



Assessing Arab Economic Integration

How Agricultural Trade can Affect the Achievement of the SDGs through Further Integration

Third Edition

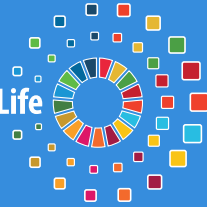


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Economic and Social Commission for Western Asia

Assessing Arab Economic Integration

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Third Edition



United Nations
Beirut

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Executive Summary

Rarely has there been a moment in recent history that so severely threatens global and regional integration while, at the same time, relying so desperately on integration to emerge from crisis. The COVID-19 pandemic has reversed many of the gains in regional cooperation among Arab countries, further hindered the already limited progress towards the Sustainable Development Goals (SDGs) and exacerbated the threats to multilateralism. These threats had been building for years, seen in the region's persistent conflict, growing inequality, mistrust in institutions, political extremism in both rhetoric and action and barriers erected to the movement of persons, goods, investment and ideas. Such trends are witnessed not only in the Arab region but worldwide, among nations of all levels of income and development.

The Assessing Arab Economic Integration Report (AAEIR) presents the comprehensive biennial research and analysis conducted by the Economic and Social Commission of Western Asia (ESCWA) of the status and challenges facing integration in the Arab region, specific thematic areas in which closer integration could yield significant dividends and recommendations on the means to achieve this. Past editions of AAEIR had argued for the dire need to address these growing concerns to ensure that all regions, countries and communities benefit from inclusive growth and development. Among these States, markets and otherwise reliable mechanisms have been undermined by

worrying trends for years, leaving the world vulnerable and unable to quickly respond to the COVID-19 pandemic. Poor communication and collaboration across borders prevented the sharing of information and best practices until it was too late for meaningful intervention. A lack of transparency led to denials and slow responses. Persistent inequalities have meant that those suffering from malnutrition, low incomes and poverty before COVID-19 are also marginalized from receiving the support which is vital to all those who are suffering, regardless of their station.

If there ever were an event to confirm the importance and vulnerable state of economic integration, and to truly shock the world into action, it is being witnessing right now. Among the few silver linings of this crisis, there is a realization that difficult decisions must be made, bold policies implemented and States and leadership must truly work towards structural economic transformation, both in order to progress towards the SDGs and to build our resilience to future crises.

This third edition of AAEIR makes the case that economic integration is a realizable goal and an imperative for the Arab region in its path towards peace and shared prosperity. The region has seen increasing preferential agreements, both with neighbouring countries and with external partners, as well as growing trade, investment and other flows. Yet the status of regional economic integration among Arab States is still very low when compared with

counterparts in every other regional block. Indeed, there is much work to be done to take advantage of the natural connections across the region and the potential of pooling regional assets, ideas and trading with one another. Regional trade is a particular area of potential, as it features many diversified goods with job and income externalities. Trade with external partners is often oil-based, with notable exceptions such as free trade agreements (FTAs) between many Arab States and the European Union providing avenues for participation in global value chains (GVCs). As some global trade and integration processes stall, regional initiatives and FTAs at all levels – South-South and North-South – have taken the lead in drawing countries closer together, and there is a plethora of successful examples for Arab States to draw on.

Amid the general benefits of integration and constraints faced, this AAEIR singles out the agricultural sector as one which can truly take off with the right mix of proactive policies and underlying conditions. Agriculture is vital for employment, rural livelihoods, food security and foreign exchange across the Arab region, and indeed globally, with agricultural reform and productivity serving as the engine for structural transformation and industrialization among successful emerging markets and developed countries. The importance of the sector takes on new meaning amidst the vital food and medicine bottlenecks during a pandemic such as COVID-19, where the dependence on imports of essential goods and the imposition of further protection and State support in rich and poor countries alike, compounding severe distortions which were already in place. While the empirical assessments of Arab economic integration performance contained in this report were prepared before the pandemic, they provide some initial insights on the additional challenges

faced by Arab countries in terms of economic recession and social equilibrium deterioration.

The report first introduces the state of economic integration in the Arab Region, as measured by the Arab Economic Integration Monitoring and Evaluation System of Indexes (AEMESI). This index measures a host of variables that address global, regional and country-level integration. It examines exports, imports, investment and remittances as key indicators of economic integration, to illustrate the enablers, policies implemented and outcomes reached regarding integration. In this third running of the AEMESI, and in the context of COVID-19, we see that integration continues to be latent, with the League of Arab States – when taken as a regional whole – ranking forty-third in 2018 terms of its globalization experience. Linkages that do exist are driven largely by Gulf Cooperation Council (GCC) countries' integration among themselves, with Arab partners and with the world. Overall, linkages with China and the European Union remain stronger than do intra-Arab linkages. Interestingly, oil was not necessarily driving the positive integration trends that do exist, which is promising for continuing integration progress in light of the recent oil price collapse and its very real implications for many countries in the region. However, with the new challenges due to COVID-19, globalization and regionalism are being largely affected in 2020 and the perspective for 2021 may worsen in the absence of revisiting existing integration schemes at bilateral, regional and global levels.

This assessment of the status, trends and implication of integration in the Arab region reveals that its countries would benefit greatly from a host of enabling actions, including: improving their business environments and increasing attractiveness to investors;

modernizing intra-Arab trade agreements; developing formal cooperation frameworks with new partners; strengthening accession to Pan-Arab Free Trade Agreement (PAFTA) and its mechanisms.

The second part of the report delves into the important background and history of agriculture in the Arab region. Despite a long history in agricultural innovations and output, the Arab region has not witnessed agricultural productivity growth of other regions. Water scarcity, limited investment and other internal constraints compound a global environment – particularly driven by wealthy countries – suppress opportunities for agricultural producers in the Arab region. The sector has been and is still highly impacted by the financial support provided by rich industrialized countries, mainly the United States and the European Union, to their farmers and agricultural exports. This public support has greatly impacted world prices and reduced the capacities of developing countries to compete in such distorted world markets. Removing distortions to global agricultural markets has been among the major objectives of the Doha Round of multilateral negotiation, which has seen limited progress with no deal yet reached. At the same time, many Arab countries are either reaching new integration agreements or extending others to agricultural and food products, and 18 Arab countries are negotiating the Arab Customs Union (ACU). The chapter addresses this state of global agricultural markets, protection and the need for policy reform and trade facilitation. Utilizing a global counterfactual simulation model, it assesses what the outcomes would be of three potential scenarios – full implementation of an ACU and a deep horizontal integration across members of PAFTA, and FTAs between the Arab region and partners in Africa and the European Union.

It assesses the overall economic, social and environmental effects of potential scenarios of a Common External Tariff (CET) taking into account the future of global support to the sector – including a deep reform of the Common Agricultural Policy (CAP) and the farm bill – and the impact this may have on the region, underscoring the role agriculture can play for trade and other linkages within the region and with external partners.

Quantitative assessments of opportunities in agricultural integration reveal that a full inclusion of agricultural products in future trade liberalization discussions represents an important opportunity for growth, employment and welfare. In response to the COVID-19 crisis, governments will need to support farmers both to protect rural livelihoods and to set the groundwork for the future role to be played by this sector in production, regional trade and transformation. Indeed, Arab countries will need to pursue these inward strategies to cope with the crisis and agriculture while also pursuing outward strategies including integration with other regions and pressing for closer adherence to global trade rules. Indeed, non-tariff measures (NTMs) on Arab agriculture particularly from the European Union, have already suppressed the region's farmers, a trend which looks set to increase in the wake of COVID, requiring further attention to this and other contentious issues at the global level.

Based on this thematic chapter, the report concludes with a call to action to move ahead with an ambitious integration agenda that will help the region rebound following the COVID-19 pandemic and build resilience to future shocks. This includes recommendations on how agricultural reforms taken at the regional and global levels can enable agricultural-based growth, boosting trade and lifting communities

out of poverty, and the role of PAFTA and the ACU in achieving this. Agricultural reform must be accompanied by parallel policies to help boost growth, job creation and poverty reduction. As global supply chains will face a new post-COVID-19 reality, the region must position itself to take advantage of shifts and diversified sourcing of inputs, including for agricultural, pharmaceutical and various other industrial products. Diversifying the economic base and composition of the region's partners – including closer links with one another – will help the Arab region grow and develop in unison.

This edition of AAEIR recommends four broad areas of policy action, as informed by its quantitative analysis, each with specific measures and implications as outlined in the full report. These areas include:

1. Moving toward a deeper and complete intra-Arab economic integration;
2. Unlock the potential for Arab agricultural integration;
3. Supporting Arab agricultural producers and enabling regional trade;
4. Transition from short-term COVID-19 response to long-term enabling of the agricultural sector.

The COVID-19 pandemic confirmed the need to move forward in achieving higher food security, but the well-being of farmers and rural population should be at the core of public policies in the Arab region. To overcome the effects of the COVID-19, both the United States

and the European Union are being allocating impressive direct support to their farmers which make the process of any additional liberalization of agricultural trade between the northern and the southern countries no more justifiable. Arab policy makers are required more than any time before to mainstream agricultural policies in their trade integration schemas through the design and implementation of an Arab Common Agricultural Policy. This can help overcome the increasing global distortions due to the stimulus programmes being implemented in rich countries, protect employment in the sector and achieve an acceptable level of regional food security across the region.

The spread and impact of the Coronavirus may finally serve as the wake-up call to address structural weaknesses that have long existed but gone untreated. The crisis is putting pressure on flows which come from outside the region – food imports, humanitarian aid and investments – and the low but vital flows of economic activity, remittances and trade within the region. The AAEIR continues to provide policymakers and other stakeholders with an objective assessment of the state of integration in the Arab region, modelled benefits of closer integration and recommendations on how to achieve this. The vision of a connected, peaceful Arab region is attainable if common goals can be prioritized over differences. This vision is a driving force behind this AAEIR, and of ESCWA's promotion of inclusive economic growth and progress towards the SDGs across the Arab region.

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Abbreviations

AAEIR	Assessing Arab Economic Integration Report
AEMESI	Arab Economic Integration Monitoring and Evaluation System of Indexes
AfCFTA	African Continental Free Trade Area
AMU	Arab Maghreb Union
CAP	Common Agricultural Policy
CET	Common External Tariff
CGE	Computable general equilibrium
CIF	Cost, insurance and freight
COMESA	Common Market for Eastern and Southern Africa
DCFTA	Deep and Comprehensive Free Trade Agreement
EC	European Commission
ESCWA	Economic and Social Commission for Western Asia
EMP	Emerging Markets Program
FMDO	Foreign Market Development Program
FOB	Free on board
FTA	Free trade agreement
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GFR	Gross farm receipt
GHG	Greenhouse gas
GTAP	Global Trade Analysis Project
GVCs	Global value chains

LAS	League of Arab States
LDC	Least developed country
MAP	Market access programme
MFF	Multiannual Financial Framework
MFN	Most Favored Nation
NGO	Non-governmental organizations
NTM	Non-tariff measures
OECD	Organisation for Economic Co-operation and Development
PAFTA	Pan-Arab Free Trade Area
PSE	Producer support estimate
PTF	Priority Trade Fund
RVC	Regional value chain
SDG	Sustainable Development Goal
SPSM	Sanitary and phytosanitary measures
SPSS	Sanitary and phytosanitary standard
TASC	Technical Assistance for Specialty Crops
WTO	World Trade Organization

Introduction

A. Trends and challenges in global and Arab integration experiences

At the dawn of the twenty-first century, a future of close economic integration was viewed as the inevitable progression of multilateral systems which had been gaining strength for decades. These steps towards progress included the adoption of the Euro and interest in other currency and customs unions, booming global trade, a significant catch-up among many developing countries particularly in East Asia and a general consensus that working together could bring exponential economic dividends. Integration and globalization were thus questions of when, not if. As the first two decades of the century draw to a close, with a global pandemic, financial crisis, accelerating climate change, increasing regional conflicts, icy relations between superpowers and a withdrawal from multilateralism by some major economies, the assumptions of unfettered cross-border trade, investment and integration now do not fully match the political realities facing much of the world's population.

The COVID-19 pandemic has revealed how vulnerable global models of growth and trade are to public health crises and illustrated the speed with which such crises can spread and overwhelm cities, countries and the globe in our era of close connectivity. Indeed, in a sense, the integration of economies and increasing mobility of persons and goods without matching the integration of institutions and responses to potential threats exacerbated the

spread of this virus. The true impact in terms of lives, livelihood and foregone economic activity is yet to be felt. But preliminary impacts and modeled outcomes reveal that the Arab region will lose US\$42 billion in 2020 due to the pandemic, although this may rise due to a further global economic slowdown and the effect of falling oil prices (ESCWA, 2020). At least 1.7 million people are expected to lose their jobs in 2020 due to the pandemic and slowing trade flows will depress Arab exports by \$28 billion.

Even prior to this, discontent with the economic and political status quo had been rising, due to growing inequalities, the effects of climate change and general perceptions of an unfair and corrupt global economic system. These perceptions can often have a greater impact than any model which projects the broad and inclusive benefits of economic integration, leading to regressive, nationalistic approaches to policymaking.

Yet despite these trends – and in fact because of them – the imperative for economic integration is greater than ever. While COVID-19 highlights our vulnerabilities, it also reveals that the only way to address such existential threats is through cooperation, planning, and the sharing of information and resources. Recent economic success stories – including examples as diverse as the rise of China, sustained post-crisis growth in the United States, increasing investment flows in Africa, diversification and the growing role of the trade and services in Gulf countries

and the resilience of the European Union to internal and external challenges – all illustrate how an externally oriented economy harnessing opportunities in trade and new investments can create jobs, build a consensus for partnership and collaboration and lay the groundwork for shared prosperity. The world has, in fact, seen growing flows of exports and imports since the millennium, albeit at a slowing pace in recent years. Multilateral agreements on trade in goods and services, investment, taxation, intellectual property, remittances and other cross-border flows have been reached in new and cutting-edge issues. As crises worsen ranging from Coronavirus, climate change and international terrorism to growing flows of migrants and refugees present humanitarian and security threats, it is clear that individual countries do not have the capacity to address these issues alone. Where global efforts have stalled or been undermined – for example under traditional World Trade Organization (WTO) processes – regional and subregional agreements in Latin America, Africa, Asia and elsewhere are drawing countries with similar goals and ambitions together.

Both the progress and potential of regional and subregional integration, as well as the significant stumbling blocks faced in pursuit of this, are prevalent in the experiences among Arab countries. Much like global experiences throughout the twentieth century, the Arab region faced ebbs and flows in regional cooperation, from the solidarity of anti-colonial and non-alignment movements on the one hand, to internal wars and sectarianism on the other. Similarly, the last three decades have witnessed some developments under the auspices of the League of Arab States regarding progress towards Arab economic integration through the implementation of the Pan-Arab Free Trade Area (PAFTA) and the negotiations

on the creation of an Arab Customs Union (ACU). The efforts have been extended to the subregional level through the reinforcement of some subregional blocs such as the Gulf Cooperation Council and the Arab Maghreb Union. However, compared with other regions across the world, the performance in terms of Arab intraregional trade and connectivity to global value chains (GVCs) is still very limited. In fact, people, goods, capital and ideas are still moving slowly across the region. Despite that Arab economic integration through trade, investment, remittances and other flows still stand at a lower level than in comparable regions, these agreements seek to put actionable policies in place to promote regional economic integration that can lead to the sort of industrialization, diversification, higher wages and job creation witnessed elsewhere.

At the same time, internal conflicts quickly boil over into regional affairs, with civil wars and insurgencies driving wedges between Arab countries of differing ideologies and religious persuasions. These divisions hinder the implementation of the above-mentioned integration initiatives, particularly their economic tenets. Indeed, cooperation on tariff reductions and the removal of non-tariff barriers is redundant when certain countries cut economic ties over disagreements or when trade routes are physically blocked due to conflict. Movement of persons cannot be enabled when countries shut their borders to migrants and refugees, nor when a pandemic forces a complete halt of internal and inward movement. Deeper agreements on sharing technology and outlining rules governing intellectual property do not mean much when previous arrangements on these issues are not adhered to. From the apex level of leadership down to local initiatives, well-intentioned agreements and policies to foster integration

are hindered by the realities of the last two decades.

These regional challenges in fact reflect global threats to economic integration witnessed in countries and regions of all income levels. COVID-19 has affected every region of the world, rich and poor alike. Ambitious targets have been set out under the 2030 Agenda for Sustainable Development, the Paris Climate Accord, Addis Ababa Agenda for Action, global governance of taxation, recent agreements on migration and under proposals put forth under meetings of the WTO through the Doha Rounds. Yet there has been an absence of some key players in many of these agreements, an inability or unwillingness to adopt strong national policies that onboard these agreements, and a stalling or rejection of many of their tenets which has plagued trade negotiations. These roadblocks have emerged from a number of root causes. Some are inherently national interests which clash with greater multilateralism and cooperation. Some stem from a misunderstanding of the goals of these agreements, a rejection of technocratic solutions and disbelief in the challenges facing the globe and humanity. But whatever the cause, while the world draws ever closer together through record leaps in technology, communication and commerce, it also faces unprecedented barriers to cementing greater cooperation.

B. The strong role of agriculture and unique challenges facing agricultural integration

Across the host of activities that are vulnerable to rent-seeking, political capture and national priorities preventing cooperation and integration, agriculture stands out as a sector

which is fiercely protected by developed and developing countries alike. The contentious nature of international agriculture arrangements owes to its importance for livelihoods in terms of poverty reduction, food security and economic development throughout history. Successful long-term development in Europe and export-oriented industrialization strategies in Asia were all built on land reforms, increasing agricultural productivity and value-addition and technological innovations in farming. Poverty reduction and the raising of incomes in Brazil, Ethiopia, India and elsewhere has relied on providing higher, more predictable returns for rural and smallholder farmers, giving them access to larger markets for their goods, and providing social safety nets. According to FAO (2018a), *“Accelerated investment in sustainable agriculture and food systems, and in rural people is a proven accelerator of sustainable development that helps countries realize multiple SDGs: ending extreme poverty, hunger and malnutrition; promoting sustainable management of natural resources, including biodiversity, fisheries, forests, land, soils, water, and oceans; and mitigating while also adapting and building resilience to climate change”*. As countries lock down in response to COVID-19, workers remain at home and investment dries up, previously reliable food and agricultural supply chains have suddenly come under considerable strain, and their continued operation is a significant security concern.

In the Arab region, agriculture accounted for nearly a quarter of total employment as of 2016, and five per cent of GDP as of 2019 (World Bank, 2019),¹ reflecting global trends in GDP. Agriculture – both in food products and non-consumable commodities – is vital in a host of different settings, with fruits in Lebanon, meat and dairy in Saudi Arabia and cereals, wheat and cotton in Egypt, just to name a few

examples, being major sources of output, foreign exchange and linkages with other sectors. The job-creating and income-generating elasticities of agriculture are great, with extended families depending on these activities. While most activities deemed “non-essential” were halted during the virus outbreak, agriculture continues due to its strategic importance, providing a source of welfare for workers. The sector’s large government subsidies, both to producers and consumers, has been a contentious issue for some time in terms of fiscal prudence, distortions created across the economy and winners and losers among the poor, farmers, the environment and so forth. Meanwhile, the Arab region has not witnessed agricultural productivity gains on par with other regions, speaking to the need for greater technology transfer and new methods as a part of agricultural trade arrangements. Furthermore, expansion of these activities must be balanced against the water-intensive nature of agriculture, particularly in Arab countries, and the dire water scarcity in the Arab region as compared with other regions. Given these restrictions, Arab integration and food security strategies have long looked to more fertile countries such as the Sudan to provide regional solutions, and more broadly the region can look for means to trade for agricultural imports at more favorable prices and rates rather than worsening the water situation at home. Indeed, agricultural imports to the region have increased more than fourfold since 1995, speaking to the need to safeguard trade arrangements governing these imports and to protect countries’ balance of payments.

These intricacies of the agricultural sector reflect the political difficulties in relaxing government support, opening borders and inducing competition, which become even more complex and difficult to implement in light of global

agriculture dynamics. The controversy over agricultural subsidies in the European Union and United States has been well documented, with this contentious issue derailing or disrupting several global WTO rounds. In these cases, domestic influence and lobbying by the agricultural sector is fierce, preventing policymakers from committing to strict agreements. The COVID-19 bailout and rescue packages in rich countries have continued this trend of agriculture support and are a political necessity. Well-intentioned allowances under trade agreements, such as concerning food quality and safety, can also be used disingenuously to shield domestic producers against foreign competition. Meanwhile, developing countries continue to support agriculture due to the above-mentioned role of the sector for large swathes of the population. Middle-income countries have both witnessed significant advances in agriculture and have been criticized for benefitting from global mechanisms of support meant for poorer countries. Support to farmers also must be balanced against the needs of consumers and the effect of rising prices on food security for the poor.

Yet within these complexities, this report will argue that space is opening up for Arab countries to insert themselves in new trade arrangements which can – with the right planning and negotiations – be beneficial for the agricultural sector, while also fostering greater regional integration. Many Arab countries have been a part of the Euro-Med Partnership since 1995, covering industrial products but with relevance and implications for agriculture. The African Continental Free Trade Agreement will provide opportunities for agricultural trade with Africa, given the many overlapping memberships between this new continental agreement and PAFTA. There are other

opportunities to advocate and negotiate more forcefully for opportunities for Arab agricultural trade, investment and technology transfer. This is particularly the case with the European Union in the context of the ongoing revisions of its Common Agricultural Policy due to Brexit, which could represent an opportunity for Arab countries to advocate for a better access of their agricultural exports to the European Market. At the same time, the United States and United Kingdom are negotiating new bilateral agreements with many Arab countries, which need to formulate more appropriate proposals for agricultural market access for all parties. A post-COVID-19 world will be a very different setting for global and regional agricultural sourcing, value chains and government support. Arab governments are expected to lose \$1.8 billion in tariff revenue on imports, \$2.0 billion in indirect consumption and \$4.2 billion in production tax intake, straining an already vulnerable fiscal balance. As illustrated in the intricacies of agricultural GVCs examined in this report, effects of COVID-19 – ranging from production bottlenecks to price increases – will have severe delayed and long-term consequences that the world has not yet witnessed.

There are also significant opportunities in further intra-Arab agricultural trade, which has increased tenfold since 1995, with for example GCC and Mashreq countries sending over half of their agricultural exports within the region. Many intra-Arab bilateral trade agreements cover duty-free agricultural imports. Agadir and GCC arrangements provide subregional avenues for these goods. This entails opportunities to boost regional producers and embedding integration opportunities, which would depend on progress in negotiations towards the Arab Customs Union and its Common External Tariff. The opportunities here

will be mapped out in this report through a tailored global computable general equilibrium (CGE) model. As over half of the population of Arab countries can be found in rural areas with a higher prevalence of poverty, the knock-on effects of boosting regional trade in this sector would be immense if trade arrangements are well negotiated and properly implemented.

C. ESCWA's advocacy for economic and agricultural integration

The United Nations has long advocated for collective solutions to our common problems, including through multilateral bodies, international treaties, shared development goals and economic integration. In the Arab region, the Economic and Social Commission for Western Asia (ESCWA) champions and advances the many rationale for closer collaboration and cooperation between Arab States as presented above, through providing new research and analysis on these issues, devising evidence-based policy options and promoting these through capacity-building and technical support. In view of this, ESCWA issued the inaugural Assessing Arab Economic Integration Report (AAEIR) in 2015, with a new Arab Economic Integration Monitoring and Evaluation System of Indexes (AEMESI) that had been in development since 2013, constructed to measure for the first time a host of variables gauging global, regional and country-level integration. The intricacies of these indexes will be detailed in Chapter I, but in general they examine exports, imports, investment and remittances as the key indicators of economic integration. These are used to illustrate the enablers, policies implemented and outcomes reached regarding integration, and present these through respective index scoreboards. In the end, these therefore shed light on how Arab

countries are integrating with one another, within subregions and with the world.

In this edition of the AAEIR, in order to shed light specifically on the potential for agricultural integration, a dynamic global CGE model will be used to estimate the sectoral and macroeconomic impacts of alternative scenarios of agricultural trade liberalization and to quantify the potential effects throughout the economy and regarding selected SDGs in particular. This model has been tailored to consider both the features of the economies of nine Arab countries but also the major mechanisms affecting global agricultural prices. The scenarios to be examined include (1) implementation of the ACU and a deep horizontal integration across the members of PAFTA, and (2) FTAs between the Arab region and partners in Africa and the European Union are implemented, representing vertical integration. The findings and implications of these scenarios will draw together the enabling factors for economic integration among Arab countries in general, and the centrality of agriculture for many Arab economies and for potential trade within the region and with external partners. This report will also draw in related ESCWA analysis and findings regarding food sustainability, gender equality, and barriers to trade, among others.

All of this analysis and rigor is undertaken to answer the question of what is to be done, and to provide the best tailored guidance to policy makers, private sector actors, NGOs and other key stakeholders in the development and integration process, both under normal circumstances and given the realities of the coronavirus pandemic. The report will detail evidence-based findings and recommendations regarding economic and agricultural integration. It is clear that despite some positive

developments, progress towards Arab integration has been very slow, with the region at latent levels of integration both compared with its links with external actors and compared with other regions' integration experiences. These findings have held since the inaugural AEMESI, albeit with different country experiences and specific driving forces. The highest-ranking Arab globalizers are primarily in the GCC, with the United Arab Emirates taking top spot in the region and in fact consistently ranking in the top five globally. However, the Arab region as a whole, when aggregated, would only rank 43rd globally in 2018, a slight fall from 39nd in 2016. In fact, over time the globalization performance for the Arab countries and subregions is largely static, with Arab LDCs stagnating at the bottom of rankings. The Arab region still remains marginal in its share of global trade and other indicators of economic integration. When looking at the main bilateral partners of Arab countries, the European Union in particular but also China play much larger roles than do neighbouring or regional countries or subregions, with only the GCC as a group standing out as an intra-Arab regional partner, and this driven particularly by Saudi Arabia and the United Arab Emirates as poles of intra-Arab integration.

One interesting finding among these results, to be detailed in Chapter I, is that oil is not necessarily driving the globalization successes, with diversified activities playing a major role in several traditional oil exporters. This speaks to both the potential to build on existing diversified means of production, but also the need to find further sources of trade, investment and remittance flows if the outlook for hydrocarbons continues to darken, particularly in the wake of recent prices falls which have been accompanied by an unprecedented fall in global demand. Meanwhile, unique situations and implications of

conflict leave countries such as Yemen and Syrian Arab Republic particularly dependent on intra-Arab flows, providing opportunities to expand existing intraregional linkages.

Another option would be to liberalize Arab agricultural trade, the impact of which on human well-being could be greater than if implemented elsewhere due to the prevalence of non-tariff barriers in a context of heavy reliance on food imports and often large agricultural sectors. Chapter II focuses on the six GCC countries, Tunisia, Morocco and Egypt, and three liberalization schemes. A Deep and Complete FTA (DCFTA) with the European Union would affect world agricultural prices and Arab countries may lose in the short-term following an increase of food items import values while the net impact on consumers will depend on distribution channels' efficiency. After 2025, the negative consequences of the shock initiated by the conclusion of a DCFTA with the European Union should have vanished, and prices should start declining.

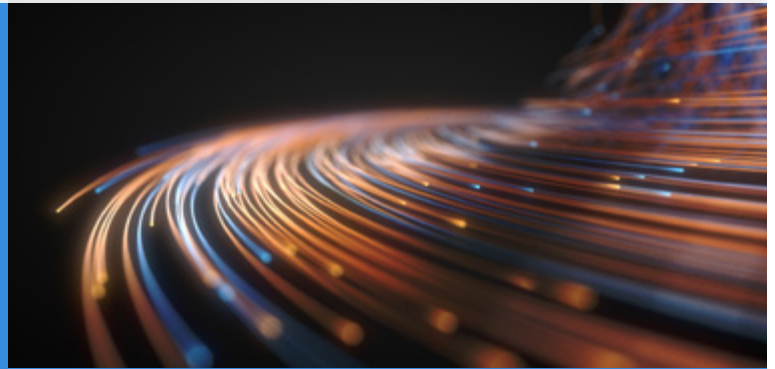
Finalizing the ACU would have a significant impact that will depend on the structure of the adopted CET for agricultural goods and a return to a conducive global economic environment. The greatest positive impact on the attainment of the Sustainable Development Goals (SDGs) would be achieved through a reduction and harmonization of existing NTMs. However, expected gains remain modest as it is the case of the liberalization scheme such as the African Continental Free Trade Agreement (AFCFTA) involving all African Arab countries including the potential accession to the Common Market for Eastern and Southern Africa (COMESA)

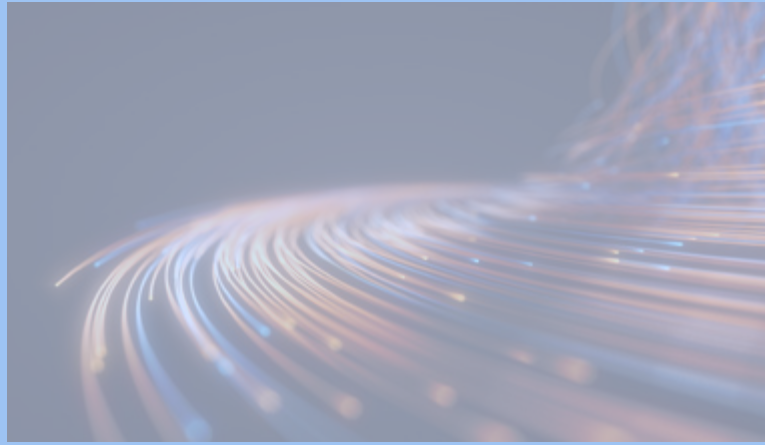
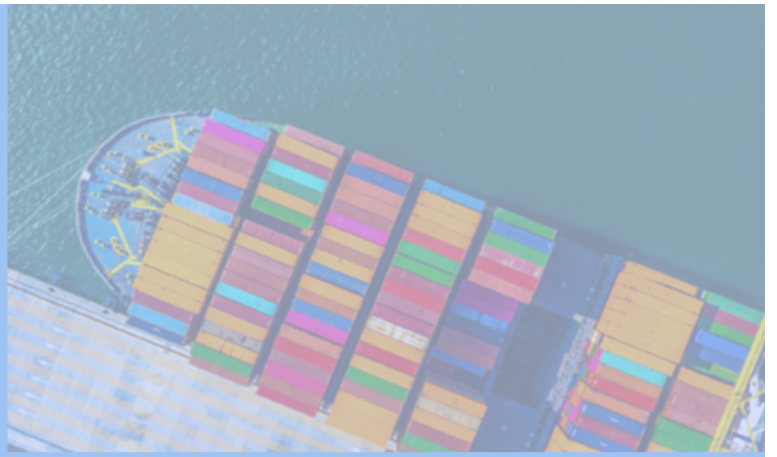
Customs Union due to the similarities in the economic structure of the members. Such an integration strategy is still worth pursuing as it would strengthen Arab countries' capacity to compete in the global markets and with advanced economies.

