	**−10.7**	**−13.3**	**−10.9**	**−7.3**
GCC countries	**−26.0**	**−25.9**	**−32.8**	**−35.3**	**−34.3**
Bahrain	−0.1	0.5	2.2	1.4	3.7
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

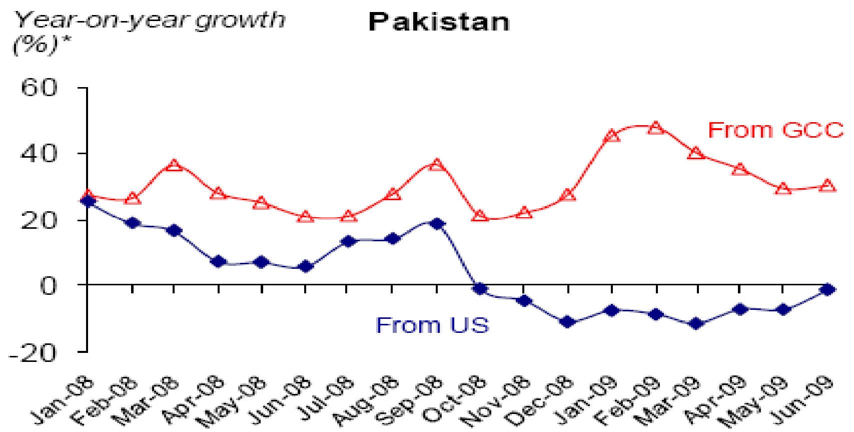
Source: World Bank

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.**

Growth of remittances (%)





*Growth of 3-month moving average

Source: World Bank

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

Source: fDi Intelligence from the Financial Times Ltd.

Trading Across Borders Across Regions

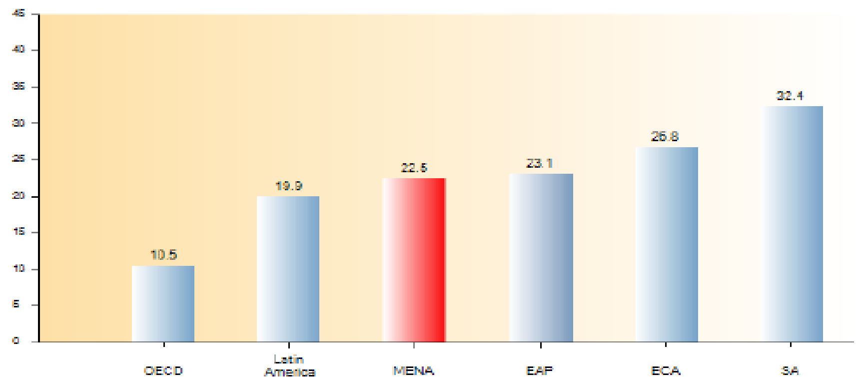
Trading Across Borders Across Regions (Export)

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

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 Export (days)



Average Time to Import (days)