Finally, the report reveals that for agricultural trade liberalization schemes to enable progress across SDGs, improve economic growth and welfare, boost job creation and reduce gender inequalities, complementary or accompanying policies must be carefully designed. Among the most important ones is the establishment of more regional and flexible factor markets to smooth and hasten the reallocation of production factors from formerly protected sectors to newly profitable sectors. Trade facilitation measures as a means to reduce transaction costs of international trade, including transport and insurance costs, and the customs clearance process is another option as ESCWA's studies show that a reduction in international logistics cost could boost exports more than a simple removal of tariffs on exports in the partner countries.

The report will be structured as follows: Chapter I will present and analyse the methodology of the AEMESI, revealing the step-by-step analytical findings and implications for the integration experience of the Arab region. Chapter II will provide background on the history and state of agriculture in the Arab region, global agricultural trade and policy reform and detail the global CGE model, its findings and their implications. It also provides recommendations based on this analytical work, and Chapter III will present the conclusions.

1. Recent Developments in the Global, Regional and Intra-Arab Economic Integration of Arab Countries





1. Recent Developments in the Global, Regional and Intra-Arab Economic Integration of Arab Countries

Economic integration has been threatened by the global trade slowdown that became the “new normal” of world economic integration in the aftermath of the global financial crisis. Consequently, the main drivers of the current wave of globalization are losing steam: the integration of China and Eastern European countries in the world economy has been completed, tariffs have been reduced to the extent that few sizable gains can be expected from further reducing them, China’s shift from an export-led to a demand-led growth model is translating into lower demand for commodities and, after two decades of intense fragmentation of the production process, vertical specialization may have reached its limits.

However, the period 2016-2018 offered Arab countries renewed opportunities to further economic integration which this chapter assesses using the ESCWA’s Arab Economic Integration Monitoring and Evaluation System of Indexes (AEMESI). The chapter also provides preliminary insights on the potential impact of the challenges that emerged in 2019 and 2020, namely the trade wars between the United States of America and China, the oil price war between Russia, Saudi Arabia and the United States and the COVID-19 pandemic. The indexes and scoreboards track a host of variables that address global, regional and country-level integration. It examines exports, imports,

investment and remittances as key indicators of economic integration, to illustrate the enablers, policies implemented and outcomes reached regarding integration.² This tool was developed to inform sound, evidence-based policymaking and business decisions, in order to foster Arab countries’ economic integration which is considered by the United Nations as a means of implementation of the SDGs and other stated developmental goals.³

In the first section of the chapter, Arab countries’ globalization performances are reviewed using a global integration index. The second section focuses on economic integration with main non-Arab partners’ dynamics and outcomes. The third section analyses bilateral intra-Arab economic integration developments. The fourth section concludes.

A. Arab countries’ integration: the global lens

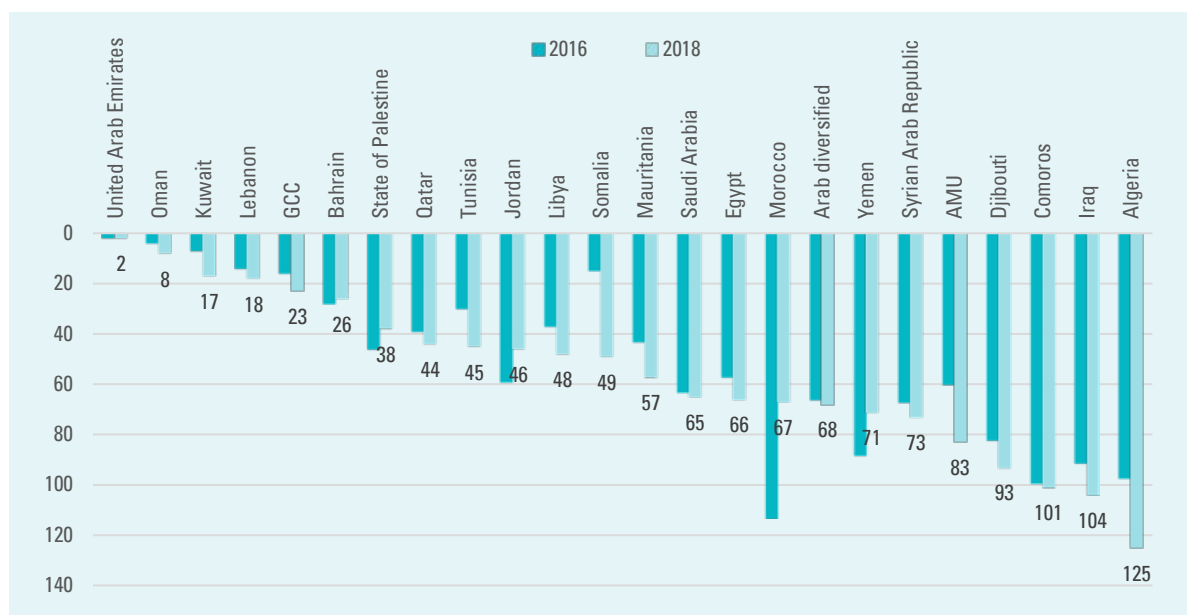
Comparing Arab countries’ and subregions’ global economic integration performances, as measured by the ESCWA globalization index for 2018 and 2016 shows that the GCC remains the most globalized Arab subregion and ranked twenty-third in 2018, compared to sixteenth in 2016 while the group of Arab least developed countries (LDCs) remains poorly economically

integrated globally (figure 1 and annex 1). The second and third most globalized Arab subregions are the diversified Arab countries, followed by the Arab Maghreb Union (AMU), which ranked sixty-eighth and eighty-third respectively in 2018. Due to a total trade share rise from 44 to 56 percentage of GDP, the group of diversified Arab countries climbed 24 spots on the globalization ranking but the move was largely the consequence of the depreciation of the Egyptian pound following its free floatation in 2016 (box 1). The AMU's performances have been severely affected by the volatility of Libya's integration outcomes, with the country varying between the fifth and fiftieth rank within a couple of

years. Hence, in 2016-2018, Arab countries' performances were insufficient to grab a larger share of world demand and available financial resources to harness the potential of trade to enhancing growth, competitiveness and living standards.

The global context has been largely conducive to Arab economic integration, with global economic patterns characterized by a downturn in 2015-2016, followed by a strong recovery in 2017-2018. International trade in value continued to decline in 2016, losing 3.2 per cent, after having recorded a sharp fall of 13.5 per cent in 2015, and before expanding by 11 per cent in 2017 and 10 per cent in 2018 (figure 3).

Figure 1. Globalization rankings, Arab countries and subgroups, 2015 and 2018



Abbreviations: AMU, Arab Maghreb Union; GCC, Gulf Cooperation Council.

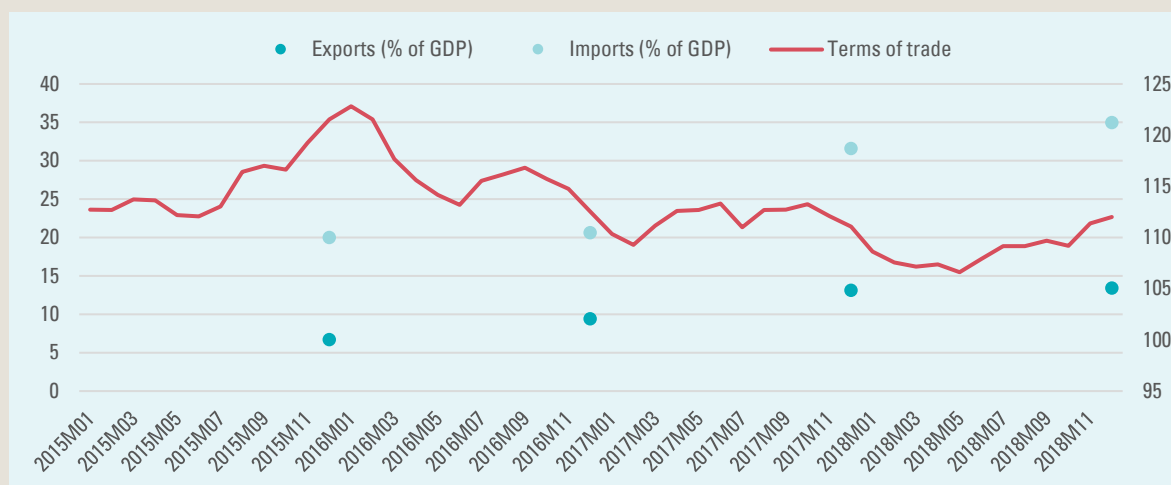
Source: COMTRADE data and ESCWA AEMESI calculations.

Note: Rankings for 2016 in dark blue, rankings for 2018 in light blue. The numbers are the ranks for 2018.

Box 1. Egypt globalization outcomes shaped economic integration of the group of Arab diversified countries

Not all of the group of Arab diversified countries contributed to this positive move up the globalization ranking nor recorded similar surges in their economic openness over this period to the same extent. The improvement essentially reflects Egypt's change in rankings as the country jumped from the 129th to the 66th spot between 2016 and 2018 in the globalization ranking.

Figure 2. Egypt exports and imports as percentage of GDP, terms of trade and real effective exchange rate indexes



Source: COMTRADE, UN Stat, ESCWA AEMESI calculations.

Following the liberalization of the exchange rate regime and the depreciation of the currency, Egypt's terms of trade deteriorated as imports became much more expensive relative to exports. With the country's imports quite inelastic to price fluctuations, their share surged from 21 to 35 per cent of GDP, which propelled the country from the 121st to the 65th rank on the import ranking (figure 2). Over the same period, Egypt's exports progressed from 9 to 13 per cent of GDP, which was sizable but left the country at 127th on the export ranking due to the small contribution of exports to GDP. In 2018, non-oil exports still accounted for a meager 3 per cent of GDP. When looking at the other drivers of the country's economic integration process, foreign direct investment (FDI) flows did not weigh much on the globalization outcomes, in contrast to workers' remittances, which soared from 7 to 13 per cent of GDP, leading to a gain of 17 spots in the ranking, from thirtieth to thirteenth, over the same period.

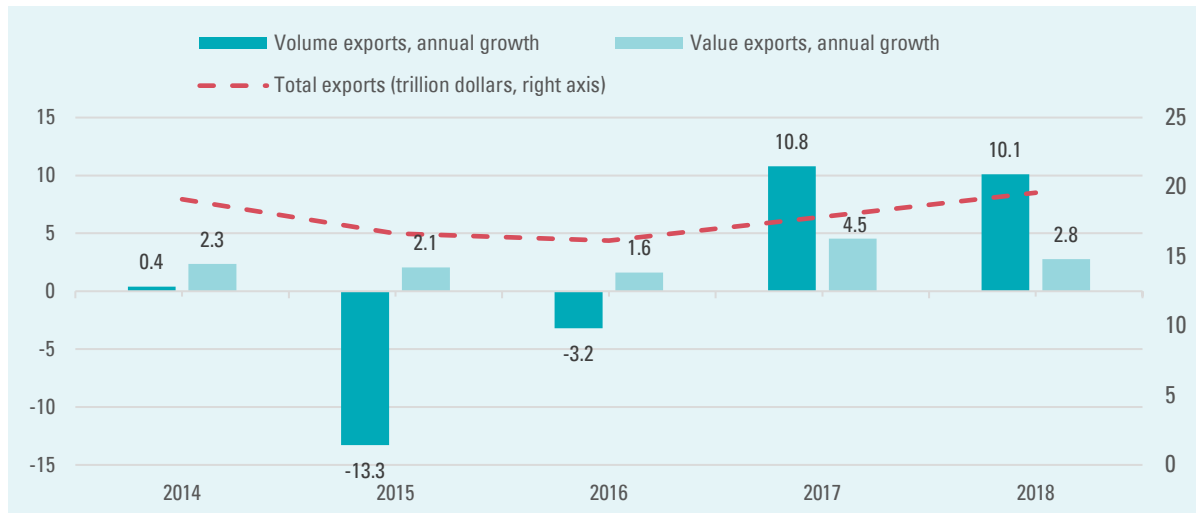
The rebound of the world economy – although still in its infancy – was broad-based and the economies of Arab countries' most important trading partners were expanding. Both developed and developing countries contributed to the improvement. Exports increased in value by 7.3 per cent and 9.8 per cent in 2017 and by 7.9 and 9.5 per cent, in 2018 in North

America and Europe respectively, and by 18.3 per cent in 2017, and 13.6 per cent in 2018, for Africa. In 2016, the contribution of all regions to world trade growth in value was negative, except for Europe (figure 4). In 2018, the recovery was driven by Asia (48 per cent of the total), Europe (35 per cent) and North America (15 per cent).

Strong fundamentals were supporting the upturn that had the potential to last, provided that proper strategies and policies are developed and implemented (IMF, 2019). Europe was at the dawn of a new cycle of economic expansion posting real GDP growth rates at 1.8 to 2 per cent over the period

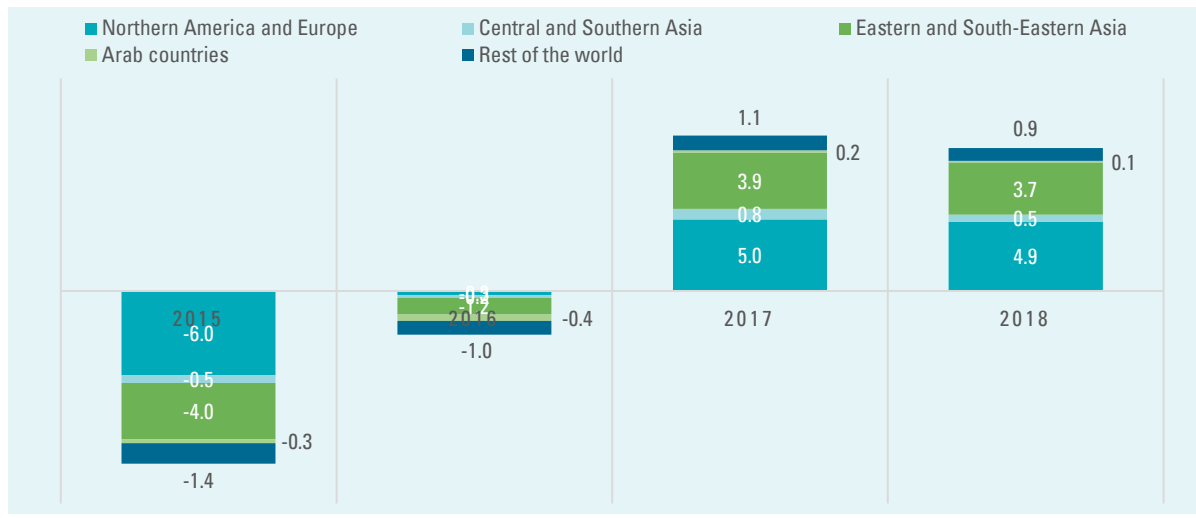
2016-2018. The United States economy was growing slightly faster at a rate of around 2.3 per cent a year, benefitting from the longest period of uninterrupted economic expansion in history.⁴ China had managed a soft landing with its growth rates attaining 6 per cent per year on average.

Figure 3. Growth rates of world exports in value and volume, and exports level (trillion dollars)



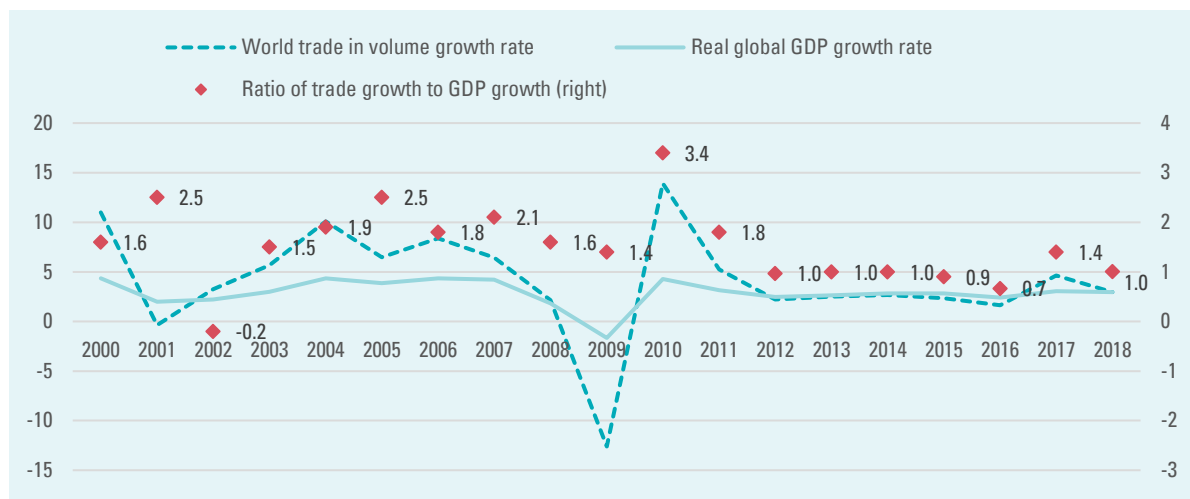
Source: ESCWA calculations for the AEMESI using 2018 United Nations Conference on Trade and Development (UNCTAD) data. Available at https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en (accessed on September 2019).

Figure 4. Regional contribution to world trade growth



Source: COMTRADE, ESCWA calculations for the AEMESI.

Figure 5. World trade in volume and real GDP growth rates, and world trade in volume to real GDP growth ratio, 2000-2018



Source: ESCWA calculations for the AEMESI using 2018 United Nations Conference on Trade and Development (UNCTAD) data. Available at https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en (accessed on September 2019).

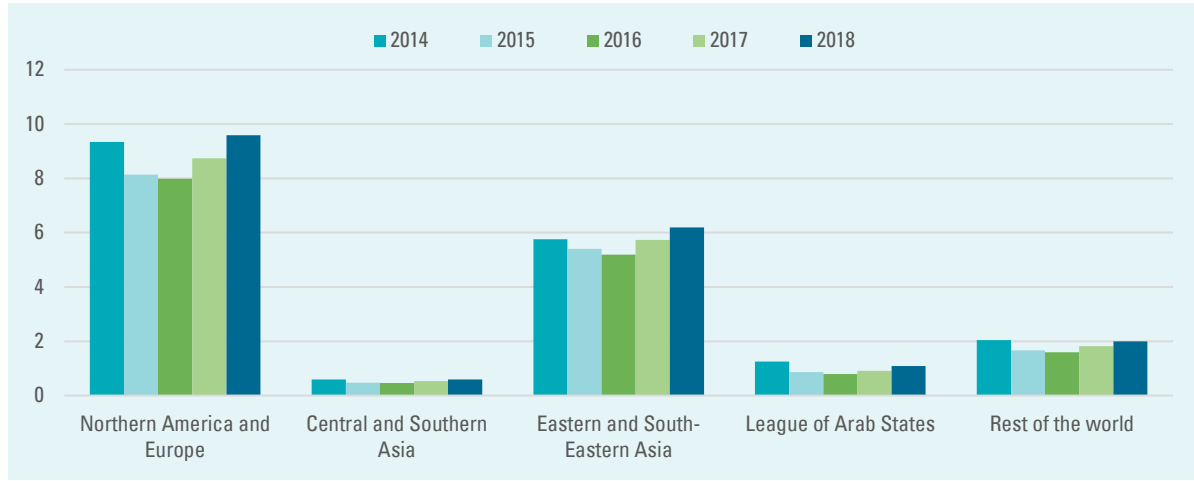
In this context, global trade growth in volume accelerated from 1.6 per cent in 2016 (its lowest point since the global financial crisis) to 4.5 per cent in 2017, reaching its highest point since 2011. This illustrates that during times where trade is outpacing GDP growth globalization can sizably contribute to development and trade can play a meaningful role in achieving the SDGs. While, in 2016, the ratio of trade growth to GDP growth – that is the trade content of GDP growth – reached 0.8, its lowest point since 2001, in 2017, it rebounded to 1.4, the highest figure since 2011 (figure 5).

Very unexpectedly, the global economy seemed to be back on a good footing and in September 2017, the IMF revised upward its real GDP growth forecasts for 2018 from 2.8 to 3.2 per cent. Later, in a press release dated 12 April 2018, the WTO anticipated a 4.4 per cent growth of world trade in volume in 2018. The trade content of GDP in 2018 would have hence been similar to 2017. However, rising trade policy

uncertainties and geopolitical tensions interfered and, in the end, real GDP growth slowed to 2.9 per cent and the push provided by GDP growth to economic globalization was reduced as the ratio of trade in volume to real GDP growth reached 0.9 (figure 5).

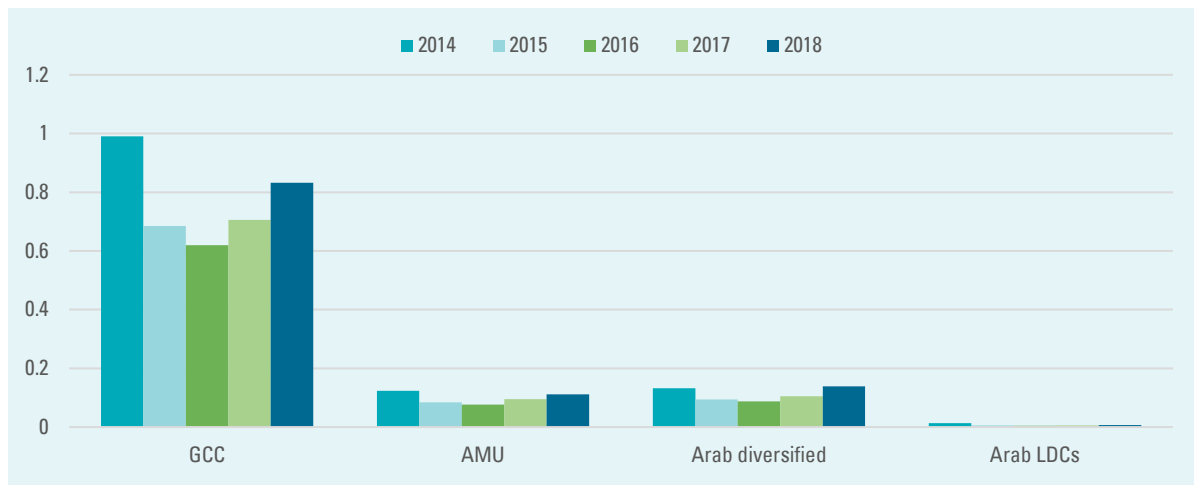
The strong global recovery boosted most regions' trade, but Arab regions lagged behind. Import and export levels of most regions returned to their pre-2015-2016 downturn levels. But, in 2018, exports and imports of the Arab region, in value, were still respectively 13.4 per cent and 8.2 per cent lower than their 2014 level (figure 6 and figure A2.2). The same patterns apply at the subregional and country levels with very few exceptions.⁵ In 2018, the exports in value of the GCC, the AMU, and Arab LDCs were still respectively 16, 9 and 49 per cent lower than their 2014 level and imports had been reduced by 9, 11 and 22 per cent respectively (figure 7 and figure A2.2).⁶

Figure 6. Exports, world main regions, trillion dollars, 2014-2018



Source: COMTRADE, ESCWA calculations for the AEMESI.

Figure 7. Exports, Arab main groupings, trillion dollars, 2014-2018

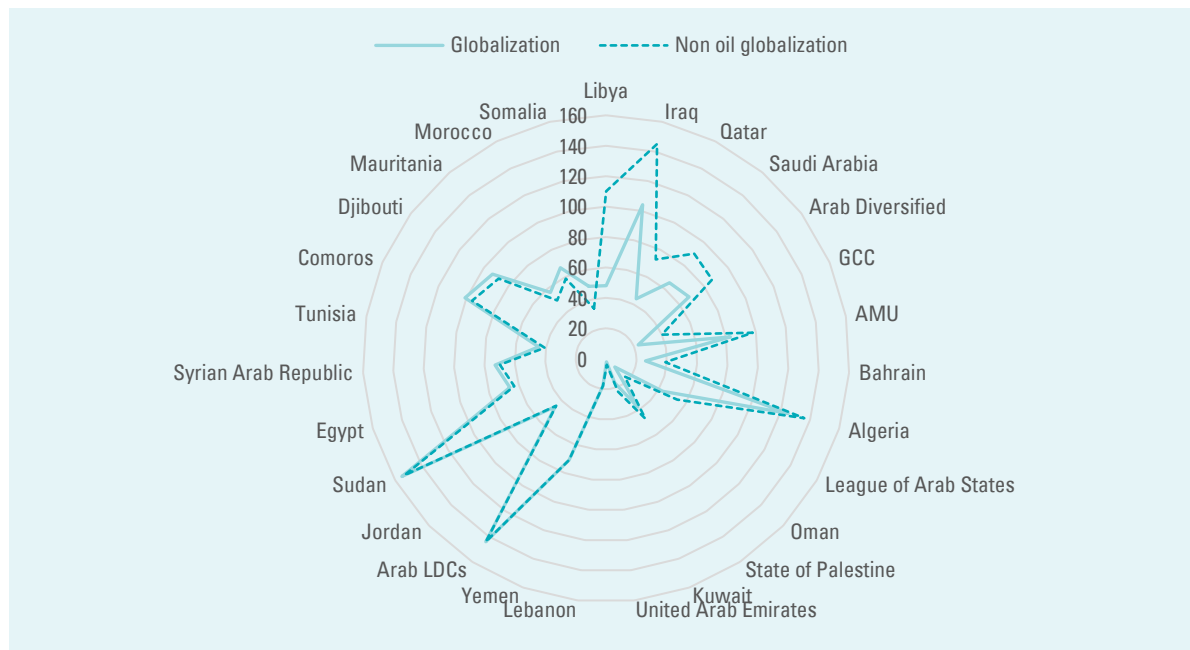


Source: COMTRADE. ESCWA calculations for the AEMESI.

In Arab resource-rich countries, oil-fueled economic integration in the global economy illustrates higher instability while countries have little control over changes in the oil market. Comparing oil-fueled integration with non-oil integration in 2018 shows that Libya, Iraq, Qatar, Saudi Arabia, Bahrain and Algeria lost between 62 to 11 spots when oil trade was excluded. Expectedly, on the non-oil

globalization ranking, many of these countries display a very low level of globalization compared to the most economically integrated country (figure 8). Interestingly, the vast majority of Arab countries and other countries in the sample performances were only very marginally affected and no major reshuffling was triggered by the elimination of oil trade from the ranking computation.

Figure 8. Comparison globalization with and without oil revenues, 2018



Source: COMTRADE, WEO, UN-Stat, UNCTAD, World Bank, ITC databases, ESCWA calculations for the AEMESI.

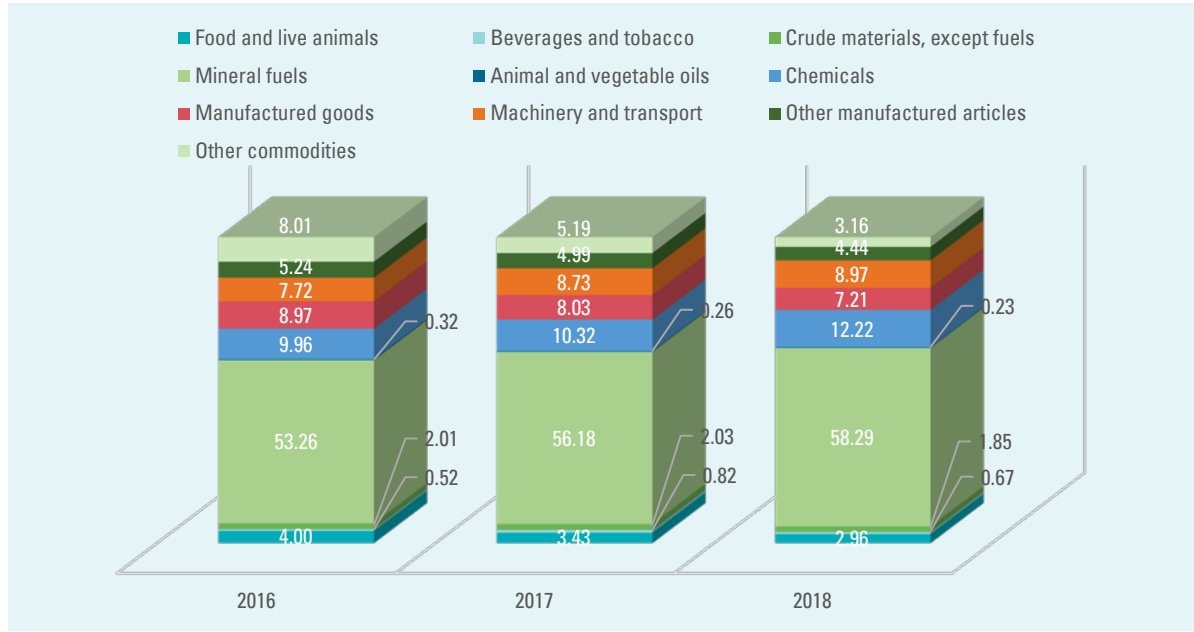
Note: The further away from the center the lower in the ranking.

Arab regions' globalization outcomes largely reflect a combination of nominal effects from commodity price fluctuations and the appreciation of the American dollar and real effects from oil production cuts. The goods most exported by Arab economies are oil (Algeria, Egypt, the GCC countries, Iraq, Libya and Yemen), agricultural products (Arab LDCs, Morocco, Tunisia and Syrian Arab Republic) or phosphates and other chemicals (Jordan, Morocco) (figure 9 and figure A2.3).⁷ Commodity transactions are usually libeled in American dollars and their prices are rather volatile, hence the vast exposure of Arab countries to nominal effects. In 2015, the discrepancy between countries' trade performances in volume and value was essentially due to the strong appreciation of the American dollar and falling commodity prices.

However, over the period 2016-2018, the dollar stabilized while commodity prices increased and the terms of trade of the GCC countries, Algeria, Libya, Iraq, Sudan and Yemen improved greatly (figure 10 and figure A2.4).

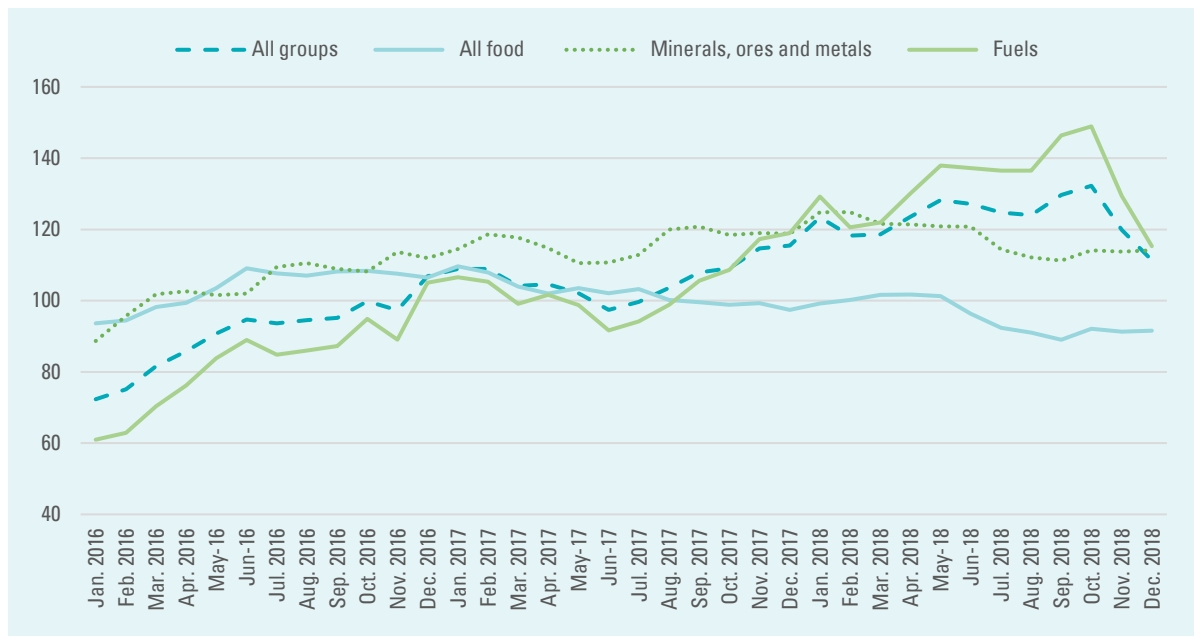
Oil-importing and/or agriculture-exporting countries, on the other hand, suffered from a price effect. Food prices have fallen 20 per cent between mid-2016 and December 2018. Terms of trade for Jordan and Lebanon lost 40 per cent over the period, Morocco decreased by 30 per cent and the decrease ranged from 10 to 15 per cent for Djibouti, the Comoros, Egypt and Tunisia. In the coming year, the evolution of food prices should boost agri-food exporting Arab countries economic integration as, in January 2020, food prices had regained what they had lost.

Figure 9. Exports by category of products, League of Arab States, 2016-2018



Source: COMTRADE, ESCWA calculations for the AEMESI.

Figure 10. Commodity prices index, January 2016 – December 2018



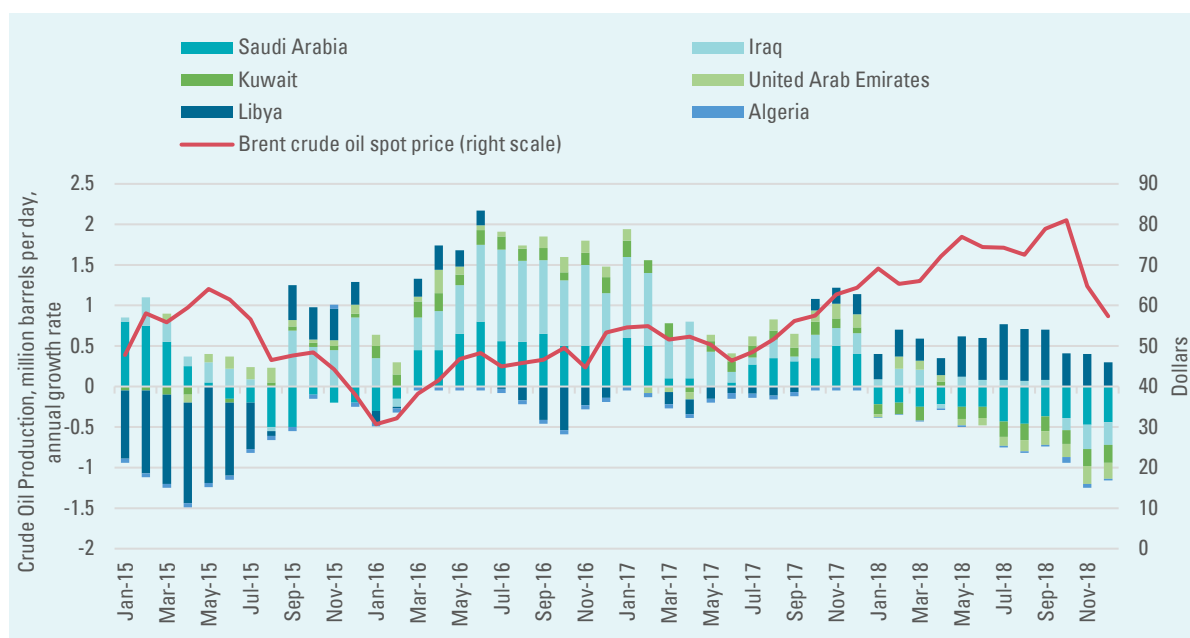
Source: IMF, ESCWA calculations for the AEMESI.

However, starting in 2016, OPEC and non-OPEC countries entered a deal to cut oil production to support the market after oil prices plummeted from mid-2014 through 2016 to reach the near bottom of its worst price plunge since the 2008 financial crisis, ratcheting up pressure on fiscal budgets. This policy translated into lower ranks for some GCC and oil-exporting Arab countries, particularly Saudi Arabia, which made tremendous efforts to support the market by reducing supply (figure 11). Crude oil prices rose notably in December 2016 following OPEC's meeting to coordinate production cuts on 30 November. However, the annual increase in commodity prices receded, as crude oil prices declined cumulatively by 15.7 per cent between March and June 2017. The deal was hence renewed. As a result, Saudi Arabia's total trade as a percentage of GDP, which counted for more than 70 per cent of GDP from 2011 to 2014 on average, fell to 56 per cent in 2018. Non-oil trade

remained stable at around 30 per cent of GDP. Other GCC and oil-exporting countries committed to cut less and benefited from the firming up of international commodity prices in 2017 and early 2018.

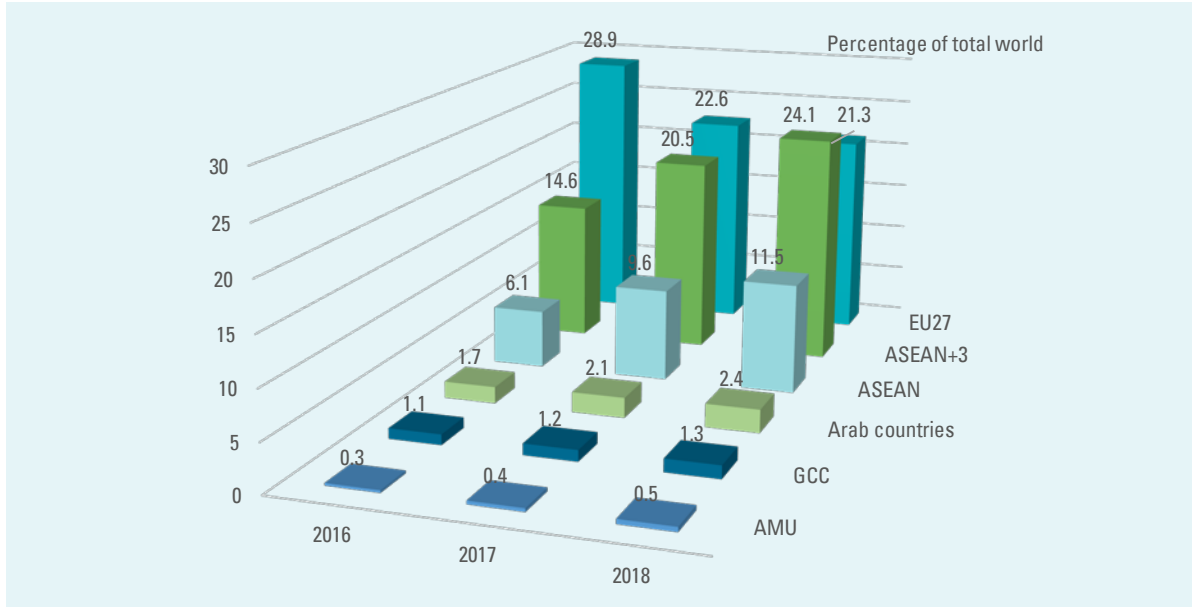
The insufficient performances of Arab countries in terms of trade from 2016 to 2018 also affected their attractiveness to foreign investment. Arab countries' share in total world FDI inflows remained low and increased only marginally compare to benchmark regions as the total amount of FDI available worldwide, that was initially amounting around \$2 billion, shrank by 22 per cent in 2017, and 13 per cent in 2018 (figure 12). Arab countries have been falling behind in terms of generating trade flows and capturing wealth available worldwide under the format of FDI which usually comes with greater innovation, economic diversification and competitiveness.

Figure 11. Arab countries' oil production cuts and Brent oil price, January 2015 – December 2018



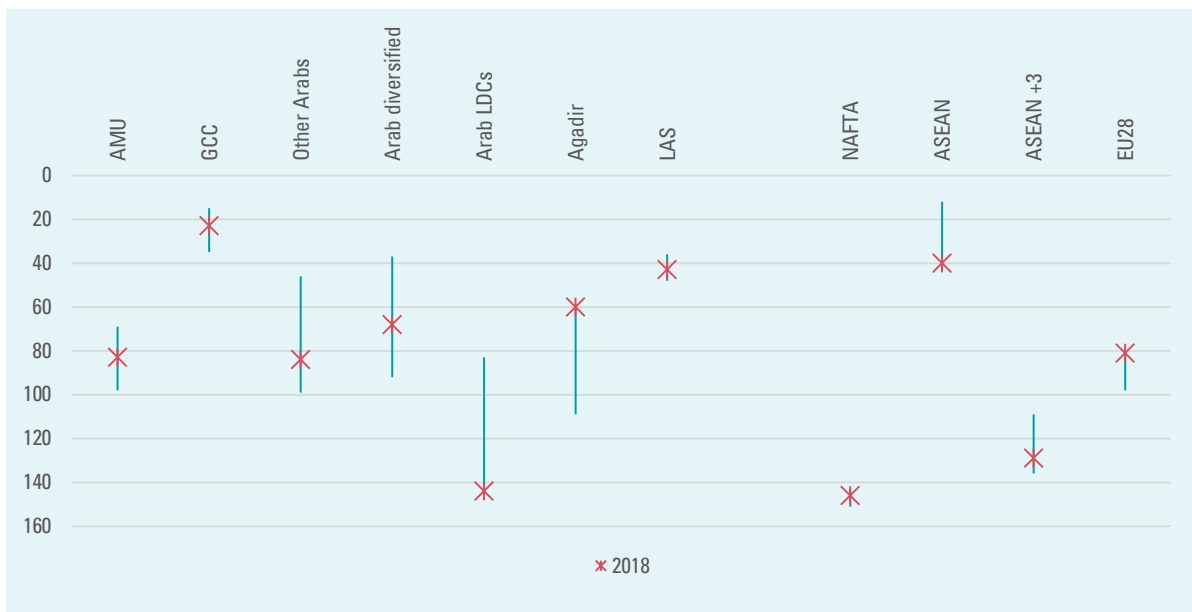
Sources: International Energy Association (IEA), ESCWA calculations for the AEMESI.

Figure 12. FDI inflows to Arab regions and benchmarks, share in total world (Percentage)



Sources: International Monetary Fund, International Financial Statistics and Balance of Payments databases, ESCWA calculations for the AEMESI.

Figure 13. Comparison of Arab subregions and benchmarks globalization performances in 2018 relative to the trend



Source: ESCWA calculations for the AEMESI.

Note: For each region/subregion, maximum (upper line) and minimum (lower line) levels of globalization reached from 1999 to 2015 mark the end and beginning of the vertical line or the rank's confidence interval.

The difficulties of Arab regions to catch up with best performers is further highlighted by comparing globalization rankings which combine these two factors with workers' remittances inflows in 2018⁸ with the best and worst performances achieved by Arab regions in the past (1999-2015).⁹ The straight vertical line in figure 13 illustrates the distance between the highest and lowest rank reached by Arab regions and regional benchmarks. In the figure, ranks for 2018 are displayed. The GCC and AMU performances are in line with long-term averages, while Arab LDCs fell short of their previous records. The ranking for the group of diversified Arab countries is also slightly below the average: that is in 2018, no Arab region has been capable of emulating what had been achieved in the past. Turning to the country-level, the same conclusion applies with a few exceptions, namely Egypt and the United Arab Emirates, and eventually Morocco, which will be addressed below. Despite a favorable international context, the Arab region has not fared especially well compare to the past.

The above analyses illustrate the fact that the top performers on the globalization ranking are countries that have achieved (a) high economic diversification levels and do not rely primarily on oil trade, (b) have integrated into global markets through a relatively larger number of channels, whether these be trade, FDI or workers' remittances, and (c) have comparatively built deeper relationships with their partners along those various channels.

Among Arab countries, this was typically the case for the United Arab Emirates, which ranked fourth on the globalization ranking and seventeenth on the non-oil globalization ranking, which remains quite a performance. It is a conjunction of factors that help the country to maintain itself in the top twenty, whether oil is accounted for or not: different types of ties, strong on various fronts,

trade even when economically dependent on the oil sector. These elements also bring insights about the model of economic integration adopted by the country that has been able to capture large parts of additional financial resources. The United Arab Emirates absorbed 0.8 per cent of world FDI flows in 2018, which compares to Japan (0.76 per cent) and South Korea (1.12 per cent) and contributed 1.0 per cent of FDI to the world in 2017, against 0.5 per cent for Saudi Arabia.

Arab countries' globalization performances in 2016-2018 prove that, firstly, despite the global trade slowdown, opportunities still exist for the region to further its globalization level. Secondly, concerted efforts and cooperation are crucial to success and were very effective in supporting oil prices and prevented the plummeting of an essential source of income, not only for Arab oil-exporting countries but also for other Arab countries which benefit indirectly through intraregional investment and workers' remittances.¹⁰ Thirdly, the global trade slowdown is now the "new normal" of globalization. Arab countries will have to look for new ways to insert themselves in international markets. In the coming years, it is going to be all the more crucial for Arab economies to insert themselves in global value chains and strengthen inter- and intraregional economic ties as multilateralism is increasingly questioned.

B. Arab countries' economic integration: the interregional dynamic

This section looks at economic linkages between Arab countries and subregions with key non-Arab partners with a view to understand changes in bilateral economic integration dynamics and patterns and likely impact on Arab economic activity. The selected partners account for more than 85 per cent of the total additional financial

inflows Arab subregions and countries receive from the world, through exports and foreign direct investments and workers' remittances inflows.¹¹ Subregions/countries are paired and have been ranked based on the strength of their economic ties as measured by ESCWA's regional dependency index (table 1).

On the ranking evaluating economic integration levels between individual Arab countries and selected key Arab and non-Arab partners, in 2018, 75 per cent of the top 40 spots were held by non-Arab partners (figure A2.5). Over the period under review, the European Union confirmed its leading position as a key economic partner. The same applies to the United States. By contrast, China and, to some extent, the ASEAN countries of Japan, Korea and India, have been gaining importance as a pillar of economic activity between 2016 and 2018. This may be partly but not entirely attributable to the economic crisis in Europe that depressed trade and investment over the last ten years while the Chinese economy was growing at around 7 per cent a year and the ASEAN economy at 5 per cent per year on average between 2011 and 2018. The GCC economic integration efforts have been shifting eastward and the group of Arab diversified countries has followed suit.

In 2018, FDI inflows to Arab countries weakened, after having increased in 2017 when the global economy was recovering, with the exception of Morocco and Tunisia, Djibouti and Oman (figure 14). Djibouti benefited from Chinese investments as the country is upgrading and building infrastructures and is successfully turning itself into a regional trade hub. Upon the most recent estimations, European greenfield FDI inflows to Morocco and Tunisia could be as high as 60.7 and 85.3 per cent of the total, against 58.7 and 76.4 per cent in 2016. Although more recent data would be useful to monitor recent process

and achievements, trends show that the countries have been able to successfully insert themselves in European value chains, particularly Morocco (figure 15, AAEIR, 2018). These achievements demonstrate that there is still room for Arab countries to insert themselves successfully in GVCs. They do not have to fall victim of the maturation of the production fragmentation process that is slowing down global economic growth which pertains essentially to the state of the economic relationships between the United States, Europe and China.

A look at the drivers highlights differences in integration models across foreign partners. All Arab regions and countries have been slightly increasing their openness to the rest of the world through trade and FDI. The region is also benefitting from large amounts of workers' remittances. Although worker remittances help alleviate poverty and may be channeled to more demand-driven development needs in some cases, exports and FDI are traditionally expected to bring greater, faster and eventually cumulative development gains.

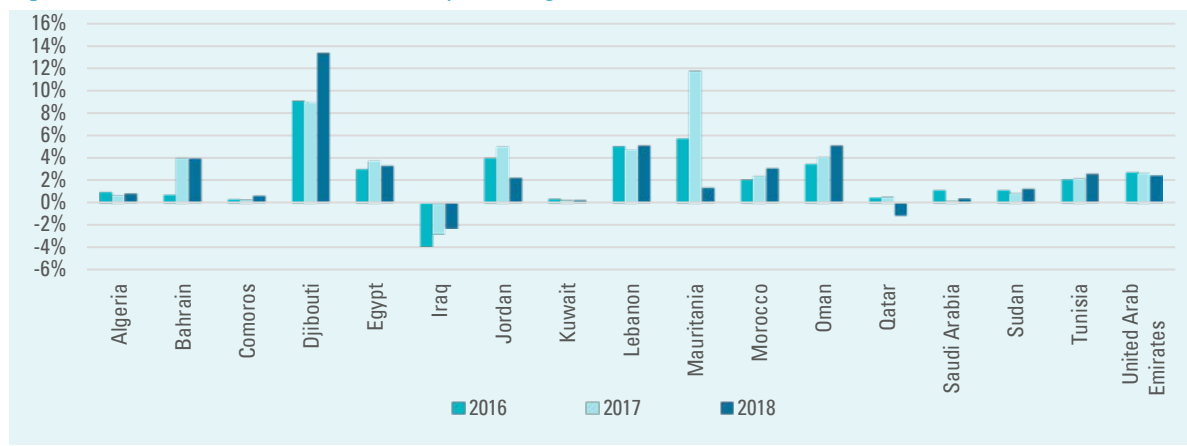
A subregional analysis of economic integration dynamics between Arab regions/countries and key partners showed that a mix of resource-rich and diversified Arab countries have developed strong economic ties with Europe: Tunisia, Libya, Morocco, Egypt, Algeria, Oman and the Comoros. Interestingly, diversified countries were predominant in the upper part of the interregional economic dependency ranking for 2018. These ties were sustained through exports, but also through FDI when the partner was resource-rich or diversified, and by remittances when it was least developed. In particular, Morocco managed to weather the slowing of European investment by successfully inserting itself into automotive value chains. This is an example of the way forward for Arab countries.

Table 1. Regional economic integration: Arab countries and selected regions, 2018

Sender (across) based on sum of scores Dependency total Recipient (below)	Arab Maghreb Union	Gulf Cooperation Council	Other Arabs	Arab diversified	Arab LDCs	League of Arab States	Agadir	EU	ASEAN	United States	Turkey	China	India	Japan	Korea, Republic of	rest of the world
Algeria	332	400	270	361	307	226	244	37	291	190	222	463	264	429	456	95
Libya	382	300	174	180	407	149	181	20	167	185	285	97	347	439	312	52
Mauritania	329	298	424	428	443	250	323	139	346	404	341	55	401	201	313	19
Morocco	337	172	297	338	377	144	365	21	330	216	316	372	243	389	379	67
Tunisia	158	246	335	340	434	127	272	8	375	235	322	349	369	406	412	111
Arab Maghreb Union	245	150	254	290	343	112	221	11	267	194	253	248	263	391	376	57
Bahrain	198	16	207	219	388	10	256	98	147	143	281	204	464	133	258	70
Kuwait	419	178	176	182	408	120	208	107	101	213	395	62	100	116	82	13
Oman	420	48	169	261	202	38	387	44	166	282	427	28	108	193	153	9
Qatar	318	238	280	287	414	184	327	265	102	274	348	124	117	90	88	18
Saudi Arabia	383	179	211	230	356	134	236	130	138	145	342	113	146	132	151	25
United Arab Emirates	294	69	89	99	237	35	205	85	83	121	217	110	73	79	163	5
Gulf Cooperation Council	203	34	165	188	304	27	331	29	106	109	266	91	156	103	140	17
Comoros	268	368	363	363	456	223	354	64	321	396	393	456	339	456	433	177
Djibouti	352	218	240	326	279	162	325	189	399	232	448	445	358	437	436	105
Somalia	456	78	384	385	455	74	385	157	370	392	288	456	231	210	456	86
Sudan	446	175	309	311	426	159	320	371	418	435	413	249	381	450	449	215
Yemen	398	59	214	234	344	51	239	319	247	324	447	173	362	380	351	129
Arab LDCs	233	58	242	251	402	49	257	61	355	314	415	200	373	411	410	119
Egypt	277	60	183	199	310	45	229	32	353	114	260	269	278	315	378	196
Iraq	422	359	283	284	453	255	308	93	228	126	289	75	77	302	142	22
Jordan	301	65	148	160	333	47	317	275	286	128	366	295	212	409	405	63
Lebanon	334	115	220	225	416	94	299	122	431	186	336	374	430	441	403	87
State of Palestine	252	161	80	81	440	56	104	397	425	367	423	452	454	451	444	137
Syrian Arab Republic	293	136	53	54	394	36	191	390	442	350	206	421	417	438	432	171
Arab Diversified	197	23	43	46	357	7	76	26	271	66	187	135	141	292	209	33
League of Arab States	118	3	39	40	303	1	71	2	131	50	170	92	195	125	164	14
Agadir	241	30	154	168	328	24	227	6	305	96	273	262	259	306	345	84

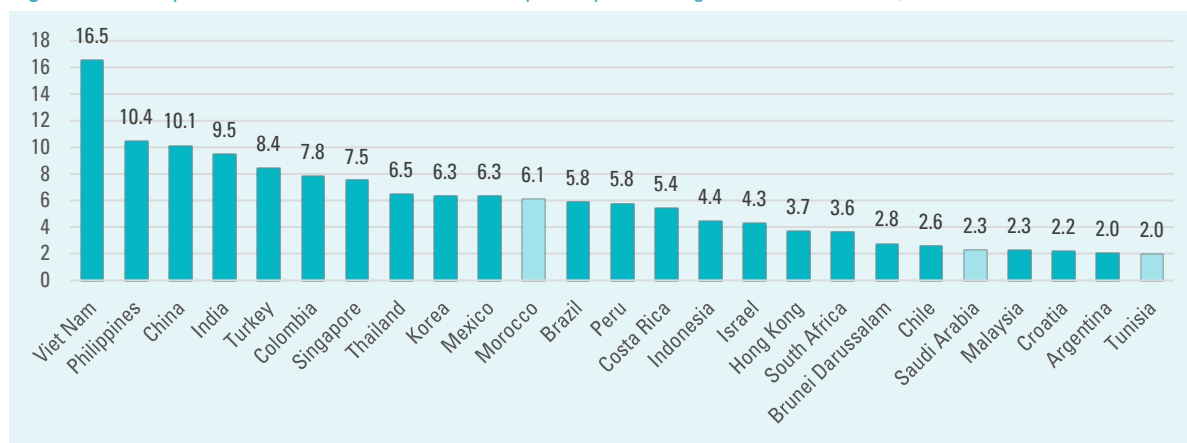
Source: ESCWA calculations for the AEMESI.

Figure 14. FDI inflows to Arab countries, percentage of GDP, 2016-2018



Source: UNCTAD, UN Stat, and ESCWA calculations for the AEMESI.

Figure 15. Compound rate of selected countries participation to global value chains, 2005-2015



Source: OECD, Trade in Value-Added database, ESCWA calculations for the AEMESI.

In contrast, Arab economic integration with countries from Asia – that is, ASEAN countries of China, Japan, Korea and India – essentially involves Arab resource-rich countries, is mostly driven by trade of commodities and builds on exports not complemented by investment. Greenfield investments are scarce and remittances absent, hence an expected impact on Arab countries' economic activity no less important or exempt from vulnerabilities, but certainly less propitious to enhancing domestic

investment, innovation, technology transfer and growth.

The GCC appears equally important as an integration hub, in particular for diversified Arab countries and Arab LDCs, which came in fourth and eleventh respectively. The channels of economic integration with the European Union are more diversified than with the GCC, as in the former case, exports, investment and remittances all played a role, while in the latter, investment

and remittances were the primary drivers. The United States has been contributing to the economic development of diversified Arab countries and the GCC, but to a much lesser extent than the European Union or the GCC as a partner, and mainly through investment. As a result of the intensification of their trade ties with Arab subregions, China, India and ASEAN are slowly climbing up the rankings.

Because of the nature of the economic ties developed by Arab countries with non-Arab partners, the ongoing trade wars and breakdown of value chains due to COVID-19 will create new opportunities for Arab countries to participate in GVCs. Before he was elected President, Donald Trump had been frequently advocated tariffs to reduce the American trade deficit and promote domestic manufacturing. He also accused China of currency manipulation and unfair trade practices. After he came to power, he initiated trade wars, starting in January 2018, when he announced tariffs on solar panels and washing machines. Afterwards, many more countries were dragged into the war, including European countries. In 2018, Arab countries' economic integration at the interregional level has been affected indirectly through trade policies uncertainties that had been mounting since 2017 with a negative bearing on investment and economic growth in partner countries.

In the coming years, Arab countries' economic integration performances will further be negatively affected mainly through (a) lower oil prices affecting oil-exporting countries; (b) changes in market access to global markets; and (c) currency manipulation by China and potentially other countries to increase competitiveness and offset the effects of higher tariffs. But, diminishing American imports from China, the European Union and other partners would give opportunities to some Arab

countries, mainly non-oil countries to boost their exports and benefit from trade diversion.

Indexes of economic integration performances cannot be calculated for 2019 and 2020 in the absence of data for trade, FDI and workers' remittances, but an ESCWA study offers preliminary insights and shows an overall loss at the global level in terms of real growth and trade volume is to be expected as well as real losses in gross domestic product for most Arab countries. At the country level, oil-exporting countries, except Bahrain, will lose most in terms of growth and exports; while Egypt, Jordan and Morocco GDP growth and total exports will rise (ESCWA, 2019d).

C. Arab economic integration: the intra-Arab lens

This section investigates the patterns of intra-Arab economic integration in 2016-2018 and the major changes, challenges and opportunities. The magnitude of the flows monitored in this section account for 14.9 per cent of Arab imports and 15.9 per cent of exports in 2018, against 13.2 per cent and 17.3 per cent respectively in 2016. Intra-AMU trade, which stagnated over the period under review, represents 2.4 per cent of the total and while intra-GCC trade, which accounts for 15.5 per cent of the total in 2018, gained 1.5 per cent since 2016. Intra-Arab workers' remittances flows represent 25 per cent of total outflows. Whatever the angle from which it is analysed, intra-Arab economic integration remains negligible and has not improved despite a favorable global context.

On the ranking of bilateral intra-Arab countries' dependency, this analysis considered the top 40 pairings. However, it must be kept in mind that quite a large difference exists in the levels of

bilateral flows achieved by the countries in the top 40. For the countries ranked in the top 20, the total of the three selected flows accounts for 5 to 13 per cent of GDP, and for the countries ranked from 21 to 40, for 1 to 5 per cent of GDP. Evening out differences between the size of exports, FDI and workers' remittances as ratios to GDP and considering that none of these flows is more important than another in fuelling economic and human development, a high score on the FDI ranking may compensate for a low score on the exports ranking and vice versa. The rankings are provided in table 2 below (table A2.2 provides rankings by driver).

The patterns of intra-Arab economic integration did not evolve markedly between 2016 and 2018. A horizontal reading of table 2 emphasizes intraregional and intra-institutional, or geographic block, dynamics. No economy among the AMU or Arab LDCs asserted itself as a leader of economic integration within the region or its own subregion over 2016-2018. Tunisia had previously been able to play such a role within the AMU, but this was no longer true in 2016-2018. Intra-AMU economic integration in relative terms has been weakening over the period. AMU countries have been developing and strengthening ties with partners from Africa through the African Continental Free Trade Agreement (AfCFTA) and from Europe after economic growth resumed. Between 2016 and 2018, diversified Arab economies became increasingly dependent on the GCC countries to fuel their economic activity, intra-group economic linkages being relatively laxer than with the GCC, with the exception of Egypt and Jordan. The two countries have been able to considerably diversify their intraregional partners and type of income. Jordan's intraregional integration performances relied essentially on remittance inflows, mostly from the Gulf and the State of Palestine. Egypt's economic integration

was driven by important intraregional remittance flows but also by inward investment flows that proved comparatively sustained in 2017. The GCC remained a key contributor to regional Arab integration, although it was hampered by a reduction of available investment and worker remittances and weakening trade ties.¹²

Within the Arab region, Saudi Arabia and the United Arab Emirates confirmed their role as economic integration hub (table 2 and table A2.3). Saudi Arabia integrates with its neighbours by providing workers' remittances to diversified countries such as Jordan, Egypt, Lebanon and the State of Palestine and two conflict-affected countries, the Syrian Arab Republic and Yemen. Exports are the main channel of integration with Arab LDCs of Somalia and Djibouti. When it comes to the pattern of Saudi Arabia's economic integration with GCC countries, especially Bahrain and Oman, exports and investments have been going hand in hand. However, contrary to previous assessment cycles, Saudi Arabia is much less present as a provider of foreign financial resources to the Arab region through investment and export. All Arab countries have suffered to varying degrees from the relative drying out of Saudi greenfield investments in the region. However, Saudi Arabia continues to confirm its key role as a remittance provider for Arab LDCs, but most remarkably for diversified Arab economies.

The United Arab Emirates was listed in the 2018 top 40 on the bilateral dependency ranking as often as Saudi Arabia. Similarly, the country had close ties with its neighbours, Bahrain and Oman, but looser ties with Saudi Arabia and Kuwait. The United Arab Emirates' intraregional economic integration patterns rely heavily on exports and FDI. As was the case with Saudi Arabia, as the country's patterns reflected the same as the United Arab Emirates within the GCC region.

Table 2. Intra-Arab economic integration patterns, 2018

Sender (across) \ Recipient (below)	Algeria	Libya	Mauritania	Morocco	Tunisia	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates	Egypt	Iraq	Jordan	Lebanon	State of Palestine	Syrian Arab Republic	Comoros	Djibouti	Somalia	Sudan	Yemen
Algeria	399	260	245	100	78	384	380	383	294	339	171	137	392	224	248	399	290	399	398	394	397	373
Libya	243	399	368	151	189	399	378	279	367	257	75	26	399	393	125	399	399	399	399	399	332	388
Mauritania	333	301	399	70	288	361	364	377	390	254	73	269	399	365	277	399	399	399	399	399	399	399
Morocco	160	182	147	399	150	203	169	258	86	50	27	183	251	208	127	326	209	335	234	374	229	308
Tunisia	47	44	215	71	399	296	142	240	74	121	94	152	221	199	219	300	181	350	337	358	295	313
Bahrain	141	28	315	101	191	399	3	59	62	5	1	51	58	484	168	353	238	233	348	349	276	200
Kuwait	272	354	376	241	267	175	399	188	110	88	36	32	67	194	140	360	352	395	307	375	211	291
Oman	281	242	381	299	310	60	57	399	18	25	10	173	64	198	231	217	303	338	131	123	186	48
Qatar	97	205	342	237	273	218	144	102	399	351	68	117	201	176	222	109	341	311	247	317	270	355
Saudi Arabia	220	253	336	166	232	81	122	157	345	399	33	69	155	92	192	265	298	372	230	293	178	167
United Arab Emirates	146	197	177	112	196	84	49	17	114	20	399	54	14	115	136	278	190	252	162	107	113	119
Egypt	116	128	287	133	139	72	22	124	37	8	13	399	161	34	53	165	185	366	259	226	138	163
Iraq	304	244	387	249	379	385	363	266	271	321	130	91	399	154	195	399	118	399	399	399	396	316
Jordan	111	90	344	210	216	95	35	106	40	6	16	87	41	399	105	43	164	399	331	312	129	170
Lebanon	159	99	285	207	255	174	104	204	77	12	29	98	108	134	399	184	89	362	314	356	256	263
State of Palestine	103	31	334	309	359	223	145	343	143	15	66	80	180	4	23	399	46	399	399	399	369	250
Syrian Arab Republic	93	132	346	206	275	225	56	282	158	11	76	65	7	24	21	261	399	389	347	370	214	179
Comoros	120	42	399	235	399	236	399	399	268	202	156	83	399	327	399	399	399	399	399	399	399	399
Djibouti	172	85	399	386	319	302	318	274	399	39	193	82	399	328	329	399	399	371	399	399	399	63
Somalia	399	399	399	399	399	399	187	399	79	9	399	148	399	399	399	399	399	399	399	399	399	399
Sudan	322	330	391	320	286	305	264	324	227	61	30	96	340	228	246	399	262	399	297	325	399	280
Yemen	213	135	382	292	306	126	55	38	52	2	19	45	212	239	283	289	323	357	153	149	284	399

Source: ESCWA calculations for the AEMESI.

Note: The table maps the relative importance of selected partners for Arab countries. Scores were calculated using bilateral dependency scores. Bilateral relationships were then ranked. For ease of reading, a color code was used: the darker the shade of the cell, the closer the economic relationship between the Arab regions/countries (in row) and its partner (in column).

Table 3. Qatar top 10 intra-Arab trade exports destination before and after the blockade

Top 10 trading partners in 2016, before the blockade, and change in their share in Qatar total exports after the blockade			Top 10 trading partners in 2018, after the blockade in comparison to their share in 2016, prior to the blockade		
	2016	2017		2016	2018
United Arab Emirates	46.5	20.6	Algeria	1.3	20.6
Egypt	23.9	15.1	United Arab Emirates	46.5	20.6
Saudi Arabia	7.9	0.1	Oman	4.1	19.1
Kuwait	5.5	9.6	Egypt	23.9	15.1
Oman	4.1	19.1	Kuwait	5.5	9.6
Jordan	3.7	3.8	Jordan	3.7	3.8
Bahrain	2.9	2.1	Iraq	1.5	2.6
Iraq	1.5	2.6	Bahrain	2.9	2.1
Algeria	1.3	20.6	Lebanon	0.4	1.5
Morocco	1.1	1.5	Morocco	1.1	1.5

Source: COMTRADE and ESCWA calculations for the AEMESI.

However, Saudi Arabia and the United Arab Emirates' momentum had been weakened compared to the previous assessment period from 2014 to 2016, due to several reasons. Firstly, mounting political risk weighed on the regional economy: the imposition of the embargo on Qatar and the continuation of the war in Yemen. The diplomatic crisis that led to the blockade of Qatar in June 2017, when Saudi Arabia, the United Arab Emirates, Bahrain, Egypt, Mauritania, Djibouti, the Comoros, Jordan, the Tobruk-based Libyan Government, and the Hadi-led Yemeni Government banned Qatari airplanes and ships from using their airspace and sea routes along with Saudi Arabia blocking the only land crossing. With roughly 80 per cent of the country's food supply coming from the GCC countries and most imports from outside crossing the now-closed border with

Saudi Arabia, Qatar started importing food and water supplies from Iran and Turkey. The country was also capable of maintaining its exports of energy to the United Arab Emirates and Oman through the Dolphin Energy pipeline. In the end, Qatar's trade relationship with non-Arab partners and structure of its global exports was only marginally affected, while its exports to the Arab regions were sizably reshuffled (table 3).

The Yemeni Civil War originated in the difficulties that emerged in the aftermath of the upheavals that led to the ousting of the then President, Ali Abdullah Saleh, to hand over power to his deputy, Mansour Hadi, in 2011. Conflicts started in 2015 and escalated in 2016. The conflict is widely considered to be an extension by proxy of the Iran–Saudi Arabia

conflict. In terms of economic integration, between 2016 and 2018, workers' remittances remained stable and have become an important source of foreign exchange inflows after FDI evaporated in 2011. In the most recent estimates, inflows of workers' remittances to Yemen amounted to around \$3 billion in 2016 and have not abated since. Around \$2 billion were sent from Saudi Arabia and \$0.5 billion from the United Arab Emirates. The remaining

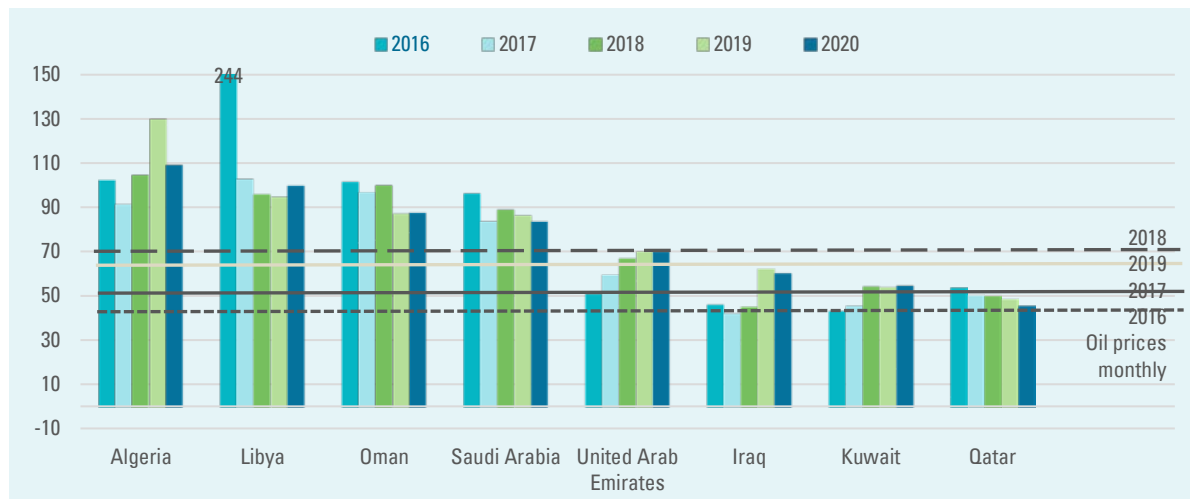
\$0.8 billion comes from Qatar, Kuwait, Bahrain, Libya, Algeria and Morocco. As a consequence of the conflict, Yemeni exports to the GCC countries plummeted by 9 per cent between 2016 and 2018. The Arab region still absorbs 47 per cent of Yemen exports. However, China, Thailand, Korea have gained market shares positioning the ASEAN+3 as the second most important destination of Yemeni exports (table 4).

Table 4. Yemen's top 10 trading partners, exports, 2016, 2018 and share variation

	Top trading partners in 2016	Share in 2018	Change 2016-2018 (Percentage points)		Top trading partners in 2018	Change 2016-2018 (Percentage points)
League of Arab States	56.7	46.9	-9.8	League of Arab States	46.9	-9.8
GCC	48.2	39.0	-9.1	ASEAN+3	41.0	7.6
Oman	20.4	18.6	-1.9	GCC	39.0	-9.1
United Arab Emirates	19.8	13.6	-6.2	China	25.0	5.6
Saudi Arabia	7.1	6.3	-0.8	Oman	18.6	-1.9
Egypt	2.7	3.7	1.0	United Arab Emirates	13.6	-6.2
Djibouti	3.1	2.0	-1.1	ASEAN	8.7	1.9
ASEAN+3	33.4	41.0	7.6	Thailand	6.7	2.3
China	19.4	25.0	5.6	Saudi Arabia	6.3	-0.8
Korea	5.3	5.5	0.2	Korea	5.5	0.2
Thailand	4.4	6.7	2.3	Egypt	3.7	1.0
Japan	1.9	1.8	-0.1	Belarus	2.9	2.6
Malaysia	1.5	1.3	-0.2	India	2.8	1.1
EU27	2.3	2.0	-0.3	Djibouti	2.0	-1.1
India	1.6	2.8	1.1	EU27	2.0	-0.3

Source: COMTRADE and ESCWA calculations for the AEMESI.

Figure 16. Arab oil-exporting countries' fiscal break-even point, 2016-2020



Source: Federal Reserve Bank of Saint Louis (2020), ESCWA calculations for the AEMESI.

Secondly, although initially hopes were high that 2017 would be a turning point for oil-exporting countries as the OPEC-led production cut strategy was starting to bear fruit and rebalance the market, the economic growth and fiscal balance-enhancing impacts were weaker than anticipated. This limited the possibility for Saudi Arabia and the United Arab Emirates, the two largest economies in the region and the ones fuelling the intra-Arab economic integration process, to further expand imports or investment abroad. In this regard, Saudi Arabia, which applied very sizable production cuts, was especially concerned as, despite all the exerted efforts, oil prices have remained below the fiscal break-even point of Saudi Arabia, but also of Algeria, Libya and Oman, and no improvements should be expected in 2019 or 2020 (figure 16).

The negative bearing the situation had on Saudi Arabia and many other GCC countries' economic activity and capacity to invest in their Arab partners, import from them and generate

flows of income through workers' remittances to their benefit in 2016-2018 was expected to continue to apply over 2019 and 2020 as oil prices were expected to remain below Saudi Arabia, the United Arab Emirates but also Algeria and Libya's fiscal break-even points (figure 16). Hence, a weakening of intra-Arab economic integration was to be expected. It is in this context that the COVID-19 pandemic erupted and Russia and Saudi Arabia entered an oil price war whose consequence was a sharp fall in oil prices from around \$55 per barrel mid-February 2020 to \$20-\$30 barrel by early March. The humanitarian and socioeconomic impact of this major crisis is yet to be fully felt. However, preliminary insights from a study done by ESCWA shows that in 2020 the Arab region will lose at least \$42 billion and 1.7 million jobs to due to the pandemic alone, in addition to \$28 billion in exports due to slowing trade flows (ESCWA, 2020). However, the human and economic toll could be made much worse due to a further global economic slowdown and falling oil prices.

D. Conclusion

During the period under review, the global economy was subject to great volatility and unexpected downturns. The year 2016 was challenging for the global economy. It started with fresh concerns about the extent of China's economic slowdown and continued with mounting populism and discontent with globalization fuelled by stagnating living standards and increasing economic insecurity, the refugee crisis in Europe, the referendum on Brexit and the war against Daesh. However, economic growth in America was self-sustained, Europe was at the dawn of a new economic growth cycle and China managed a soft landing. After having lost 13.5 per cent in 2015 and another 3.2 per cent in 2016, world trade in value terms expanded by more than 10 per cent a year in 2017 and 2018.

The recovery was supposed to accelerate at least over a couple of years providing the right policies were adopted. Higher investment and employment creation and greater confidence from the business sector and consumers were supposed to help maintain the momentum. However, starting mid-2018, the recovery was increasingly threatened by tighter monetary policy, increased financial volatility and most notably the escalation of trade tensions. On a year-on-year basis, growth in world trade in volume fell from 3.9 per cent in the first half of 2018 to 2.7 per cent in the second half of the year. The slowdown became more acute towards the end of the year, as quarter-on-quarter growth decreased from 1.2 per cent in the third quarter to 0.3 per cent in the fourth quarter. In turn, output growth weakened in major economies. In the end, real GDP growth for 2018 was 3 per cent and the trade content of GDP growth was back to 1.

In 2016-2018, Arab countries did not significantly improve their economic integration

performances or close the gap with most globalized countries. However, economic integration achievements with key partners show striking differences in patterns and contribution to the expansion of income and employment and ability, through transfers of technology and knowledge-sharing to strengthen the private sector's activities and provide additional resources to fuel Arab countries' development.

This is the context that the trade war between the United States and China erupted in mid-2018, into which many more countries were to be dragged, including European countries. In 2018, Arab countries' economic integration performances were affected indirectly through trade policy uncertainties that had been mounting since 2017 with a negative bearing on investment and economic growth in partner countries. Economic integration indexes used to evaluate Arab countries performances cannot be calculated for 2019 and 2020 in the absence of data for trade, FDI and workers' remittances but an ESCWA study offers preliminary insights and shows an overall loss at the global level in terms of real growth and trade volume is to be expected as well as real losses in gross domestic product for most Arab countries (Chemingui and Badra, 2019). The outbreak of COVID-19 then further restricted economic integration and cooperation which had been achieved.

The situation may also create opportunities for Arab countries to integrate at the global, regional and intraregional levels, as countries started looking for places to relocate some of their production and for alternative suppliers of goods that are expected to become more expensive. In the next three to four years, the United States-China trade war may lead to a marginal increase in exports for some Arab countries while the United States-European

Union trade war may result in some marginal gains in terms of real GDP and exports growth. The ongoing COVID-19 pandemic that questions the virtue of delocalizing production based on labour costs and without giving proper attention to more strategic aspects may contribute to it. Such an achievement would help Arab countries secure stable levels of FDI inflows and exports, enhancing economic upgrading, improving productivity levels (Pahl and Timmer, 2019).

All these developments in an ever-changing global economy require specific policies to improve the competitiveness of Arab exports, mitigate potential costs and increase benefits. This chapter will be followed by a specific analysis at the country and sectoral levels for selected Arab countries to help policymakers adopt appropriate policies to mitigate the effects of trade war and any other relevant global event.

Nevertheless, an accurate investigation of the consequences of a country's inserting in value chains will require collecting information on the value addition at each step of the production process. As 19 Arab countries are still not covered by the Trade in Value Added (TiVA) database developed by the Organisation for Economic Co-operation and Development (OECD) in cooperation with ESCWA, such an investigation remains impossible to perform properly in their cases. It is urgent to remedy to the situation and Arab members should allocate due attention to address the issue.

At the intra-Arab level, measurements of Arab countries' economic integration performances from 2016 to 2018 demonstrate the negative toll that weak oil prices and oil production cuts have taken on the intensity of intra-Arab economic flows and, subsequently, on economic activity levels. Integration with neighbours did not

provide Arab countries with a much-needed extra economic push at a time when the world economy could not deliver it either. For Arab countries, integration with Arab neighbours was neither a fallback nor a stepping stone to integration at a higher level.

It is urgent for Arab countries to foster their intraregional integration in order to shield their economies more effectively from international economic and financial shocks or shocks to commodity prices and world demand, over which they have little control. Such a move would also bring better macroeconomic stability to the region and fuel job creation and human development. However, if regional economic integration were to be used as a tool for development, Arab countries would gain from (a) improving their business environment in order to preserve and increase their attractiveness to partners that are also key investors; (b) modernizing available intra-Arab trade agreements that are currently promoting shallow integration; and (c) developing formal cooperation frameworks and trade agreements with partners with whom trade ties have grown remarkably quickly, but who are not yet investors.

Investors are looking for transparency and legal predictability with respect to issues such as entry regulations, investor guarantees and administrative and legal procedures, as well as for legal coherence among all regulations composing the investment framework. Arab countries would benefit from aligning national investment frameworks with best practices internationally and developing a regional framework to ensure coherence.

In a context marked by the questioning of the role of the multilateral system that culminated with the Trump administration posing an existential threat to the Appellate Body of the

WTO, Arab countries would benefit greatly by strengthening the PAFTA's dispute settlement mechanism through improving transparency in investment arbitration and the role of various stakeholders, and increasing effectiveness by adopting a clear code of conduct, putting together a list of pre-approved arbitrators and setting deadlines for each step of the procedure. Coverage of disputes between the State and the private sector should be increased in order to encourage FDI from within and outside the Arab region. Aligning provisions with the best international standards is a necessary step that would entail including in the agreement a standard guarantee package that would shield investors from unjustified expropriation or unfair treatment. Provisions on admission of investments and guarantees of fair and equitable treatment and guarantees ensuring free transfer of payments to start with should also be added. Finally, strengthening the credibility of the agreement by imposing transparent and binding enforcement mechanisms is crucial.

Arab countries would also benefit from building on the services trade agreement signed by some countries to embark in a regional process of liberalization. Services trade is generating an ever-growing share of employment in Arab countries and is a component of international trade that is relatively less subject to experiencing ups and downs and is expanding rapidly. High quality, affordable and effective services will condition the intensification of Arab countries' participation in GVCs and the emergence of Arab value chains but more importantly the capacity of the Arab region to enter digitization and move towards the Fourth Industrial Revolution.

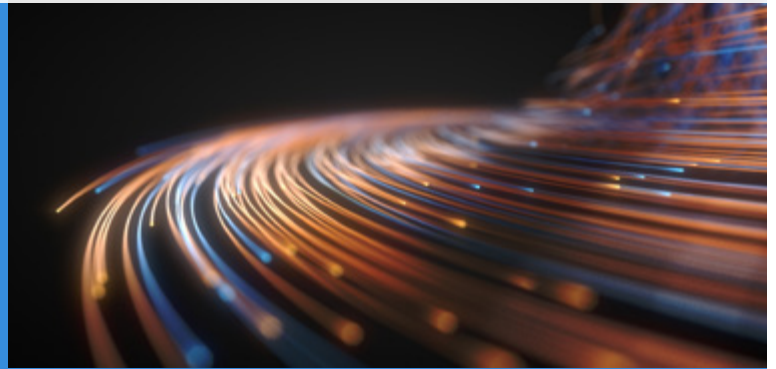
These are paths towards economic integration that would fit many Arab countries if progress were made in implementing the ACU or if Arab

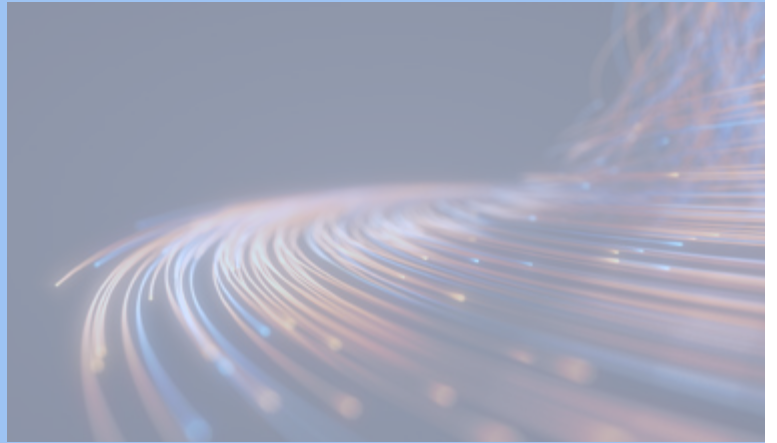
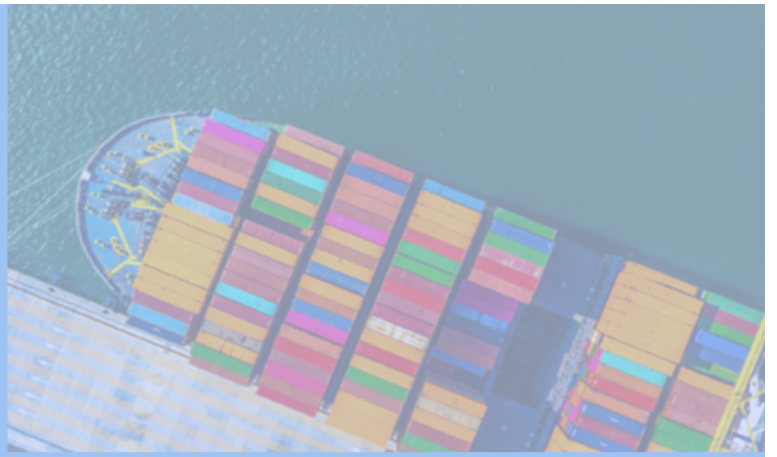
regional trade agreements were promoting deep economic integration and greater cooperation, which is not the case. As part of ESCWA's efforts to develop comprehensive economic integration monitoring and evaluation for effective scenario analyses, evidence-based policy design and successful enforcement, a platform will be set up for policymakers and stakeholders to access relevant information. In the future, member States will have the possibility to be notified of changes in rules and regulations, and an indicator could be developed to track progress of countries toward implementation of various agendas and convergence of regulatory environments.

Finally, integration with partners is as much an economic as a political process. Preliminary investigations show that the COVID-19 pandemic will cost \$28 billion in exports, \$42 billion in income and 1.7 million jobs to the Arab region in 2020 (ESCWA, 2020). The impact of the pandemic on Arab living standards and other socioeconomic achievements will be further aggravated by a global slowdown and a race to the bottom, pushing oil prices further down and resulting in many casualties among Arab and global oil producers. The role of the GCC countries, as providers of additional financial resources to the Arab region, will also be weakened and would be especially detrimental to the region's fragile and conflict-torn States such as Iraq, the Syrian Arab Republic, the Sudan and Yemen. Countries are likely to experience difficulties managing the pandemic due to their weak health systems, and these weaknesses would be compounded by reduced imports from the disruption of global value chains, translating into shortages of medical supplies and other goods and hence substantial price increases. The times are calling for Arab countries to move past the endless rhetoric of deep Arab economic integration and cooperation and bring it to reality.



2. How Agricultural Trade can Enable the Achievement of the SDGs through Further Regional and Global Integration





2. How Agricultural Trade can Enable the Achievement of the SDGs through Further Regional and Global Integration

Agriculture has been the most important global activity for job creation and livelihoods throughout history. This trend is notable in the Arab region, where agriculture contributed to 23.7 per cent of total employment in 2016 (World Bank, 2019). The agricultural sector is recognized as a central element of sustainable social and economic development as per the Sustainable Development Goals. SDG 2, which targets “zero hunger”, is most directly linked to this sector, as are goals 12 (sustainable consumption and production), 13 (fight against climate change), 14 and 15 (relating to aquatic life and terrestrial life) and 5, which includes the promotion of the right to land ownership of women. In addition, agriculture also contributes to the common objective of all sectors, namely more sustained and equitable economic growth (SDG 17). However, the SDGs are by nature interconnected, with action taken under any one goal affecting the achievement of many others with different channels and at different magnitudes.

For the specific role of trade policies in SDGs achievement, accompanying policies should be designed and implemented to address market failures and to assure the delivery of public goods. This is the case of SDGs 6 and 15 for example, which relate to water and land management. A comprehensive agricultural and food development strategy can be helpful in enabling policy makers to take into

consideration how trade policies and regulatory frameworks can affect different types of economic actors in a specific country.

Yet progress towards the SDGs relating to agriculture in the Arab region was already slow before the negative effects of the COVID-19 crisis exacerbated many food security trends. According to a recent FAO report (2018b), food availability in the Arab region continues to deteriorate. This deterioration is linked to several factors, including unfair competition from certain imported products, a substantial reduction in public support for the agricultural sector and a significant reduction in food subsidies to consumers. Other factors affecting the agricultural sector and food security include strong population growth, accelerated urbanization, climate change, limited technological progress, inappropriate food choices, inefficient uses of natural resources, persistent conflict and the absence of progressive land reforms. Market-related issues include oligopolistic input markets, very high transaction costs, opaque price policies, often erroneous price transmission mechanisms and, perhaps most importantly, inappropriate trade policies.

While policies affecting markets for food and agriculture are particularly important in shaping food security outcomes, other trade policies can also impact on the achievement of the Agenda

2030 targets. This is the case of policies affecting trade in services, which can affect employment and income levels, with consequences for citizens' economic access to food – one of the four key components of food and nutrition security. In addition to tariffs, there are many other measures affecting trade, such as import quotas and taxes on exports. Governments also apply various sanitary and phytosanitary measures on agricultural and food imports to ensure food safety and plant and animal health. In addition, many countries still directly support their farmers and agricultural production through a multitude of domestic support and export subsidies with distorting effects on global agricultural markets. However, and despite the reduction of these protections since the conclusion of the Uruguay Round in Marrakech in December 1994, many countries still use other forms of support which prevent the reaching of multilateral agreements under the Doha Round of the WTO.

In general, the development of the agriculture and food processing industries can generate an important source of income for rural and urban populations. However, given the Arab region's heavy reliance on food imports, increasing international food prices since 2007 have negatively impacted the region through higher inflation, trade deficits, increased poverty and the consequent political instability (Paciello, 2015; Harrigan, 2011; and Kamrava and Babar 2012). Thus, increasing agricultural exports will accelerate growth more than expanding domestic market demand, especially for countries with a small urban population. Indeed, with more than half of the population residing in rural areas in most Arab countries where poverty is persistently high, boosting agriculture development including through exports can have a positive effect on the welfare of a large segment of the Arab population.

In general, trade barriers on agricultural and food trade combined with domestic support and export subsidies lead to inefficiencies in the allocation of resources in both developed and developing countries. Despite the general consensus on the benefits of eliminating global agricultural market distortions, concerns have been voiced on the potential short- and medium-term negative effects on some segments of the population across the world. By examining the patterns of trade regulations in the Arab region, one can identify high protection patterns for agricultural commodities in the form of tariffs and Tariff Rate Quotas (TRQs) restricting imports. Aksoy and alii (2005) identified "trade distortions (border protection) and domestic subsidies as major factors affecting world markets and therefore developing-country consumers and producers. Domestic subsidies and border protection contribute to making commodity markets artificially thin, with small trade volumes and a small number of agents, in turn leading to high variability in prices and trade flows. Large trade distortions impede trade flows, depress world prices, and discourage market entry or delay exit by non-competitive producers". In fact, domestic support and export subsidies have comparable effects, depressing world prices and inhibiting entry by inducing pro-cyclical surplus production by non-competitive – and often large – producers.

WTO members have taken measures to reform the agricultural sector and to address the questions of domestic support, export subsidies and agricultural trade barriers. The WTO Agreement on Agriculture, which came into force in 1995, represents a significant step towards reforming agricultural trade in order to make it more equitable and competitive. An Agriculture Committee was designated to oversee implementation of the Agreement. Member countries continue to conduct negotiations for

further reform under the Doha Round but no significant progress has been made so far. Only in 2015 did all WTO members commit to phasing out all subsidies on exports. However, to date, negotiations on modalities are not yet agreed and different forms of agricultural support are still used in many developed and developing countries members of the WTO.

Minimizing global distortions affecting the agriculture sector will increase economic efficiency and aggregate income; nonetheless, one cannot ignore one of the key findings of the World Bank study (2005) that the emergence of competitive producers in developing countries does not lead to a rationalization of production among non-competitive producers as it would in a liberalized market. Instead, non-competitive producers remain in business, buffered by extensive protection and support. At the same time, reducing global distortions on agricultural markets will also generate adjustment costs in the form of higher food and agricultural prices worldwide that particularly affect vulnerable populations in the developing world. However, this negative effect would be limited to the short and medium terms depending on the capacities of producers to respond to the higher prices, which will be manifested by increasing global production which in turn will affect global prices. In any case, the adjustment effects largely depend on the price transmission structures between global and national prices which is country specific.

The aim of this chapter is to help various stakeholders assess and recognize what is at stake in agricultural negotiations, whether at the regional or multilateral level, and how agricultural trade policies could be considered in the perspective of vertical and horizontal Arab trade integration. It also seeks to increase awareness among negotiators on the particularities of

agricultural trade in global and regional trade regulations and to offer a deep analysis of recent structures of tariff and non-tariff regulations of agricultural trade globally, regionally and at the country level. Finally, it provides some recommendations on potential scenarios of integrating agricultural trade in the ongoing trade negotiations both within the Arab region but also with other important partners such as the European Union and African countries.

A. Background on the agricultural sector in the Arab region

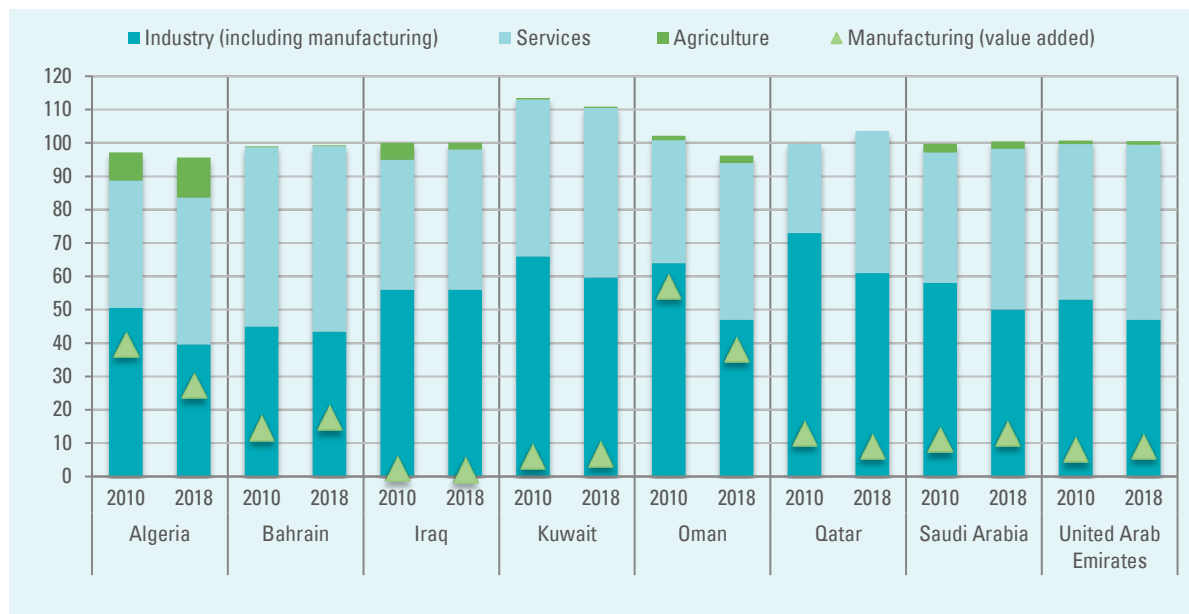
1. Contribution to GDP and employment

Agriculture has seen a steady decline worldwide in its contribution to GDP and employment as compared to the industry and services sectors, and the Arab region is no exception. Agriculture's share of GDP does not exceed single digits in most countries – and is even below 2 per cent in the Gulf countries – and its developmental and political importance are often overlooked. However, the figures on its contribution to employment remain high in non-oil-based economies (figure 17).

In countries such as Egypt, Syrian Arab Republic and Morocco, the rural population corresponds to a relatively large proportion of the total, at 31 to 56 per cent; but even in these countries, agriculture's contribution to employment and value added is quite limited, as shown in figure 18. In the Sudan and Yemen, despite the fact that the population still lives mostly in rural areas, agriculture's contribution to employment and value added is also insubstantial. This tends to point to low productivity and hidden unemployment on one side, but also the growing contribution of oil and mining to GDP on the other.

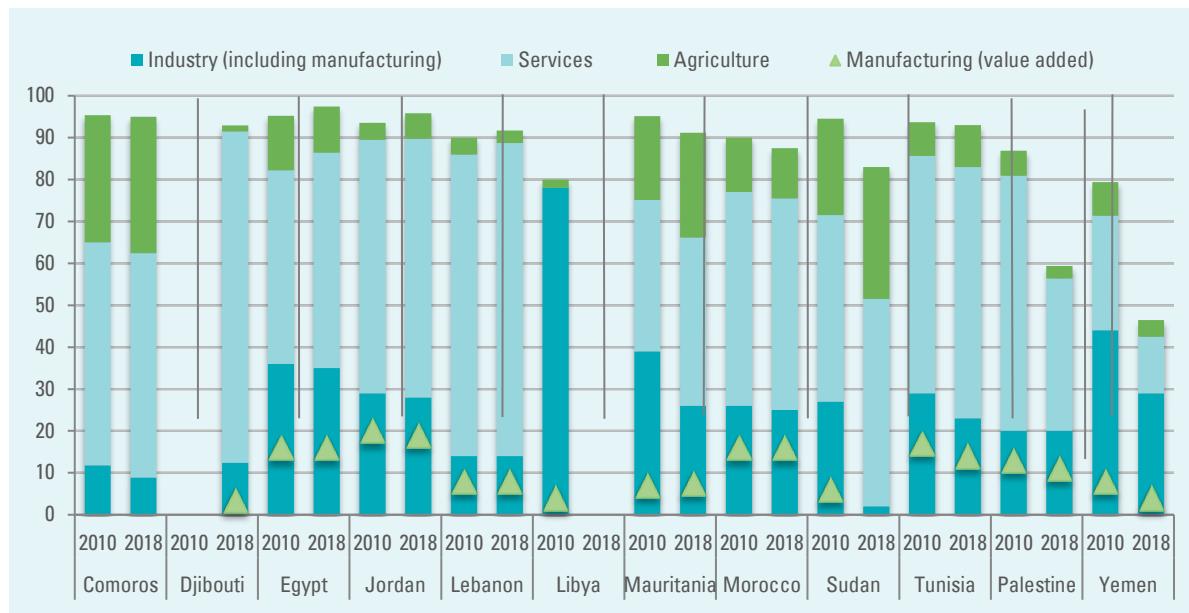
Figure 17. Trends in sectoral composition of GDP in Arab countries

(A) Oil-based economies



Source: Authors' calculations using World Development Indicators, (World Bank), 2019.

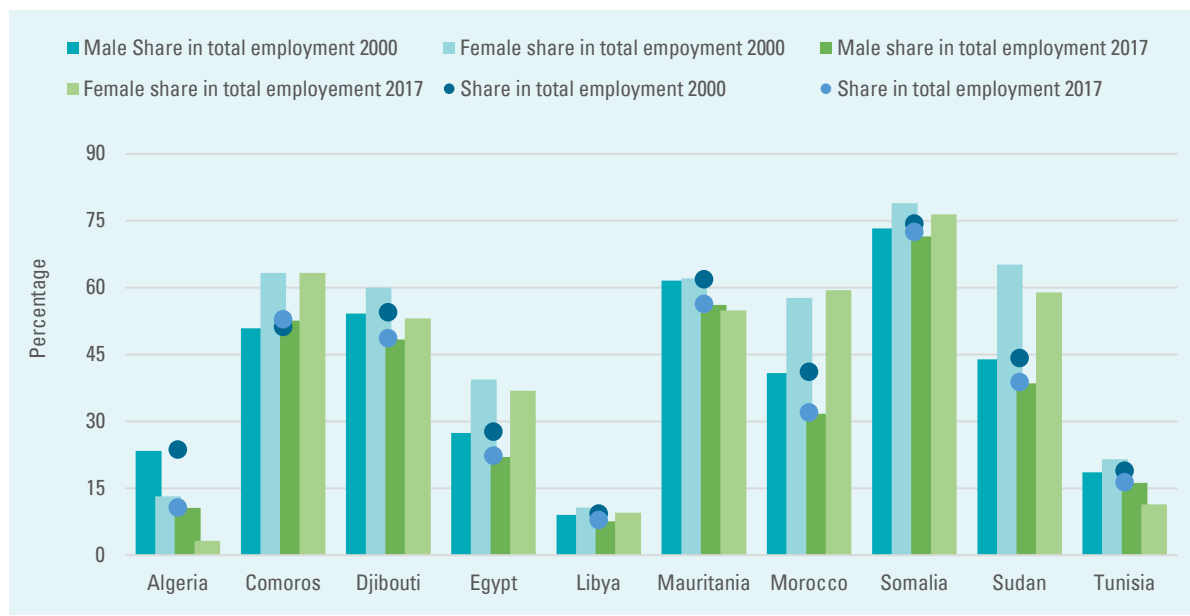
(B) Other countries



Source: ESCWA's calculations using World Development Indicators, (World Bank), 2019.

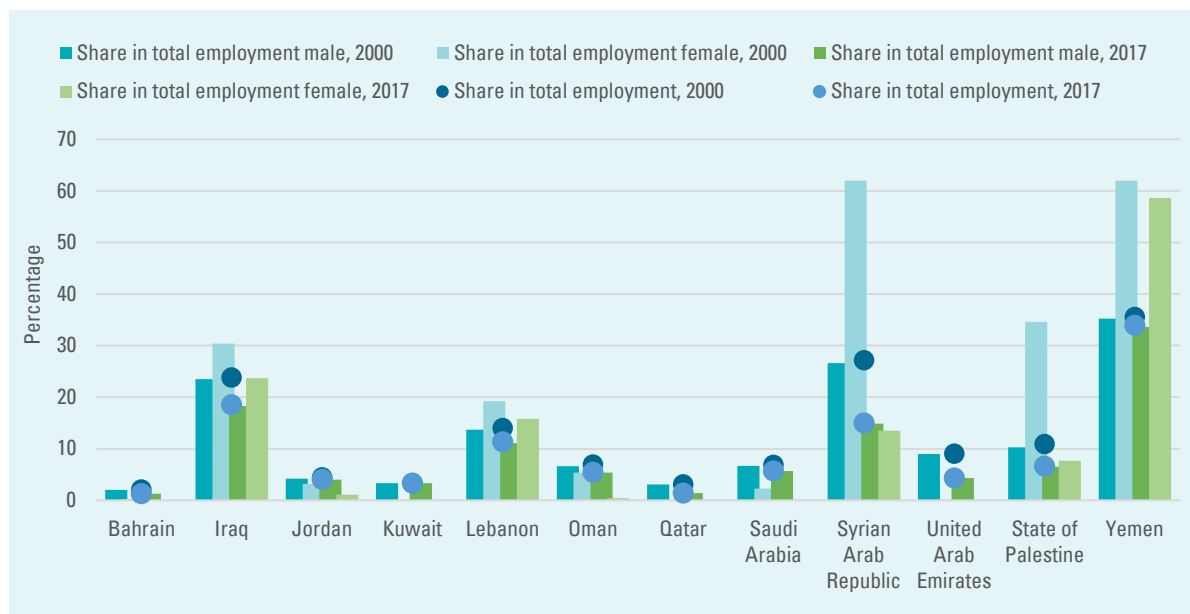
Figure 18. Changes in the contribution of agriculture to employment by gender, 2000-2017

(A) The case of African Arab countries



Source: ESCWA's calculations using World Development Indicators (World Bank, 2019).

(B) The case of West Asian Arab countries



Source: ESCWA's calculations using World Development Indicators (World Bank, 2019).

Agricultural expansion in the Arab region has been viewed as both ecologically and economically questionable due to its costly producer subsidies and its reliance on limited water resources. From 2008 to 2016, Saudi Arabia started to phase out its subsidized wheat programme in line with its WTO commitments. The Syrian Arab Republic was another example of ecologically unsustainable agricultural expansion. Unlike many other Arab countries, Syrian Arab Republic did not neglect agriculture in the wake of the oil boom. For strategic reasons, it had kept a keen interest in self-sufficiency. Through land reform and agricultural subsidies, it cultivated political support in the countryside (Hinnebusch, 2011). By the mid-1990s, the country had become self-sufficient in wheat and barley. With a short, drought-induced interruption in 1999/2000 it remained self-sufficient until 2008 until aquifers were over-exploited and agricultural production expanded in fragile steppe ecosystems.

Unless other economic sectors manage to absorb part of the labour force employed in agriculture – which given the political and economic conditions seems highly unlikely in the near future – agriculture will remain the main support for the rural economy (figure 19). It will thus continue to contribute to food security, directly through the provision of agricultural produce and indirectly through the provision of incomes needed to purchase food. A point worth mentioning is that while women make essential contributions to agriculture in many countries of the Arab world, their land ownership and tenure rights are often neither respected nor secured (FAO, 1995). Their reduced access to land, to wages and to other productive resources and inputs remain one of the most serious obstacles to agricultural productivity, socioeconomic improvement and food security in the region.

2. Structure of agricultural production and trade

National food production is a function of land farmed and yields. Historically, the global expansion of food production has come first from increasing the area under cultivation, followed by increasing rates of productivity as areas suitable for cultivation became scarce. This shift from extensive to intensive exploitation of land – with notable exceptions – has been slow in the Arab region compared to other regions. In fact, as a consequence of very low productivity gains, any increase in cereal output continues to come largely from area expansion. Over the course of the 20-year period of 1990-1996 to 2010-2016, the contribution of yields to the gains in cereal production of the Arab region was only 37 per cent, compared with 95 per cent for the world (ESCWA and FAO, 2017), which means that the main increase in cereal production in the Arab region has come from area expansion (67 per cent as opposed to 5 per cent for the world). Moreover, actual performance in cereal yields going back to the 1980s shows that gains have been particularly modest in comparison to world gains or those of other developing countries.

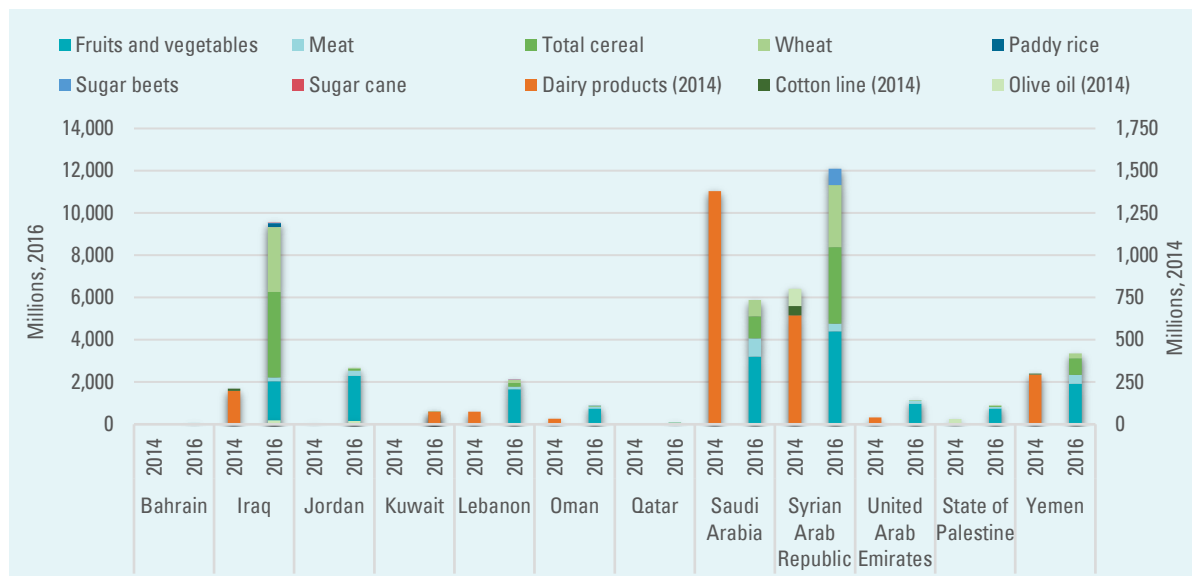
However, there are huge differences in productivity gains between different Arab subregions. The Western Asia region, which accounts for the vast majority of area devoted to cereal production in the region, has achieved yields consistently much higher than those of the other Arab subregions. This performance is largely driven by Egypt (figure 19). Indeed, the differences in productivity between Arab countries are primarily influenced by differences in reliance on rain-fed versus irrigated farming systems. Agriculture is rain-fed on more than

half of all arable land in a host of countries.¹³ Rain-fed farming faces the challenges of low

productivity and unpredictable rainfall, and these are growing as climates change.

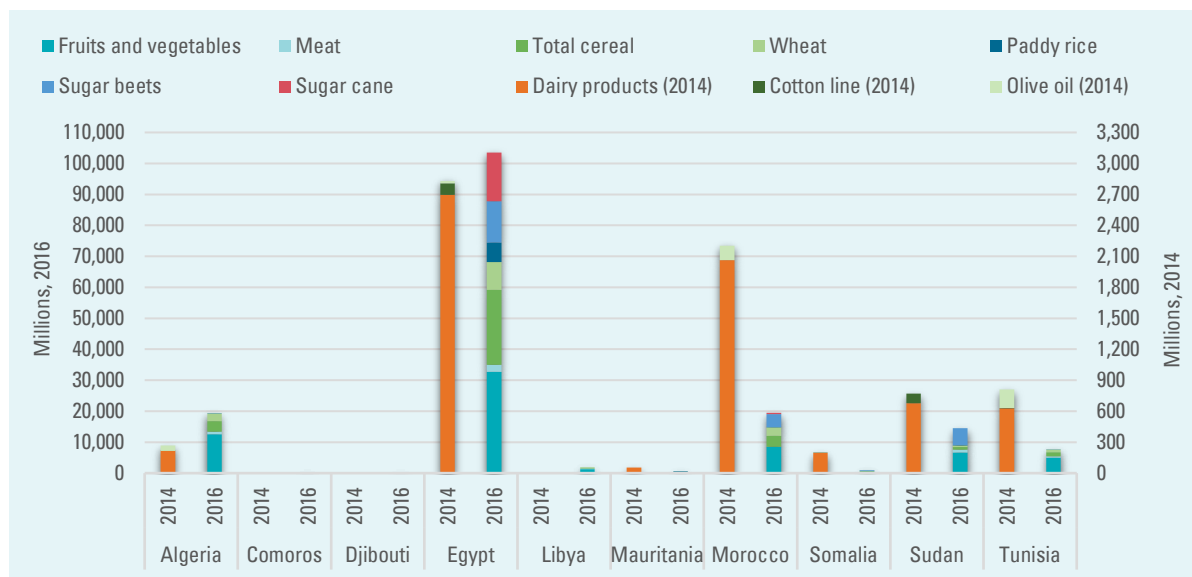
Figure 19. Sectoral distribution of Agriculture production in the Arab region, 2014-2016

(A) The case of West Asian Arab countries



Source: ESCWA calculations using FAOSTAT.

(B) The case of African Arab countries



Source: ESCWA calculations using FAOSTAT.

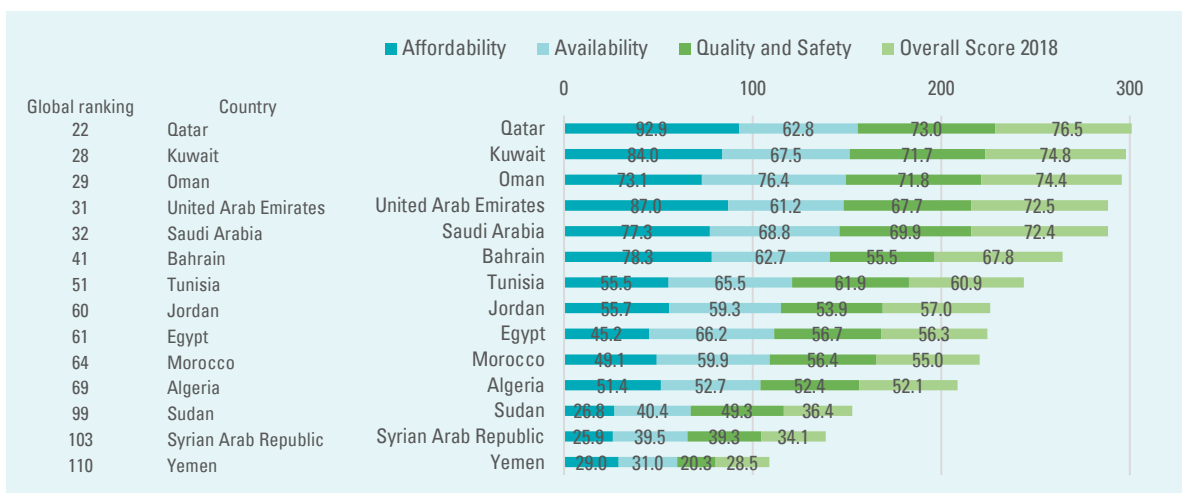
High population growth combined with increasing urbanization and increasing incomes has driven growing demand for food in the region. As domestic production still lags well behind consumption requirements, the region is increasingly dependent on the world market to meet its basic food needs. During the 21-year period that ended in 2016, annual growth rates of food imports in the Arab region were nearly 8.5 per cent, with an acceleration after 2005.

Both in volume and value, the Arab region is the largest food importer globally, commanding as much as over one third of world imports in some key foodstuffs, particularly cereals (ESCWA and FAO, 2017). This increased dependence is driven by both supply side underperformance in productivity gains and demand side increased consumption as a result of food subsidies.

Trade imbalances in food commodities are growing rapidly. The Arab region is experiencing a negative agricultural trade balance and the

trend has been accelerating since 2008. However, high food import dependency does not necessarily mean national food insecurity, particularly for oil-rich Gulf countries. The Food Security Index developed by the International Food Policy Research Institute (IFPRI) measures “the state in which people at all times have physical, social and economic access to sufficient and nutritious food that meets their dietary needs for a healthy and active life”. The index is a weighted average of three key components of food security: affordability, availability and food quality and safety — each of which include several variables (figure 20). For three consecutive years (2016-2018), the Gulf countries have been among the most food-secure countries in the world, while Yemen, Syrian Arab Republic and the Sudan rank among the region's (and the world's) most food-insecure countries (figure 21). This is mostly due to the heavy reliance on food imports and the continuing conflicts, with food insecurity being a consequence of conflicts as described by IFPRI.

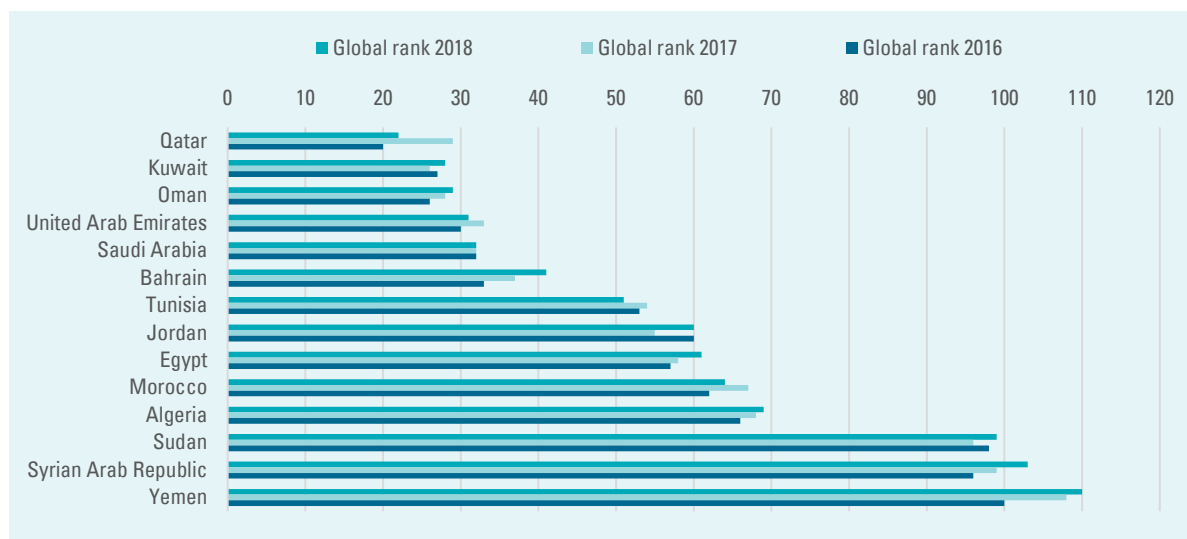
Figure 20. Food Security Index for Arab countries, 2018



Source: Authors' calculations using IFPRI, 2019.

Note: Affordability = Ability of consumers to purchase food, their vulnerability to price shocks, and the presence of programmes and policies to support customers when shocks occur. Availability = Sufficiency of the national food supply, the risk of supply disruption, national capacity to disseminate food, and research efforts to expand agricultural output. Quality and safety = Measures of the variety and nutritional quality of average diets, as well as the safety of food.

Figure 21. Food Security Index Arab countries, Global rank, three-year comparison, 2016-2017-2018



Source: Authors' calculations using IFPRI (2019).

Note: Affordability = Ability of consumers to purchase food, their vulnerability to price shocks, and the presence of programmes and policies to support customers when shocks occur. Availability = Sufficiency of the national food supply, the risk of supply disruption, national capacity to disseminate food, and research efforts to expand agricultural output. Quality and safety = Measures of the variety and nutritional quality of average diets, as well as the safety of food.

A fundamental concern of a country that imports food on a regular basis to meet its needs is the ability to pay for such imports in the present and the future, especially those exhibiting an overall trade deficit aggravated by a balance of payments imbalances, such as in Egypt, Jordan, Lebanon, Morocco, the State of Palestine, the Syrian Arab Republic and Tunisia. Perhaps the indicator most relevant to assessing capacity to sustain food imports is the share of total merchandise export earnings spent on food imports. This measure would signify self-reliance for a country when food imports account for a small and stable share of export earnings or, conversely, the non-affordability of importing food sustainably when the share is large and volatile. For the world as a whole, this share is less than 5 per cent. The Arab region average has hovered around 7 per cent in the last years. However, some countries in the region – notably the Comoros, Djibouti and

Somalia – suffer from serious vulnerabilities, as the value of their food imports periodically reach over 200 per cent of that of their earnings from merchandise exports (ESCWA and FAO, 2017). The figures are highly volatile for all Arab least developed countries and the hardly sustainable situation is worsened by global supply chain bottlenecks due to COVID-19.

The 2007-2008 food crisis prompted a shift in perceptions about global food markets. Volatility is a basic characteristic of agricultural markets and adjustments from short-term events have been quick. However, these events did generate new actions, including land investment abroad (in food insecure countries like the Sudan, Ethiopia and Pakistan) by oil-rich Gulf countries. Furthermore, there is a growing interest from Arab countries in strategic storage, food trade logistics and trade initiatives.

B. Intra-Arab agricultural and food trade

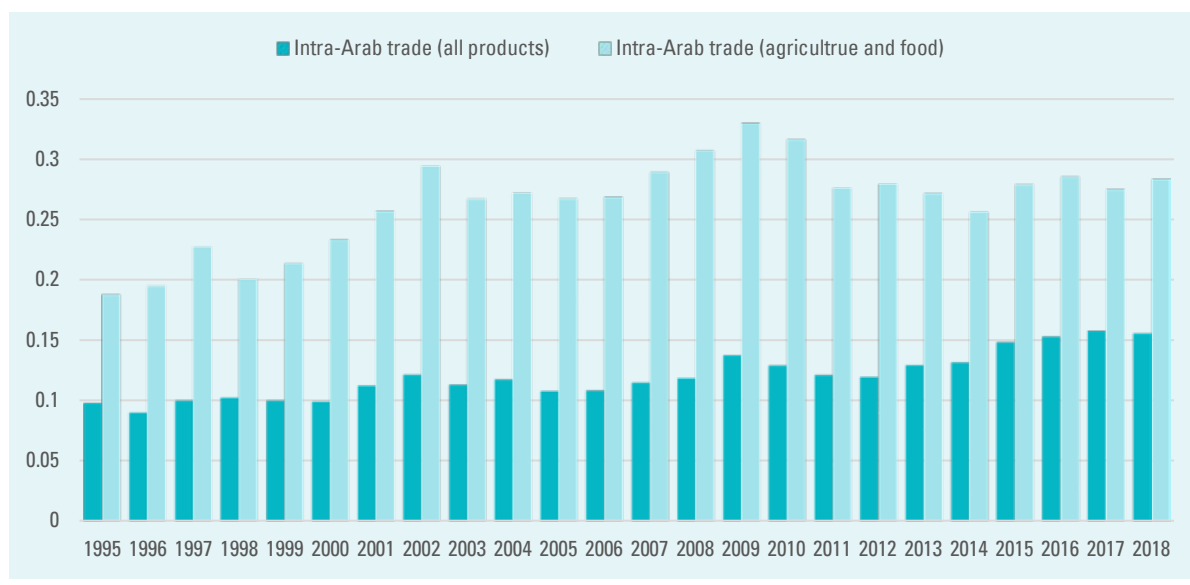
Arab countries have experienced some improvements in trade integration over the last twenty years, due in particular to the substantial increase of intraregional trading (imports and exports) between 1995 and 2018 (figure 22).

Between 1995 and 2018, agricultural and food trade among the Arab countries increased significantly, moving from \$2.8 billion in 1995 to almost \$24.2 billion in 2018, about a tenfold increase in two decades' time, with an average growth rate of about 10 per cent per year compared with 11.5 per cent per year for trade with the rest of the world. The early years of this period witnessed the creation of a networking of regional agreements. From 2008 onwards, intra-Arab agricultural and food trade averaging \$19.7 billion has been outlined by slight fluctuations

in the 2009-2013 period and ranging between \$16.7 billion in 2009 and \$21.4 billion in 2013. These drops are attributed to the 2008-2009 food crisis, which negatively affected demand for agri-food commodities in Arab countries. In 2017 for instance, the intra-exports of some countries like Saudi Arabia and United Arab Emirates were very high, while other countries such as Djibouti, Libya and Mauritania reporting very low intra-exports and imports.

The intraregional agricultural and food exports of Saudi Arabia reached 85.7 per cent of its total agricultural and food exports, with a peak at 94.4 per cent in 2013. The intraregional agricultural and food exports of United Arab Emirates reached 51.3 per cent in 2016. However, most of Saudi and United Arab Emirates agricultural and food products is dominated by food processed products with relatively small local origins.

Figure 22. Trends in intra-Arab trade for all products versus agriculture and food



Source: Authors' calculations using COMTRADE database.

Overall, Gulf countries and the Mashreq send more than 50 per cent of their agricultural and food exports to the region, with Kuwait, Bahrain, Yemen and Jordan above 85 per cent in 2017. The remarkable increase of both exports and imports for most of Arab countries between 1995 and 2017 seems to imply that the creation of PAFTA as well as subregional integrations such as the Agadir Agreement and GCC's customs union have led to notable improvement in intra-Arab trade. However, countries' performances in intra-Arab trade are very heterogeneous due to many other factors beyond tariffs. These figures are in line with the findings of the previous chapter illustrating that the intra-Arab trade within subregional arrangements are higher than overall intra-Arab trade, except for (AMU). The figures confirm that Arab countries exhibit some low degree of trade integration with each other, indicating the existence of both "beyond the border" and "behind the border" constraints to trade flows among Arab countries. The results also show that some subregional trade arrangements have significant impact on intra-Arab trade performance. In most cases, country-pairs who are a member of the same arrangement perform better than those without integration. In particular, country pairs belonging to GCC and the Agadir Arrangements have relatively high efficiency scores compared to AMU members.

Arab subregional trade agreements seem to have had only a modest impact on intra-Arab agri-food trade. This suggests that there is untapped trade potential among the Arab countries which could potentially attain much deeper levels of Agri-food trade integration. Furthermore, there are undefined impediments that restrain the trade effects of an Arab economic integration. (Abu Hatab, 2015).

Regulations governing Arab agricultural trade

Policies affect trade and markets through border measures, mainly tariffs and non-tariff barriers (NTBs), but also through measures that affect the domestic market, such as production subsidies. NTBs affecting trade are complex and include import restrictions, such as quotas, and export restrictions, such as export taxes, among others. Governments also apply various types of non-tariff measures (NTMs) such as sanitary and phytosanitary measures to ensure food safety and plant and animal health; like tariffs, these measures are also subject to requirements set out under rules at the World Trade Organization (WTO). They are also applying different types of domestic support policies that have some effect on production and trade. However, the magnitude of the effects varies considerably among different types of domestic support instruments (Young and Westcott, 2000; and Rude, 2000).

In trade negotiations, the WTO classified domestic support programmes into three categories: amber, blue and green, with different limitations or disciplines applied to each respective (box 2).

Similar to the rest of the world and since the adoption of Agenda 2030 in 2015, most Arab countries have faced an increasingly difficult global economic environment. Trade tensions between major economic players have spilled into the open, along with a newly emergent skepticism or even hostility towards multilateralism (ESCWA, 2019d). Despite small steps forward at WTO ministerial conferences in 2013 and 2015, ministers were unable to reach consensus decisions on outcomes or a way forward at the WTO conference in 2018 and

disagreements over the proper functioning of the global trade body's Appellate Body have since cast a shadow over negotiating processes. In this context, many countries and

groups have pushed ahead with deepening economic integration among themselves, with preferential bilateral and regional deals proliferating.

Box 2. Domestic support in agriculture: the boxes

As per WTO rules, domestic supports to the agricultural sector are identified by "boxes". The primary ones are given the colors of traffic lights: green (permitted), amber (slow down and/or need to be reduced) and red (forbidden). The Agriculture Agreement has no red box, although domestic support exceeding the reduction commitment levels in the amber box is prohibited; and there is a blue box for subsidies that are tied to programmes that limit production. There are also exemptions for developing countries.

Amber box

Nearly all domestic support measures that are considered as distorting production and trade fall into the amber box, except those in the blue and green boxes. These include measures to support prices or subsidies directly related to production quantities.

Blue box

This is the "amber box with conditions". The conditions are designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production.

Green box

In order to qualify for the green box, subsidies must not distort trade or, at most, cause minimal distortion. They must be government-funded and must not involve price support. They tend to be programmes that are not targeted at particular products and include direct income supports for farmers that are not related to current production levels or prices. They also include environmental protection and regional development programmes. "Green box" subsidies are therefore allowed without limits, provided they comply with the policy-specific criteria set out in the agreement.

Development box

The WTO's agriculture agreement allows developing countries additional flexibilities in providing domestic support. The type of support that fits into the developmental category are measures of assistance, whether direct or indirect, designed to encourage agricultural and rural development and that are integral to developing countries. They include investment subsidies, agricultural input subsidies and domestic support to producers to encourage diversification from growing illicit narcotic crops.

Source: WTO, available at https://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm. More info on quantifying domestic support is provided by Edwin and Wescott (2002) while technical modelling of the boxes is described in Chemingui and others (2006).

Among all of this, Arab countries are attempting to consolidate their own regional integration path, as are other regions of the Global South, successfully. However, trade agreements cannot be tackled in isolation: the multilateral, regional and bilateral trade integration schemes are highly interlinked and have significant impact on each other. Accordingly, addressing the regional prospects for PAFTA cannot be separated from the stakes of Arab countries within the WTO or bilateral FTAs with the rest of the world. This is clearly the case for agricultural trade, which is greatly impacted by support policies followed in many developed countries (section 2).

The key objective of the Euro-Med Partnership is the creation of a deep Euro-Mediterranean Free Trade Area, which aims to remove barriers to trade and investment between both the European Union and Arab Mediterranean countries and between the Arab Mediterranean countries themselves. The scope of these agreements is essentially limited to trade in goods, and bilateral negotiations are ongoing or being prepared in order to deepen the association agreements. These ongoing or future negotiations are mainly related to further liberalization of trade in agriculture, liberalization of trade in services, accreditation and acceptance of industrial products and regulatory convergence.

Other bilateral agreements (such as Egypt-Lebanon, Egypt-Libya, Egypt-Jordan, Egypt-Morocco, and Egypt-Tunisia, all signed in the 1990s) concern mainly agricultural imports of products to be allowed duty free and for export exclusively within specific periods.

In addition to the FTAs signed individually by many Arab countries, some important regional initiatives are already implemented while others

are under negotiation. The Agadir Agreement signed in 2004 initially between Morocco, Jordan, Tunisia and Egypt has been extended in February 2020 to include Lebanon and State of Palestine. It aims to improve the level of integration among the four Arab countries involved in the Euro-Med Partnership; its provisions and modalities are largely based on those under the Euro-Med Partnership.

Other initiatives are already implemented in the region including the GCC customs union, PAFTA, and AMU. Further to the provisions of the GCC customs union, during its seventeenth session organized in Doha on December 1996 its supreme council adopted the GCC Revised Common Agricultural Policy with a view to achieving agricultural integration among member States according to a common strategy based on the optimal utilization of available water resources, provision of food security from national sources, increasing production and encouraging joint enterprises with private sector contribution. The Agricultural Cooperation Committee and the respective technical committees thereof are implementing the programmes of this policy. However, in most of these trade agreements, agricultural products are either completely excluded or still governed by specific regulations to ensure a sufficient level of protection. These regulations cover mainly quota-tariff rates, sanitary and phytosanitary measures (SPSMs), and public import monopolies.

C. Agricultural policies in rich countries and global market distortions

For decades, agricultural policies in rich, industrialized countries – namely in the European Union and the United States – greatly affected

the global market for agricultural products, with significant impacts on developing countries, including in the Arab region. Indeed, despite inherent advantages in technology, productivity, access to capital and so forth, agriculture sectors in wealthy countries benefit from significant State support, which has only increased due to bailouts, security concerns and export restrictions following COVID-19. By analysing both current support provided to farmers in the United States and European Union, as well as proposed scenarios for agricultural policy reform being considered, this section will firstly assess the likely impacts on world agricultural prices. This can then inform the design and implementation of appropriate domestic and trade policies in the Arab region, in a context marked by increasing coverage of agricultural products by preferential trade agreements at bilateral and regional levels.

Direct agricultural support in the United States and European Union stems from a host of background factors, including embedded fears regarding food security due to the lasting legacy of the great depression and the Second World War. To secure a steady supply, price and quality of food, various public policies have been introduced by both the United States and European governments to protect their farmers from volatility and risks. These domestic support policies affect and distort global agricultural markets, leading to lower global prices of many important and strategic agricultural products, in most cases below their cost prices. Farmers in developing countries, mostly the poorest, have been negatively affected. However, the conclusion of the General Agreement on Tariffs and Trade (GATT) in 1994 and the extension of the European Union from 12 member countries in 1994 to 28 before the recent Brexit decision affected the capacity of the two major players on global

agricultural markets to continue with their costly support policies. The tendency is towards the reduction of public support to agricultural sector in both the United States and the European Union, which will have significant implications on the world agricultural markets.

1. Trends and changes in support to European Union farmers

Compared with the rest of the European Union economy, agriculture suffers from a number of specific barriers that can severely affect farmers' incomes. In addition to climatic conditions and uncertainty, the agricultural sector is increasingly impacted by technological developments which enable higher yields but at the same time lower control on producer prices. In fact, the development of large commercialization chains with a strong bargaining position are increasingly pushing down producer prices with direct effects on farmers' incomes. In the context of these growing challenges, the European Union launched its Common Agricultural Policy (CAP) in 1962. Its aims were to foster food security, to ensure a stable and fair income for farmers, to manage natural resources sustainably, to maintain rural landscapes across Europe and to promote jobs in farming (European Commission, 2018).¹⁴ Multiple instruments have been designed and used to support farmers including (a) income support and market measures and (b) rural development measures.

The launch of the Doha Ministerial round of multilateral trade negotiations in 2001 represented a step further towards reducing global agricultural distortions (Chemingui and Thabet, 2006). Despite the WTO's Ministerial declaration in 2005 to reduce public support to the agricultural sector around the world, the

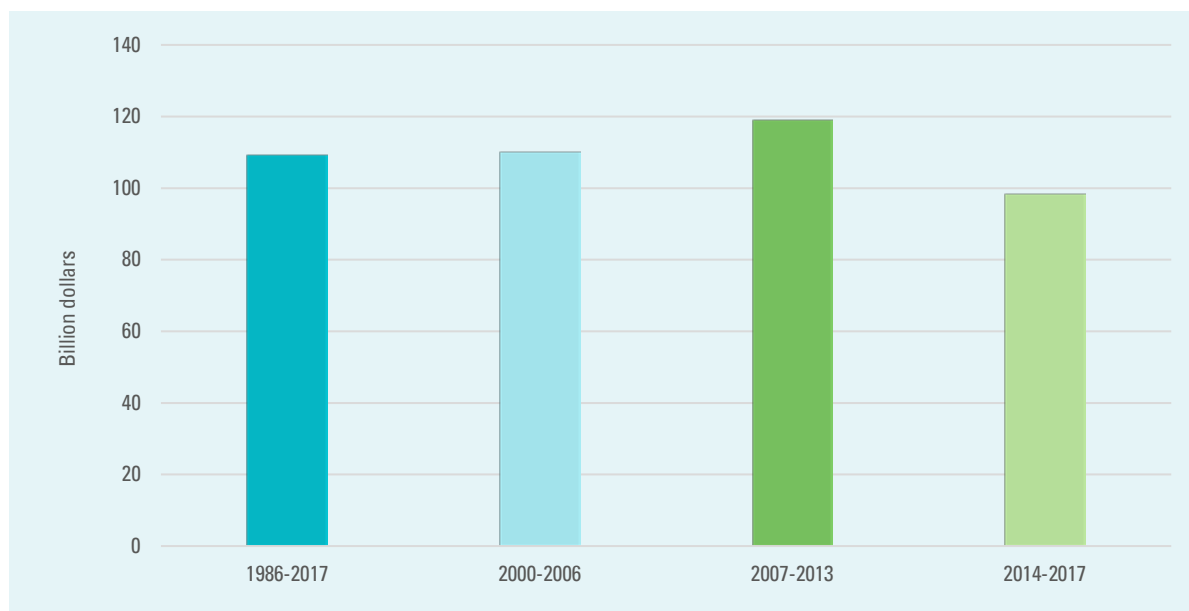
round has still not yet concluded and the global trade of agricultural products remains largely distorted by national support policies in rich developed countries. To identify the linkages between the CAP's reforms and the status of multilateral agricultural trade negotiations under the WTO, it is important to analyse the changes in public support to European farmers across the various CAPs, including the latest proposal of the new CAP for the next seven years for 2021-2027.

The most used indicator for tracking changes in public support to farmers is the "Producer Support Estimate" (PSE) developed and estimated by the OECD. It assesses and compares the monetary value of support to agricultural producers in a large number of countries, including the European Union. Figure 25 summarizes the PSE in dollars

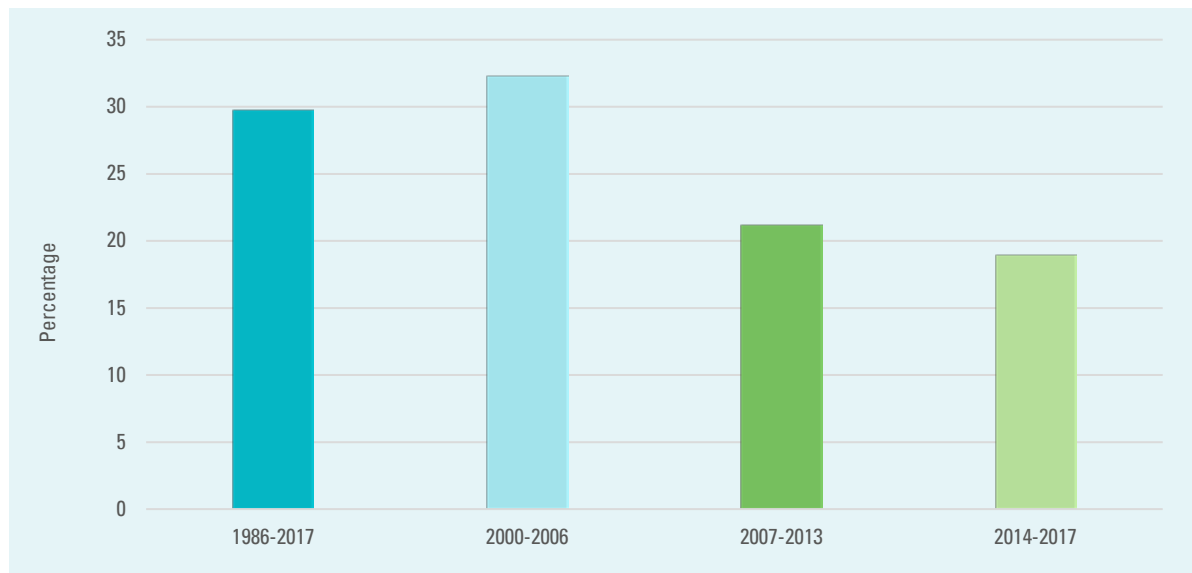
for the agricultural sector in the European Union over the last five CAPs in both nominal values and share of farmers' incomes. It clearly shows that the current CAP (2014-2017) presents the lowest level of domestic support.

Since 1986, European support to farmers fluctuated in absolute numbers between \$80 billion and \$160 billion per year, averaging \$100 billion. As the European Union has been enlarged to new members and agricultural production increases continually, levels of support by unit of gross product have declined. In fact, the level of producer support as a percentage of the total European Gross Farm Receipt (GFR) fell from its highest in 1987 at 42 per cent to its lowest in 2014 at 17 per cent (summary averages are presented in figure 23 and figure 24).

Figure 23. Average annual Producer Support Estimates in the European Union per CAP



Source: OECD Database on Agricultural Policy Indicators.

Figure 24. Average annual PSE as a share of gross farm receipt

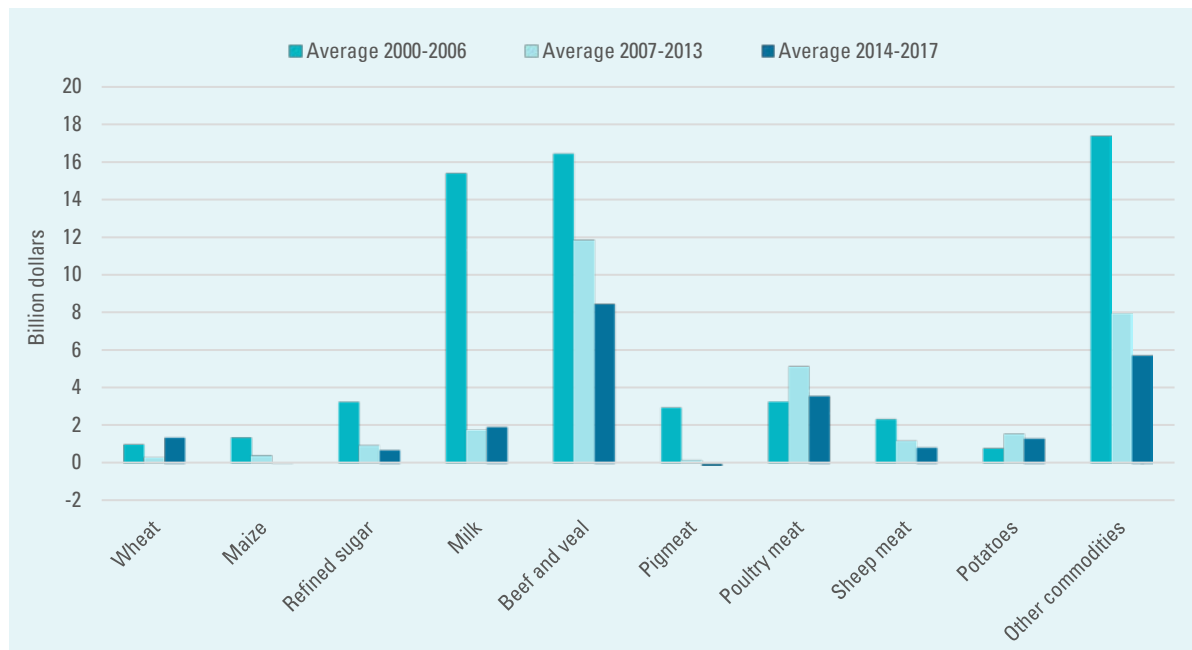
Source: OECD Database on Agricultural Policy Indicators.

A closer look at producer support on a product level reveals wide discrepancies (figure 25). Beef and veal products received the highest support between 2000 and 2006, but this fell by 27 per cent in 2007-2013 and 28 per cent in 2014-2017. The second most supported product is milk, but this also fell dramatically with the 2007-2013 CAP. Overall, PSE levels decreased with the exception of wheat, poultry meat and potatoes. The total volume of support allocated to the 10 most supported products registered the highest level in 2004 (\$90 billion) and lowest in 2011 (\$20 billion). Yet, total volume of PSE during the three CAPs ranged from \$138 billion and \$110 billion. However, the decrease in support to the 10 most important products does not reflect a reduction in the total budget of CAP but rather a change in the CAP priorities. Comparing average producer support levels of the current CAP (2014-2017) to the 2000-2006 CAP illustrates an increase in the average support for wheat

(25.5 per cent), poultry meat (11.8 per cent) and potatoes (2.9 per cent). Average support to maize, refined sugar, milk beef and veal, pig meat, sheep meat and other commodities all decreased (figure 26).

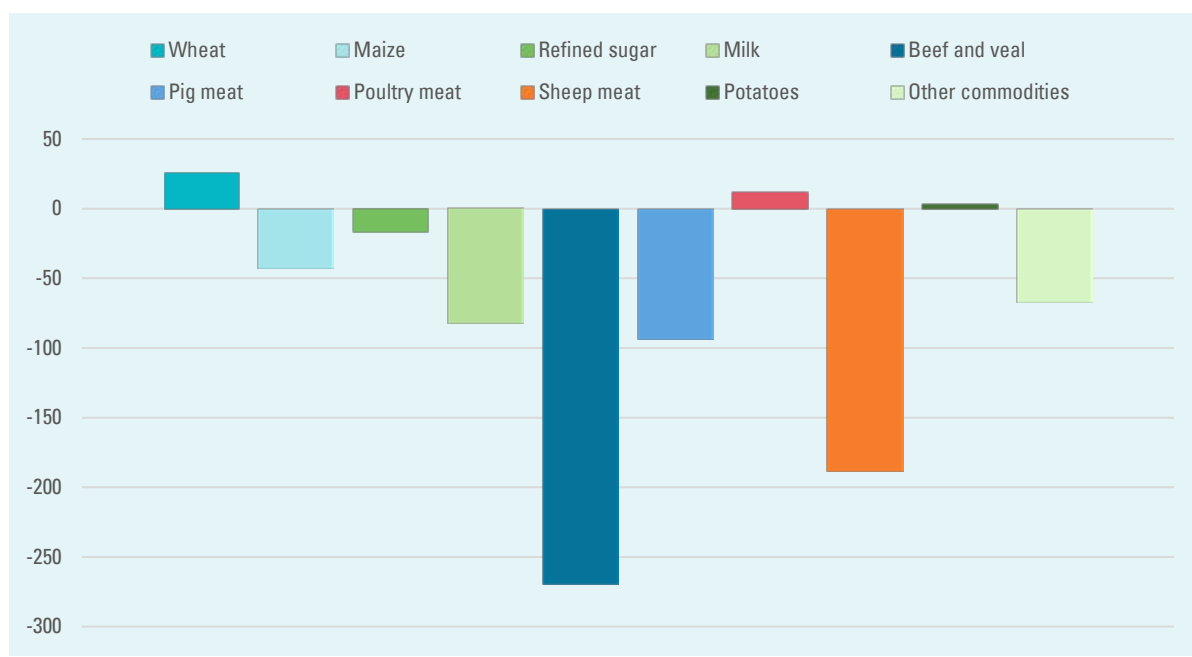
Further to the past trends, it is important to analyse the latest proposal for the new CAP for the next seven years (2021-2027) which will reflect the European Union's vision on its support to farmers with or without distortionary effects on world prices. In May 2018, the European Commission (EC) published its initial orientation for budget and policies for the period 2021-2027 called "The Multiannual Financial Framework (MFF) for 2021-2027" (European Commission, 2018). It included a number of alterations to the budget and a shift in its allocation. However, and despite the recent Brexit, the final budget is not finalized yet (box 3).

Figure 25. Average annual PSE of most supported products in per period in the European Union



Source: OECD Database on Agricultural Policy Indicators.

Figure 26. Percentage change between average PSE 2000-2006 and 2014-2017



Source: OECD Database on Agricultural Policy Indicators.

Box 3. The European Union's agricultural sector after Brexit

Brexit might have a substantial effect on the European agricultural sector. The decision of the United Kingdom to leave the European Union is expected to decrease the total European Union budget by €12 billion annually, according to European Union Commissioner for Agriculture and Rural Affairs (Mc Cormack, 2018). A decrease in the overall budget will likely affect the budget for agricultural support as defense, security and migration budgets are currently receiving extra focus. Accordingly, the agricultural budget might be one of the categories to experience less priority and therefore receive a budget cut (Mc Cormack, 2018). However, the situation may change under the current COVID-19 crisis in which food and medicines are becoming the most important products for all countries around the world. The likely impact may be an increase of the European Union's budget for agriculture and medical research.

Compared to industrial products, high tariffs are imposed on agri-food products. When tariffs are less enforced or when competition from third countries (outside the European Union) are introduced due to market openings because of Brexit, prices will be affected.

Additionally, the United Kingdom is a large importer of agriculture and food products: in 2017, 50 per cent of its domestic demand of agri-food products were imported, of which almost 30 per cent originated from the European Union (United Kingdom, 2018). Depending on the final agreement, Brexit may have a substantial effect on the demand for agricultural products in the European Union which will be manifested by an increasing surplus for exports.

Unless the European Union's Customs Union with the United Kingdom is maintained, any new trade agreements between the United Kingdom and other markets will compete with European Union exporters. Therefore, other markets such as Argentina, Brazil, the United States and Australia might capture part of United Kingdom market share and exporters in the Arab region may have better access to the United Kingdom market as well. However, the better access will be certainly negotiated under new trade preference schemes that are already being suggested by the Government of the United Kingdom to all members of FTAs with the European Union, including those from the Arab region involved in the Euro-Med partnership.

Based on current available information, it is probable that the allocated budget for the forthcoming CAP will decrease by 5 per cent. Income support and direct payments are expected to decrease by a maximum of 4 per cent in all member countries compared with the Should member States wish to do so, they can cover this reduction themselves (European Commission, 2018).

However, the new CAP will allocate around €10 billion to research and innovation in food, agriculture, rural development and the

bioeconomy. In addition, the new CAP is suggesting the introduction of a new balance in the distribution of payments through the introduction of an upper level of financial support by farmer at €60,000 per year. This proposal might be beneficial for small- and medium-sized farms. Moreover, the new proposed CAP suggests a progressive shift from the current compliance-based policy to a result-oriented policy which will introduce more flexibility and room for member countries according their various national development goals. Finally, there is a debate in Europe on

how direct payments should be allocated in exchange for environmental and social returns. Therefore, conditionality for direct payments is expected to be included.

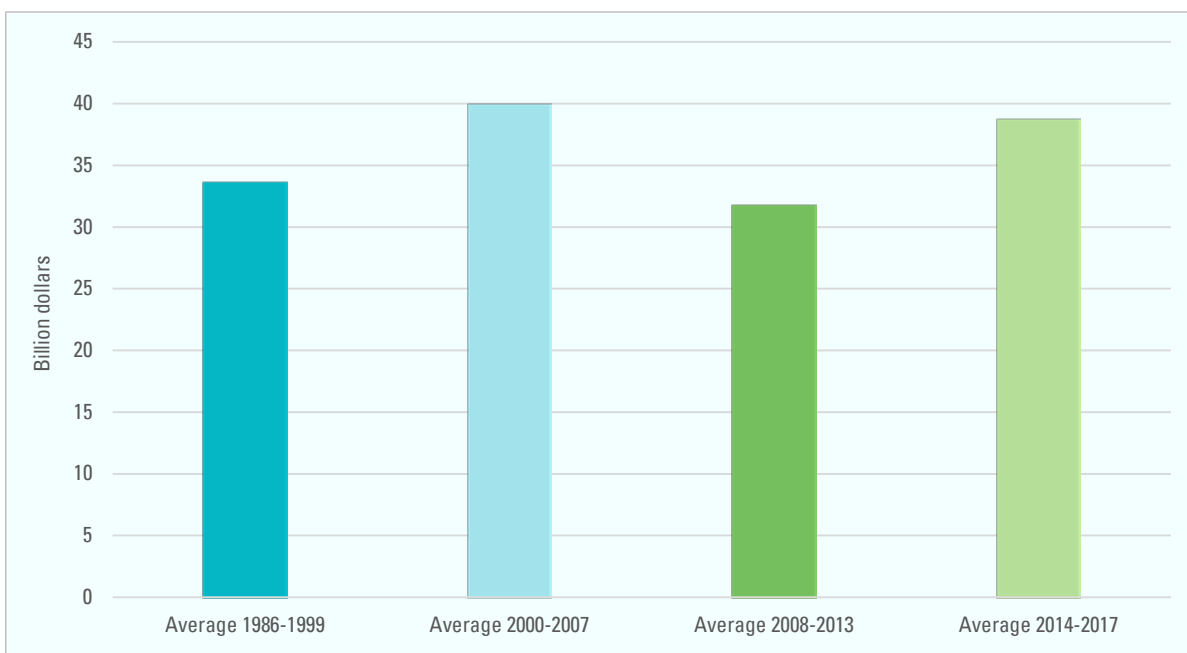
2. Trends and changes in support to United States farmers

The original intent of United States farm subsidies was to provide financial stability to farmers during the Great Depression to ensure a steady domestic food supply for Americans. The United States Congress legislates the budget of farm subsidies typically through five-year farm bills. The most recent farm bill, “The Agricultural Act of 2018”, was signed by

President Trump on December 20, 2018 with a total budget of \$867 billion.

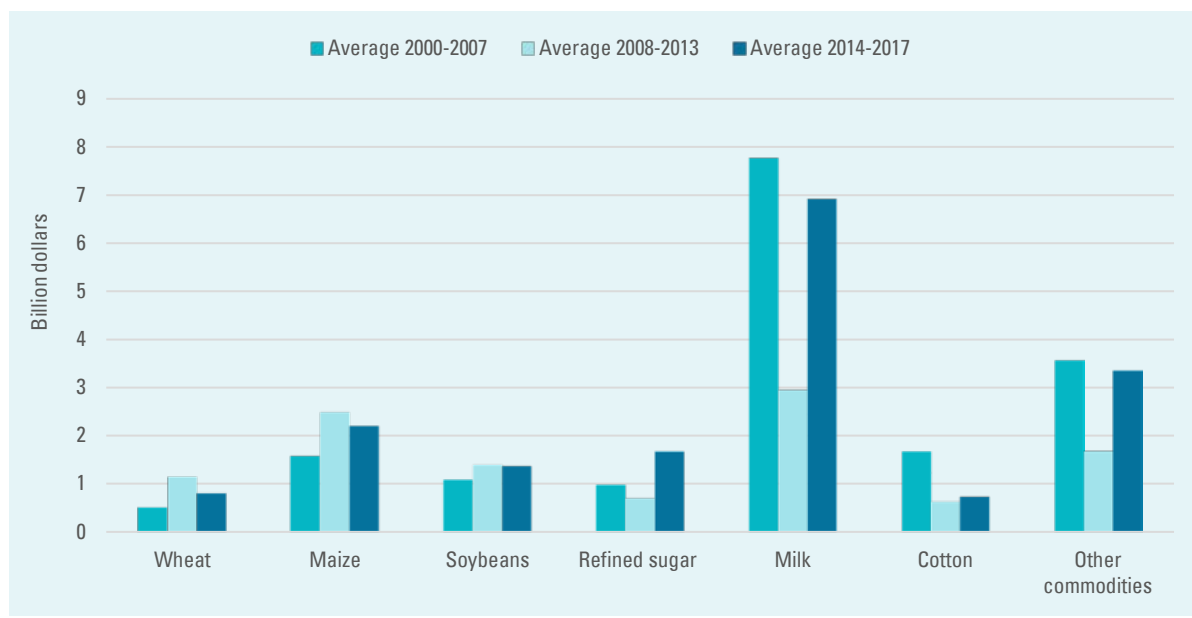
In absolute numbers, support allocated to United States farmers is lower than in Europe. Since 1986, total PSE ranged from \$19.7 to \$54 billion annually (figure 27). The products receiving support are similar to those in the European Union (figure 28). Comparing average PSE during periods 2014-2017 and 2000-2007 reveals that the average PSE of four out of seven most supported products are higher during the period 2014-2017 than the period 2000-2007, with the exception of milk, cotton and other commodities (6 per cent) that experienced a decrease over the two periods (figure 29).

Figure 27. Average annual PSE, United States per period



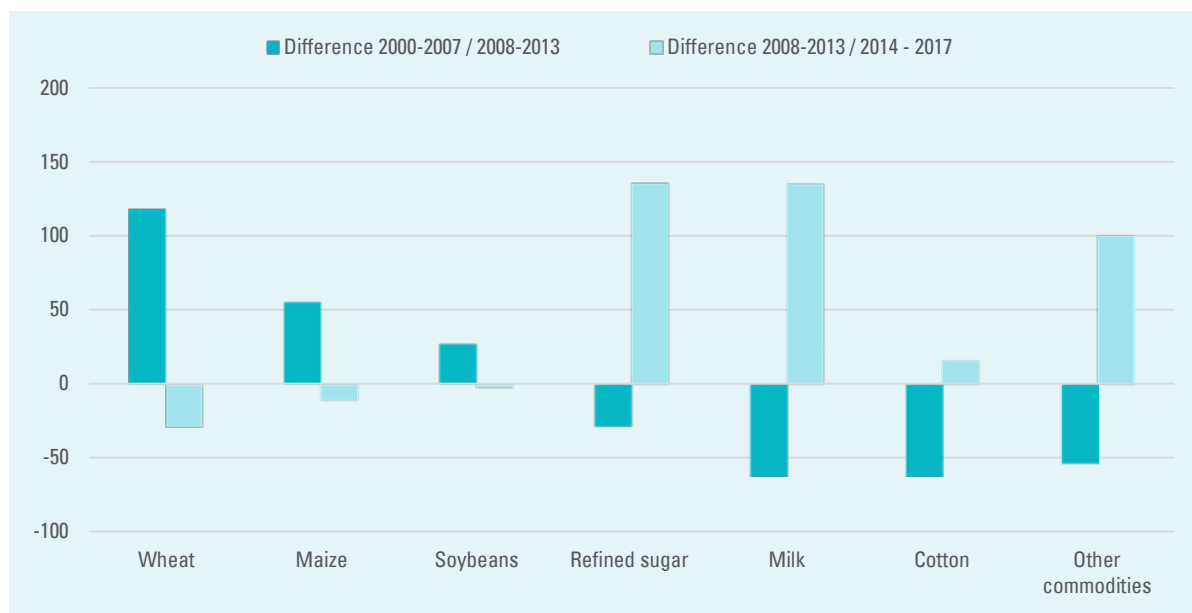
Source: OECD Database on Agricultural Policy Indicators.

Figure 28. Average annual PSE of most supported products the United States per period



Source: OECD Database on Agricultural Policy Indicators.

Figure 29. Percentage change between average support (Period 1 and 2 and Period 2 and 3)



Source: OECD Database on Agricultural Policy Indicators.

The 2018 Farm Bill consolidates existing American export promotion programmes: the Market Access Program (MAP), the Foreign Market Development Program (FMDP), the Emerging Markets Program (EMP) and Technical Assistance for Specialty Crops (TASC). It also establishes a Priority Trade Fund (PTF), from which the Government can provide additional funding to the export promotion programmes. The law also reauthorizes direct credits or export credit guarantees for the promotion of agricultural exports to emerging markets of not less than \$1 billion in each fiscal year through 2023.

3. Prospects on global distortions of agricultural markets.

There is a consensus that eliminating global policy distortions in agricultural markets could lead to significant welfare gains. However, concerns have been expressed on the potential short- and medium-term adjustment effects on some segments of the population and even on public budget balances for countries that still subsidize food consumption, as in many Arab countries.

Compared to the levels before the conclusion of the Uruguay Round in 1994, statistics show that over the last 20 years, protection on agricultural trade experienced a significant reduction but remains high compared to the case of manufactured products. According to Bellmann and Hepburn (2017), “applied most favored nation (MFN) duties were cut from an average of 25 per cent in 2001 to 19 per cent in 2010, and applied duties (including preferential tariffs) from 16 per cent to 14 per cent. The cut in MFN applied duties was especially steep for developing countries, falling from an average of 31 per cent to 23 per cent, with preferential applied tariffs going down to 20 per cent in

2010”. Moreover, as recent global trade tensions linked to the United States-China trade war are likely to affect the agricultural sector in the United States, the effects are partially being mitigated by additional support to the United States farmers to overcome part of the losses in exports of agricultural products to China. However, these negative effects may disappear if a trade deal is reached between the United States and China, which has been the case with a first deal signed on 15 January 2020. This deal will reduce pressures on the agriculture sector in the United States but at the same time it will affect other countries, mainly those with high export potential to China such as Australia, Brazil, Argentina and the Russian Federation.

In spite of these progressive changes in global agricultural distortions, the latest available information on trade protection and domestic support to farmers suggest that the trend towards lower trade-distorting support might slow down or even be reversed in the coming years, particularly if world prices continue to fall. In the European Union, the 2014–2020 CAP provides greater flexibility for countries to use certain trade-distorting instruments compared to the previous CAP. As a result, coupled aid has started to grow again, from less than EUR 3 billion in 2014 to nearly EUR 5 billion in 2015 (Matthews, 2015).

Moreover, competition on global agricultural markets increased significantly with the growth number of new key suppliers. The emergence of the new important food suppliers reduced the global agricultural market distortions due to the European Union and United States support policies.

The rise of new big exporters of agricultural products could partially reduce the distorting effects of European Union and American

agricultural policies. However, changes in the origins of agricultural exports around the world have not significantly affected the level of global protection imposed on agricultural imports. Thus, it is unjustified to expect that the Arab countries should opt for the complete opening of their agricultural sector to international competition within the framework of the negotiations in progress, such as for the establishment of the ACU, within the framework of negotiations with the European Union for the creation of a complete and deep free-trade area or with African countries for the establishment of AfCFTA. Any opening of the agricultural sector in the Arab region to international competition should be aligned with progress at the multilateral negotiation level on the liberalization of agricultural trade, which continues to represent the main factor blocking the Doha Round of the WTO. Thus, conditioning the liberalization of agricultural trade in the Arab countries to changes in the levels of distortions in world agricultural markets should not be seen as a decision to close and isolate the Arab sector, but rather as a means to ensure responsible trade and growth. Indeed, in many Arab countries achieving the two objectives of a more competitive agriculture sector coupled with higher incomes for farmers are conditioned to their ability to access foreign markets to absorb existing production surpluses and further develop productive capacities.

The opening of the agricultural sector should be accompanied by an opening to agro-industrial products and even a wider integration into the world economy through trade in services and capital movements (AAEIR second edition, ESCWA, 2018). The incorporation of agro-industrial products into trade integration agreements, which should be reciprocal with the other countries involved in each agreement, would ensure external markets for the industrial

products which, in turn, would allow additional outlets for local raw agricultural products. A reduction in transport costs (relative cost of processed product compared to raw product) would increase wealth creation, provide additional jobs for the population and, above all, ensure outlets for excess production and subsequently encourage the development of local productive capacities and even an increased adoption of new technologies for better performance and competitiveness.

Trade openness will ensure the achievement of these objectives not only by opening foreign markets to Arab agricultural exports, but also through attracting foreign investors in food processing industries which represents the major channel to improve its diversification and creating added value. In fact, most of the agri-food industries are high-tech and often very expensive to implement which explains the importance of FDI for its development. Often only multinational firms can ensure this type of investment with the necessary quality and competitiveness requirements. At the same time, the opening, which should always be a two-way street, requires the implementation of safeguards to fight economic dumping in the form of policies to support production and exports. However, in this specific situation, developing countries must keep protecting themselves against the influx of agro-industrial products with high foreign content from countries with which Arab countries have no preferential access.

The integration of agricultural products into regional or global trade agreements is a necessity. It should be encouraged but at the same time is not a reason to remove supports in development countries given the social importance of this sector. Thus, it is imperative to respect certain key rules in trade negotiations

on agricultural products. These rules depend on the agreements being negotiated and therefore on the specific nature of the trading partner. In the case of the establishment of an ACU, it is necessary to ensure an acceptable and minimum level of protection for agricultural products which reflects both the level of distortions on the world markets for agricultural products but also the level of protection imposed on agricultural exports from Arab countries to the rest of the world. For agro-industrial products, the issues are more complicated, and protection should be consistent with that provided to agricultural products through strict rules of origin on foreign content of products. Regarding trade with the European Union, any liberalization of agricultural products should be aligned with reductions in European support to its farmers. For negotiations with African countries, trade opening should take the necessary conditions in terms of rules of origin but also on the features of the foreign technology in partner countries and even social dumping in certain cases which represents an important motivation for the installation of processing units for large foreign groups in certain African countries. These are the main conditions which will guide suggestions for the integration of agricultural products into the agreements under negotiation by most of Arab countries and which are presented and discussed in the next section of this chapter.

D. The impacts of reforming Arab agricultural trade policies

The establishment of the ACU is an important step towards the integration of the Arab region. It will consolidate and extend existing economic relations among member countries. Yet it may also generate significant risks – particularly for

agricultural trade – due to two major factors. The first relates to the current global distortions on world agricultural markets which make any additional trade openness a source of dumping. Second, the possible trade concessions that may be offered unilaterally to imports from rest of the world in the form of a lower CET on agricultural imports compared with the current protection levels applied in some Arab countries.

These two important dimensions of agricultural trade negotiations still represent a major barrier towards achieving significant progress on the ACU. Moreover, many Arab countries are also part of the Euro-Med partnership and the European Union. This process of North-South integration is limited to manufacturing products with a marginal inclusion of agriculture. However, the European Union – with its new policy of partnership – is suggesting a new wave of FTAs including agriculture and services. The negotiations remain at a very preliminary stage for most countries, with some not having initiated them yet. In this respect, developing an Arab strategy for agricultural trade taking into account the ongoing negotiations on the ACU and all the other ongoing trade negotiations with the rest of the world, including the European Union and African countries, should be a priority for the region. All new bilateral and regional trade integration initiatives under negotiation include agricultural products either totally or partially. However, fixing the terms of concluding these agreements and the specific modalities for agricultural products requires a careful consideration of the global distortions on agricultural products as well as existing barriers on Arab exports to the rest of the world.

This section focuses on a prospective analysis of alternative scenarios of integrating agricultural products in preferential trade

agreements within the region and with external partners. The objective is to attempt to respond to the following three major questions:

1. Is the integration of agricultural products into the ACU and other FTAs feasible; that is, economically and socially profitable?
2. Will the integration of agricultural products into the ACU and other FTAs generate new trade flows? And if so, can they be identified and quantified?
3. Is integrating agricultural products in trade agreements helpful to achieving SDGs?

1. Methodology

Theory cannot suffice to identify appropriate policies. In-depth empirical analysis based on a consistent and detailed picture of the Arab economies is essential. The economic impacts of a tariff reform may be estimated in a variety of fashions (Chemingui and Dessus, 2009); the simplest is to take trade in a recent base period as given and apply to it both existing and prospective tariff rates to estimate current and prospective impacts. This is an accounting exercise and is subject to the limitation that changes in tariffs are likely to induce changes in the quantities traded and ignoring these induces a biased estimate of the revenue effects. The direction of the bias is not obvious, however, for it cannot be automatically assumed that import quantities would shift systematically towards goods that have the highest or lowest post-reform tariffs. In addition, this accounting approach generates no estimate of the effects of the reform on many other important economic indicators such as GDP and welfare.

The next, simplest approach is to allow quantities to change in response to prices and tariffs by modelling demand curves for imports and recognizing that agents will tend to switch

between different sources of a particular good if their relative prices and tariffs change. This is a considerable improvement over the accounting approach, but has the distinct disadvantage that it cannot relate changes in tariffs and trade on one good to those on another—meaning it is a partial equilibrium. Where a far-reaching reform is under consideration this can be a major handicap and result in predictions that, for example, imports will increase dramatically without any corresponding increase in exports.

A third approach, implemented here, attempts to correct the major shortcomings of partial equilibrium modelling while still retaining its strength of dealing with imports at a disaggregated level. Thus, it allows for substitution between different sources of a given import (necessary if tariffs on different partners change differently), between imports and domestic supplies and between different goods in production and demand. Moreover, this approach has the ability to combine detailed and consistent databases with a theoretically sound framework, which could not be done with econometric techniques. They allow feedback effects and market interdependencies that may either mute or accentuate first-order effects to be considered. For instance, a decrease in tariffs will affect the demand for imports of both final and intermediate goods. This will in turn affect the supply of domestic goods, the demand for labour and capital in each activity, the price of goods and the disposable income of households, which will in turn affect their demand, and so forth. For these advantages, CGE models have become a standard tool for integrated assessment of trade policies for both developed and developing economies. Moreover, global CGE models represent the best tool for studying the interdependence of policies at a regional and global level.

The trade policy simulation model used in this report is based on the prototype global model developed by the OECD Development Centre. The technical aspects of this model are explained elsewhere (van der Mensbrugghe, 1998). The Linkage Model assesses the impact of trade reforms at bilateral and global levels on the individual countries and regions. The model is a relatively standard neo-classical model of economic activity. It is based on the 8.0 release of the Global Trade Analysis Project (GTAP) data set (Narayanan, Badri and McDougall, 2012). The model is designed for analysing dynamic scenarios. The scenarios are solved as a

sequence of static equilibrium, with the periods being linked by (normally exogenous) dynamic variables, such as population and labour growth, capital accumulation and productivity. Policy scenarios, like the introduction of a regional free trade area, are compared to a baseline or business-as-usual scenario. The GTAP data set is particularly attractive for trade analysis since the base data set includes a fully consistent set of bilateral trade flows, bilateral trade measures (both on the export side and the import side), and bilateral international trade and transport. The major features of the model are presented in annex.

Table 5. The SDGs' dimension of the model and their corresponding indicators

1	End poverty in all its forms everywhere	Indicator 1.2.1. Proportion of population living below the national poverty line, by sex and age	Social
2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	Indicator 2.b.1. Producer Support Estimate	Economic
		Indicator 2.b.2. Agricultural export subsidies	Economic
5	Achieve gender equality and empower all women and girls	Indicator 5.4.1: Proportion of time spent on unpaid domestic and care work, by sex, age and location	Social
8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Indicator 8.1.1. Annual growth rate of real GDP per capita	Economic
		Indicator 8.2.1. Annual growth rate of real GDP per employed person	Economic
		Indicator 8.5.2. Unemployment rate, by sex, age and persons with disabilities	Social
9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	Indicator 9.4.1. CO ₂ emission per unit of value added	Environmental
13	Take urgent action to combat climate change and its impacts	Indicator 13.3.1: Number of countries that have integrated mitigation, adaptation, impact reduction and early warning into primary, secondary and tertiary curricula	Economic
17	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development	Indicator 17.1.1. Total government revenue as a proportion of GDP, by source	Economic

Due to the holistic approach of the SDG framework, we do not limit ourselves to using the model in providing standard economic indicators such as variation in national and sectoral exports and imports, GDP and employment. We extend our analytical framework to cover the three dimensions of the sustainable development agenda: economic, social and environmental. In doing so, we complement the original Linkage Model with specific extensions (such as gender-specific labour markets) or satellite accounts (greenhouse emissions) when data is available for the nine Arab countries considered.

However, due to the large number of SDG indicators and their high granularity, we provide the following eight summary indicators, which reflect the respective achievements of major economic, social and environmental goals that are directly and indirectly linked to agricultural and food trade liberalization (table 5).

The SDGs have far-reaching implications for trade and economic integration. Goal 17 explicitly identifies trade as one of several “means of implementation” – indicating that world leaders saw trade as a means to an end, rather than an end in itself (Díaz-Bonilla and Hepburn, 2016). In general, SDGs and their targets are interrelated and demand a holistic approach. For example, while Goal 2 addresses hunger, food security and nutrition, and sustainable agriculture, it also includes a commitment to address trade under SDG target 2B. This interconnected nature of the SDGs mean that we cannot treat the goals and targets in isolation. Similarly, for trade policies to contribute to achieving the SDGs, governments will need to take complementary actions to address market failures and to compensate any losers from specific integration schemes.

Therefore, while SDG 2 is critical in guiding progress on food and nutrition security and sustainable agriculture, policymakers will also need to take into consideration other components of Agenda 2030. These include but are not limited to SDG 1 on poverty, SDG 10 on reducing inequality, SDG 5 on gender equity, SDG 12 on sustainable consumption and production, and SDG 13 on climate action. Some goals and targets are particularly important in the Arab region – such as SDGs 2, 6 and 13, which relate to food, water, and climate change.

While policies affecting food and agricultural markets are fundamental in shaping food security outcomes, other trade policies can also affect the achievement of Agenda 2030. For example, policies affecting trade in services can affect employment and income levels, with consequences for citizens’ economic accessibility to food – one of the four key components of food and nutrition security¹⁵ (Bouët and Laborde, 2018).

Finally, we consider that all trade policy scenarios will not change the role of the government and its capacities in providing public services (health, welfare programmes, education). Therefore, we do not sacrifice other SDG targets in our assessment, nor do we translate potential economic outcomes and potential public budget impacts into benefits or costs for other SDG targets. This neutral objective has been achieved through fixing the government deficit level as well as the relative public spending at sectoral level.

2. Scenarios

Arab countries are at a crossroads in terms of possible global and regional trade integration

schemes. This section investigates three main integration options. Each of the three scenarios could have different challenges for negotiation and implementation for political and logistical reasons, but we do not enter in such consideration that goes beyond our modelling framework as well as the specific purposes of this chapter. All policy options are assumed to be implemented between 2020 and 2022. However, the analysis on the results will be limited to the year 2030, the target year of the SDGs. In each scenario, PAFTA tenets of baseline tariff liberalization are assumed to be fully implemented. The suggested scenarios could be formulated within the following three axes:

Scenario 1: from an Arab FTA to a pan-Arab Customs Union. This scenario can be seen as a deep “horizontal” intra-Arab integration, covering all Arab countries. Two modalities are considered. Scenario 1.a assumes homogenous 30 per cent tariffs on agriculture and 20 per cent tariffs for non-agricultural products. Scenario 1.b considers the existing WTO commitments by Arab member countries and the requirements not to exceed such consolidated tariffs. This dimension is crucial for the case of Saudi Arabia which has relatively low bound rates compared to other Arab country members of the WTO. To do so, Arab member countries of ACU and WTO could adopt a consolidated offer that may increase individual MFN tariffs but will not change the trade-weighted bound tariffs at the sectoral level as per Saudi’s commitments under the protocol of its accession to the WTO. For both scenarios, all tariffs on intra-Arab trade are removed, including any pending tariffs on agricultural and food processing products.

Scenario 2: a continental integration option with non-Arab African countries through the

implementation of the COMESA customs union and the accession to the AfCFTA. As with scenario 1, two alternatives are suggested. Under the scenario 2.a, given the geographical disaggregation of the GTAP database, Egypt and Tunisia will consolidate their integration with the COMESA customs union by implementing the COMESA CET, while Morocco and the rest of Arab African countries not individually included in the GTAP database will remove all tariffs with the COMESA countries through the accession to COMESA’s FTA. Beyond the consolidation around the COMESA trade bloc, scenario 2.b assumes that the AfCFTA will be implemented across the continent which means that all intra-African trade will be free of duties.

Scenario 3: In addition to the vertically integrated FTA between the Arab African countries and the rest of Africa through the full implementation of the AfCFTA, three Arab members of the Euro-Med association partnership which are integrated in the GTAP database (Egypt, Morocco, and Tunisia) will move towards the Deep and Comprehensive Free Trade Area (DCFTA) with the European Union. This scenario is implemented under two alternatives. Scenario 3.a assumes that the DCFTA will be implemented simultaneously with the full removal of all global distortions on agricultural markets, while the second scenario assumes a reduction of only half of the global distortions.

The three major scenarios and their six sub-scenarios are assessed first through the lens of pure tariff changes. Then, non-tariff measures (NTMs) are removed, including both non-tariff measures (NTBs) and technical barriers to trade (TBTs), to capture possible additional gains from the suggested trade integration schemes. For all scenarios, the results of the assessment

include both the agricultural and non-agricultural dimensions despite that industrial products are almost totally liberalized in the context of the two prominent agreements covering Arab countries- PAFTA and the FTAs with the European Union. While we have explored a more extensive number of scenario configurations (up to 32), here we keep a more limited number (6) for the sake of analysis in this report.

3. Impacts

(a) Impacts on welfare and GDP

The impacts of the six scenarios on welfare and GDP are shown in figure 30, figure 31 and figure 32, indicating deviations from base values in 2030. For the Arab region, the third scenario (scenario 3b) generates the highest gains in welfare followed by the first scenario of implementing the CET under option 1.a. Despite the aggregated gain for the region, impacts at the country level are heterogeneous, ranging from welfare gains to losses. For the first scenario with the implementation of the ACU, the largest increase in welfare will be achieved by Egypt, Tunisia, Morocco and Bahrain. More specifically, the gains in welfare are highest in the first scenario of the ACU where the CET is fixed at 30 per cent, reflecting the concerns of the most diversified economies in the region where the agricultural sector still plays an important role in their economies. At the same time, some of the rest of Arab countries will experience significant losses in their welfare level, due to the increase of consumption prices of imported products in the absence of positive supply responses. However, for oil-based economies welfare changes are positive because losses due to higher consumption prices are compensated by the increase in government fiscal revenues, which

have been transferred to the household as per the model closure rules. In fact, moving from 5 per cent to 30 per cent of tariffs on imports by GCC countries is expected to increase tariff revenues by around 600 per cent which represents important cash transfers to households. In addition, the new level of protection in GCC economies will stimulate import-substitution productive capacities in some sectors which in turn boost job creation and incomes.

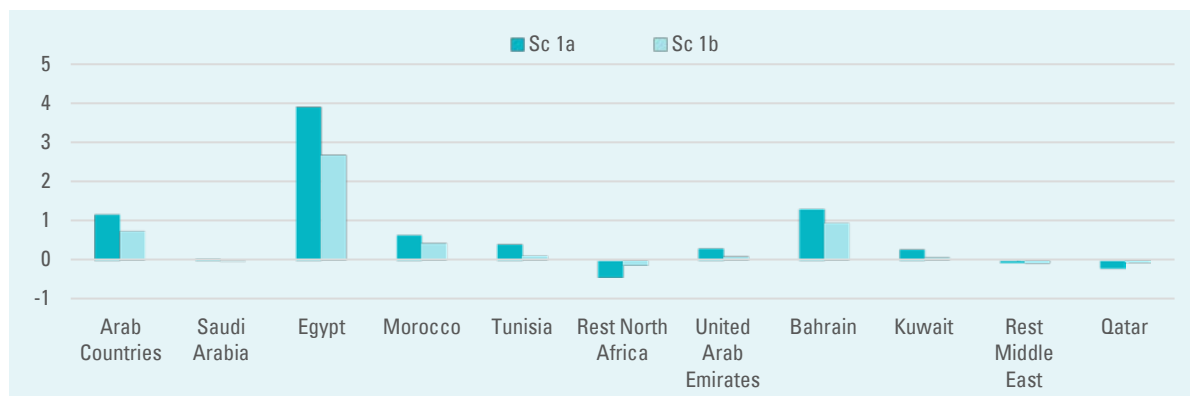
In general, the increase in welfare from the implementation of the ACU for non-oil based economies in the Arab region is mainly due to the increase in farmers' incomes, which largely compensates the reduction of consumers' welfare arising from the higher consumer prices on non-subsidized products (box 4). In fact, the change in consumer welfare is directly due to the relative changes in tariff brought on by the implementation of the CET. However, for the countries expected to record an overall reduction in their level of GDP, the deterioration in consumers' welfare due to higher consumption prices largely exceeds the increase in farmers' welfare. It is essential to highlight that both simulations assume no changes in the global agricultural markets' distortions.

Box 4. Food subsidies in Arab region

Food subsidy programmes exist in most Arab countries but are costly and do not always reach those most in need. According to the IMF (2014), food subsidies represented on average less than 1 per cent of GDP in nine Arab countries for which data is available, corresponding to \$21.6 billion. They are, however, important in Iraq, Syrian Arab Republic and Egypt, where they represented over 2 per cent of GDP. Most are blanket subsidies on common food items like flour or cooking oil.

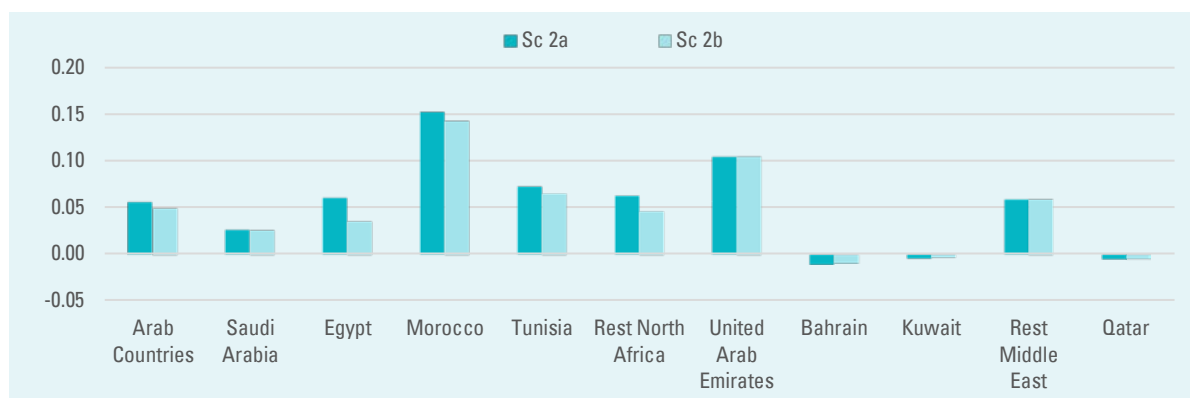
Figure 30. Impacts on welfare by scenario (Percentage point deviation to the base value in 2030)

(A) Scenario 1



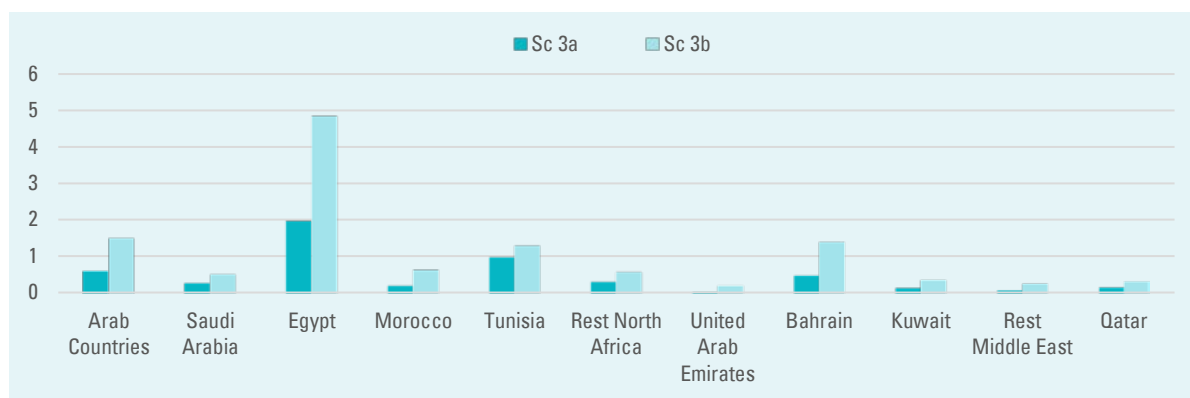
Source: Authors' calculations using the modelling results.

(B) Scenario 2



Source: Authors' calculations using the modelling results.

(C) Scenario 3



Source: Authors' calculations using the modelling results.

Regarding integration with Africa, the two tested scenarios show small changes compared with the base year 2030. This is principally due to the initial conditions of Arab-African trade integration which represents a small part of Arab external trade. It can be argued that the Arab countries directly involved in African continental integration will achieve a small but positive impact on welfare in the absence of structural transformation of Arab economies. However, the welfare of most of non-involved Arab countries in the African integration will experience a welfare loss mainly due to the CET imposed on non-African Arab exports to African Arab countries. The welfare effects on the Arab countries at the country level are also partially due to trade diversion effects which may exceed trade creation effects for most involved countries. Finally, accession to the DCFTA with the European Union is found to represent a significant trade reform for the involved Arab countries individually considered in the modelling exercise, namely Tunisia, Morocco and Egypt. The effects are expected to be positive for all Arab countries, even those not involved in the process of deep and complete integration with the European Union where the agricultural sector is targeted. However, the expected gains are much higher when the integration process is accompanied by a full removal of support to farmers in wealthy industrialized countries.

The assessment of the alternative scenarios of Arab agricultural trade liberalization shows that the region will achieve the largest gain in GDP under the third scenario with the implementation of the deep and complete FTA with the European Union. The gains are the largest if the global distortions on agricultural markets are completely removed. However, the impacts are not heterogeneous across Arab

countries. The countries benefitting most are, as expected, Egypt and Tunisia, followed by Morocco. However, when only half of the global distortions were removed, the economic gains dropped by almost half for the three directly concerned countries.

Contrary to expectations, the implementation of the ACU will not be a source of economic gains for all participating countries. Although the aggregate impacts at the regional level will be positive, impacts at the country level are again more heterogeneous. In the first sub-scenario of imposing a CET of 20 and 30 per cent, the greatest economic gains are registered in Egypt followed by Tunisia, Morocco, Bahrain and other non-GCC countries. At the same time, other Arab countries are expected to slightly lose from this scenario, which is the case of GCC countries, except Bahrain. For the GCC countries, moving from an average applied tariff of 5 per cent on imports from non-Arab countries, including agricultural and food imports, to 20 or 30 per cent will significantly affect households' welfare through higher consumer prices. At the same time, due to the absence of a significant improvement in national production capacities and non-oil exports and given the small contribution of non-oil activities to their GDP, the net effect will be negative in terms of GDP. At the same time, keeping the current level of applied tariffs on non-oil products, mainly manufacturing and agricultural products, in most non-oil-based economies, will generate an important market creation effect in the form of additional exports to oil-based economies which will in turn stimulate national production capacities. In both scenarios of ACU implementation, the major winners are the producers as result of trade creation, with consumers losing due to the economic cost of trade diversion. In fact, while

trade creation represents an opportunity for exporters, a part of it represents a cost for importer countries if trade diversion exceeds trade creation, which is the case of most of oil-based economies. The results confirm previous assessments by ESCWA on the impact of many scenarios of CET on individual Arab economies. They show that none of the plausible scenarios will be a source of economic gains for all member countries in the absence of appropriate compensation mechanisms at the regional level and tailored accompanying measures at the country level, which have proven vital in other global integration experiences (World Bank, 2005; UNDP, 2010).

Finally, and similarly to the effects on welfare, the impact of integration with Africa on GDP in the concerned Arab countries are very small even for the countries directly involved in this initiative. The reasons include the initial poor level of Arab-African trade integration and high logistic costs (ESCWA, 2015). Making Arab-African trade integration a source of economic growth and welfare requires the extension of policy reforms beyond tariff removal. Options to build regional value chains for a higher connectivity to global value chains should guide any regional integration project in the region itself and with other partners.

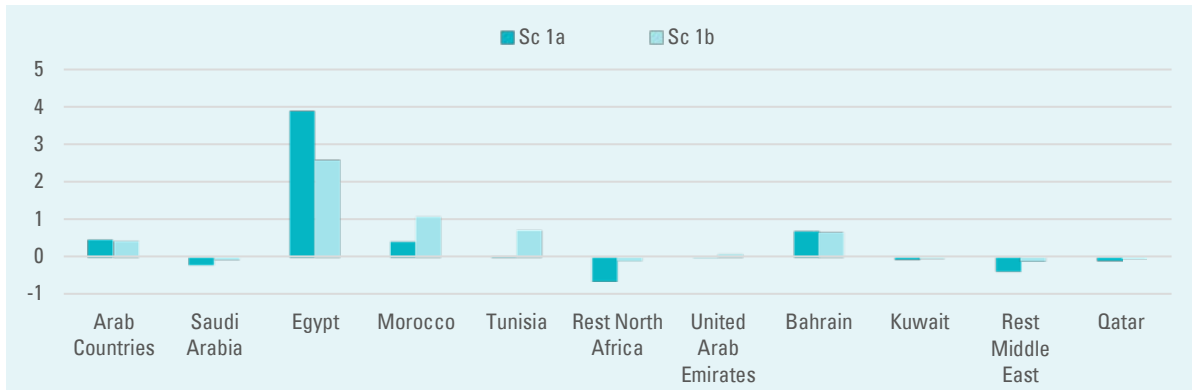
Turning to the performance of the agriculture sector, simulation results reveal that deeper economic integration with the European Union, under the two alternatives of reducing global agricultural market distortions, significantly affect the sector's performance in the three concerned countries – Tunisia, Morocco and Egypt. However, only Tunisia seems to gain while Morocco and Egypt will be negatively

impacted. For Tunisia, the integration of the agricultural products in the FTA with the European Union will significantly boost exports, driven by the competitiveness of Tunisian agricultural products on foreign markets due to a 100 per cent depreciation of its local currency over the past 9 years, as well as high tariffs and NTBs imposed respectively by Tunisia and the European Union on their bilateral trade, the removal of which will provide a substantial boost (Chemingui, Feki and Sloan, 2014). This also provides an important incentive for farmers to develop their productive capacities, but also a trade diversion from other partners to the European Union. For the case of Morocco and Egypt, their initial situations differ and the negative impacts on the sector's GDP is due to many external factors including the reduction of their exports to the European Union as result of trade diversion to the benefits of other countries, including Tunisia.

For the case of agricultural products, the adoption of a Pan Arab-African regional agreement on SPSMs and specific rules of origin for the trade of food processing products is a key condition to facilitate interregional integration. Accordingly, allowing the cumulation of origins reflecting the current sectoral composition of agricultural production in the Arab and African regions will facilitate the development of regional value chains (RVCs) as an important step towards higher connectivity to GVCs. International integration experiences show that without developing RVCs, trade expansion due to regional integration initiatives will be limited to the trade of existing products without the capacity to develop new higher-value products reflecting better technological components and higher labour productivity.

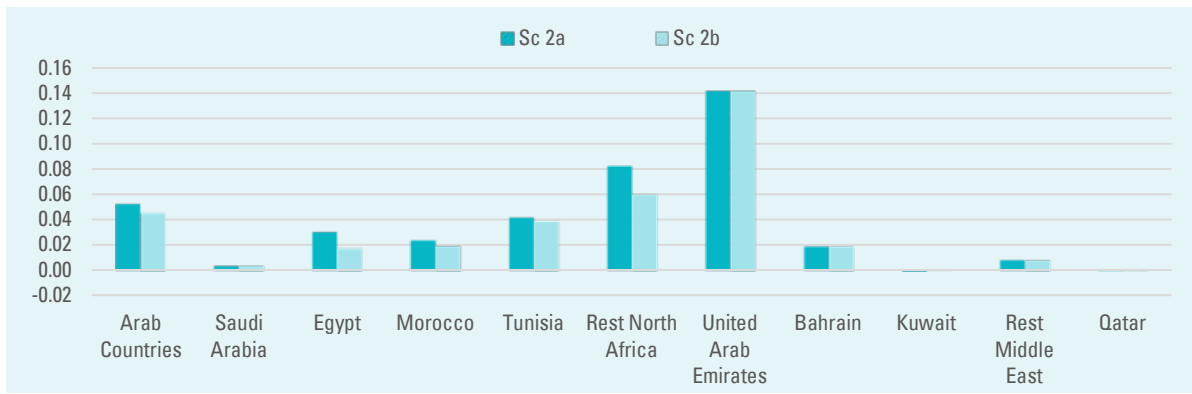
Figure 31. Impacts on GDP by scenario (Percentage point deviation to the base value in 2030)

Scenario 1



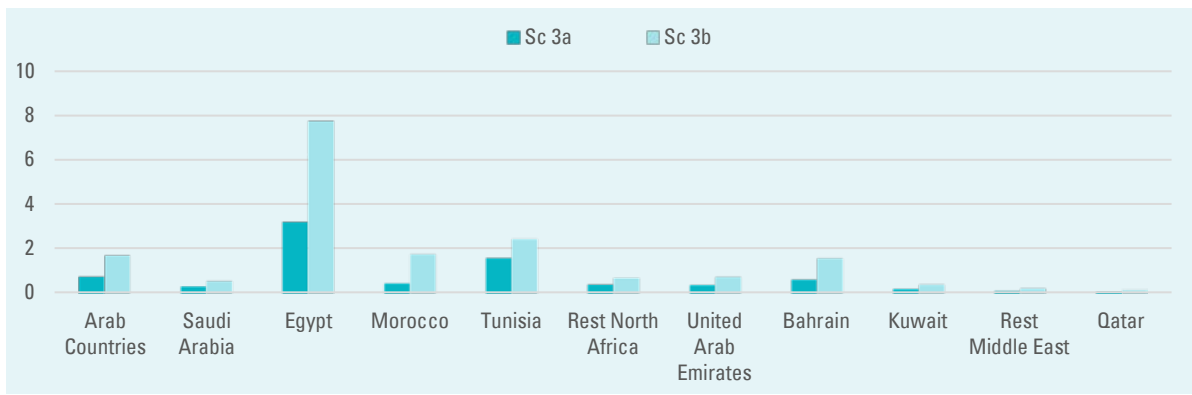
Source: Authors' calculations using the modelling results.

Scenario 2



Source: Authors' calculations using the modelling results.

Scenario 3



Source: Authors' calculations using the modelling results.

The decrease in sectoral value added is homogeneous across countries and directly correlated with the reduction in global agricultural trade distortions. As shown in section 3 of this chapter, the level of support in the United States and European Union is below the current level of effective protection for most Arab countries, except for the GCC. The removal of tariffs on agricultural imports from the European Union will have implications for deteriorating the competitiveness of this sector in many Arab countries. In turn, it will accelerate factor reallocation from the agricultural sector to more productive and competitive activities, mainly in the manufacturing and food processing sectors. However, under the ACU scenario, most Arab countries will experience an increase in agricultural production. In fact, the high level of CET considered in both scenarios on the ACU will significantly boost intra-Arab trade of agricultural products. At the same time, exports to the rest of the world will be significantly affected due to competitiveness deterioration. The overall impact on agricultural GDP seems to be negative for most non-oil-based economies.

As anticipated, the overall impact of the different reforms analysed in this section depends on the expected changes in global agricultural market distortions. The direct effect of reducing global agricultural distortions through the removal of export subsidies and direct support to farmers in the United States and European Union is an increase of the world's agricultural prices. However, this expected increase, which will directly affect the producer prices at the global level, including the Arab region, is below the current effective protection of agricultural products for most Arab countries. The situation was remarkably different two decades ago, when the level of global distortion was much higher.

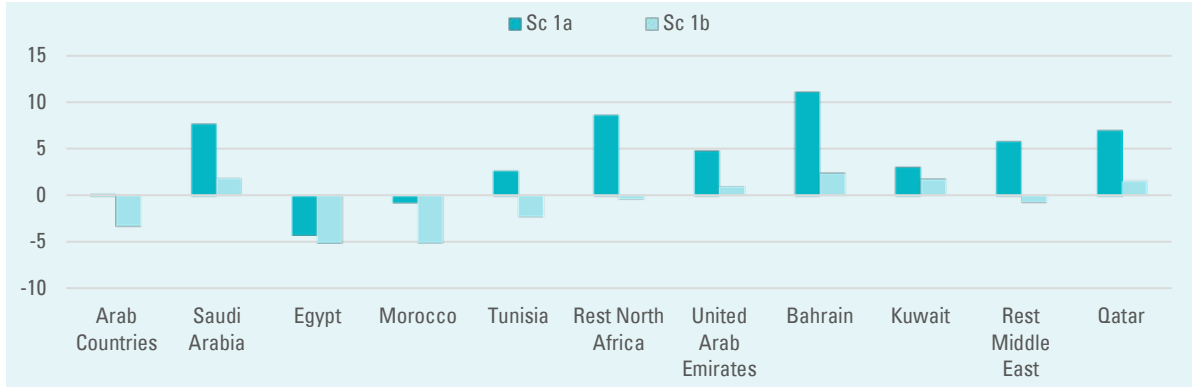
The overall gain for each Arab country depends on its capacity to take profit from the new situation by increasing domestic production and exports more than the increase in import bills of agricultural and food products. Detailed results on the changes in agricultural value-added in all individual simulations affirm that the countries capable of significantly increasing their domestic production will gain more. For Morocco and Egypt, which will lose from most of the suggested reforms, sectoral value-added for agriculture and food-processing will also decrease.

Notwithstanding the results of these six scenarios, the anticipated effects of such commitments toward more transparent international trade of agricultural products are relatively low given the low diversification of most Arab economies and the dominance of a few export-related activities, mainly oil and other natural resources. It can be argued that the countries with more diversified economies will enjoy higher benefits from these scenarios.

Finally, our results confirm the findings of most available assessments on the impacts of global agricultural trade liberalization. A tariff cut on agricultural imports yields higher gains than the elimination of support to farmers in developed countries, mostly for Arab net importers of food products. In this respect, the reduction of direct support to farmers and export subsidies in developed countries should be jointly implemented with agricultural tariff reductions in order to ensure a win-win outcome. Moreover, as suggested by many assessments and analysis (Francoisvan Meijl and van Tongeren, 2003; IMF and World Bank, 2002), a comprehensive tariff reduction strategy covering agricultural and non-agricultural products is more desirable than a partial approach.

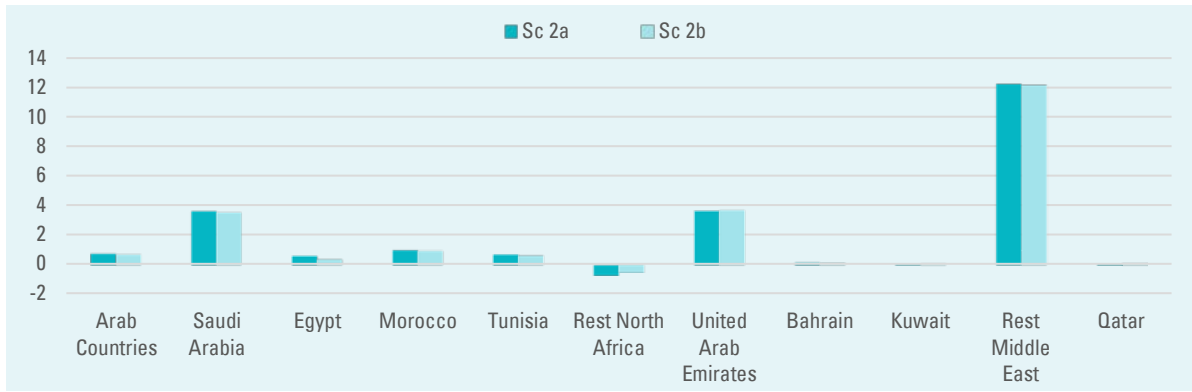
Figure 32. Impacts on agricultural GDP by scenario (Percentage point deviation to the base value in 2030)

Scenario 1



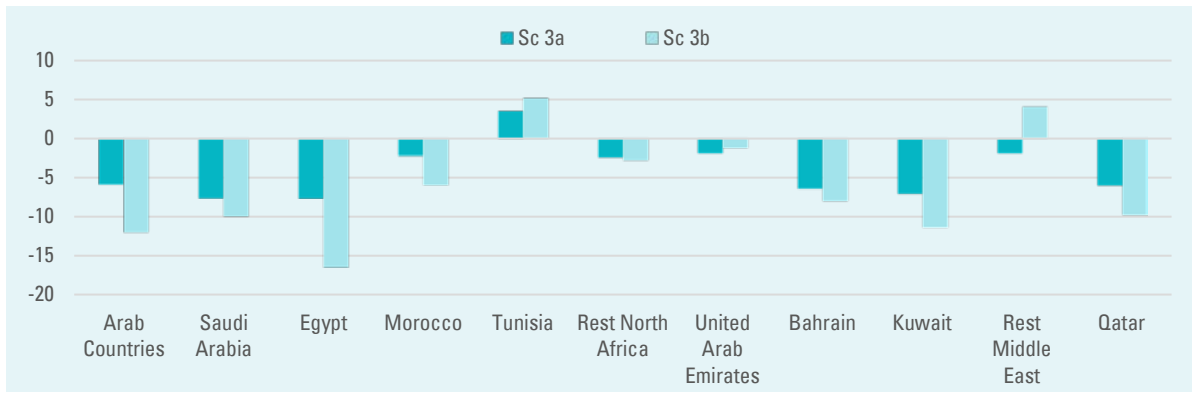
Source: Authors' calculations using the modelling results.

Scenario 2



Source: Authors' calculations using the modelling results.

Scenario 3



Source: Authors' calculations using the modelling results.

(b) Impacts on selected SDGs

As highlighted in the preceding sections, regional trade integration initiatives raise several strategic issues for Arab countries. These issues vary depending on geographical location, existing trade linkages, production structures and diversification levels. Arab African countries will need to consider how the implementation of the AfCFTA, relationships with the European Union and the Mediterranean region as a whole could affect their trade policy frameworks and their capacities to achieve the SDGs. Countries will need to reflect on the sequencing of trade negotiations and regional integration initiatives. In the following sections, the report presents and analyses the implications of including agricultural products in the ongoing trade negotiations on achieving selected SDGs. It focuses on the three paths of Arab regional integration: the ACU, the AfCFTA and the DCFTA with the European Union, and the impacts on gender equality and GHGs emissions.

(i) The impact on gender equality

Integration affects employment in mixed ways depending on the countries involved, and the type of integration pursued. Even though integration results in significant gains for welfare and GDP, its impact on employment is strongly conditioned by a multitude of opposing factors. Moreover, the employment impacts of a given trade reform may differ by labour segment, including the gender dimension. The direction (gains or losses) and its magnitude depends on many factors including the initial conditions of the country in terms of sectoral employment, respective initial wages, and initial unemployment conditions. Moreover, the impacts depend on the scope and level of trade reforms and their sectoral coverage.

To analyse the impact of agricultural trade liberalization under the alternative scenarios of Arab trade integration and for data limitations, the model integrates information on employment by gender at the sectoral level (number of workers and their respective wages) for three Arab countries among the nine considered in the database. Figure 33 displays the results in terms of relative variations in real wages by country and gender. It shows deviations compared with the baseline scenario which would prevail in 2030 in the absence of any economic reforms, including trade integration schemes at the unilateral, regional and global levels. To facilitate the interpretation of the results of the simulation, it is important to highlight that the model used here assumes a fixed unemployment rate for all covered countries. Thus, any variation of labour demand by segment (male and female) due to the implementation of trade reforms is captured through the variation in the corresponding real wage as per the model's closure rules. Accordingly, any increase of real wages for a specific labour segment due to the implementation of a given trade reform could be analysed either as an additional remuneration of the concerned labour type or a reduction in its unemployment rate.

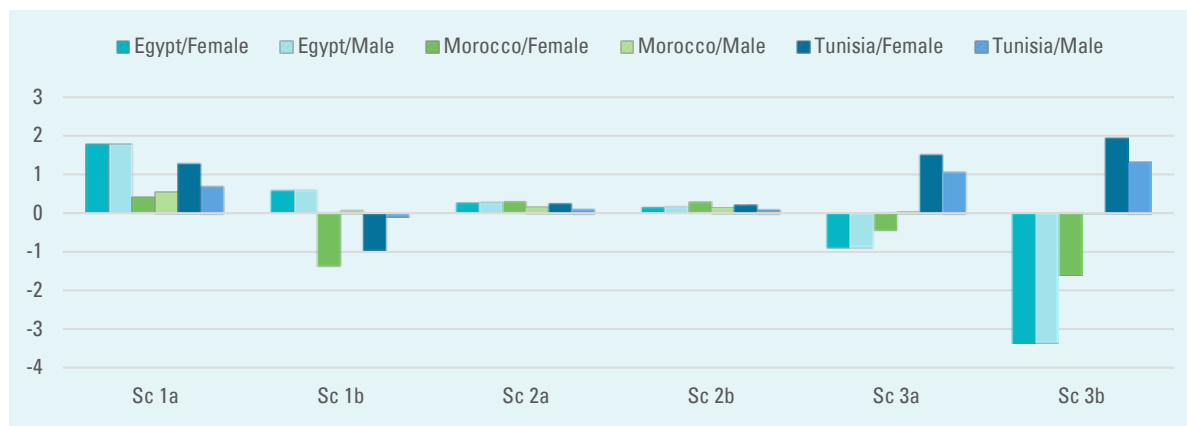
The results of the simulations suggest that the trade integration scenarios will trigger visible changes in relative employment in the two non-GCC countries, Morocco and Tunisia. This is consistent with the expected effects of a policy shock with potential consequences on the structure of national production. For the case of Morocco, real wages for men will increase by around 37 per cent compared with women in the scenario 1a. However, in scenarios 2a and 2b, real wages for women will increase by around 38 per cent compared with men. Moreover, real wages for women will decrease

in scenario 2, compared to a small increase for men. In the third scenario, both segments will experience a drop in their real remuneration reflecting an increase in the unemployment rate. In Tunisia, the situation is completely different. Women's real remuneration will increase much more than men in all scenarios, except for scenario 1b that reflects one option for integration with Africa, where the relative remuneration of women will undergo a higher reduction than men. Moreover, the simulation shows that the implementation of the ACU under the first alternative (scenario 1a) will increase the average relative real wage for men compared to women, further deteriorating the gender gap. In the second scenario of integration with Africa, real wages for both segments will be affected but again at a lower level for men than women. Only in the third scenario reflecting deeper integration between three Arab countries and the European Union, the impacts on real wages show a significant reduction in the gender gap.

Overall, the Arab regional and global integration schemes tend to increase employment in non-agricultural sectors and consequently reduce

the contribution of agriculture in total employment. However, the effects on employment are strongest under the intra-Arab trade integration scenarios (scenarios 1a and 1b). In fact, the implementation of the CET makes Arab exports of both agricultural and non-agricultural products more competitive in Arab markets as result of both trade creation and diversion. The increase of intra-Arab exports will in turn boost total Arab output and employment. This increase is a positive long-term effect for the Arab economies as wages tend to be higher for non-agricultural activities. On the other hand, integration in the global markets have mixed results. The phasing out of tariffs on trade with the European Union and African countries coupled with a significant reduction in global agricultural distortions make the agricultural and food processing exports of some Arab countries to the European Union markets more competitive. While the competitiveness improvements for selected Arab exports would generate structural changes that alternatively affect the balance of employment toward agricultural and non-agricultural sectors, the magnitude of these effects is small.

Figure 33. The impacts of trade integration scenarios on real wages in 2030 by gender (Deviation compared to the baseline scenario)



Source: Authors' calculations using the modelling results.

In sum, while African integration clearly increases employment in non-agricultural activities, the reduction of global agricultural distortions has a more nuanced effect on the relative sectoral employment. It will increase job opportunities in several sectors but will also favor agricultural activities in some integration scenarios, namely with the European Union.

Finally, creating more jobs in the agricultural sector is not synonymous with higher aggregated agricultural production. In fact, the changes in relative prices of agricultural and food products due to trade reforms may increase production in labor-intensive sectors, but at the same time may reduce job opportunities in some other sectors. The net effects may be positive on employment but negative on sectoral production depending on the structure of agricultural production in each country as well as the initial conditions in terms of policy distortions and factors' intensities.

(ii) The impact on greenhouse gas emissions

Different integration schemes result in a range of changes in greenhouse gas (GHG) emissions, influenced by the sectoral composition of GDP and final consumption. Both determinants are directly linked to the associated sectoral GHGs emissions, which depend on the structure and volume of energy consumption by category. In the present model, three categories of energy were considered: electricity generated from natural gas, electricity generated from fuel, and other petroleum products.

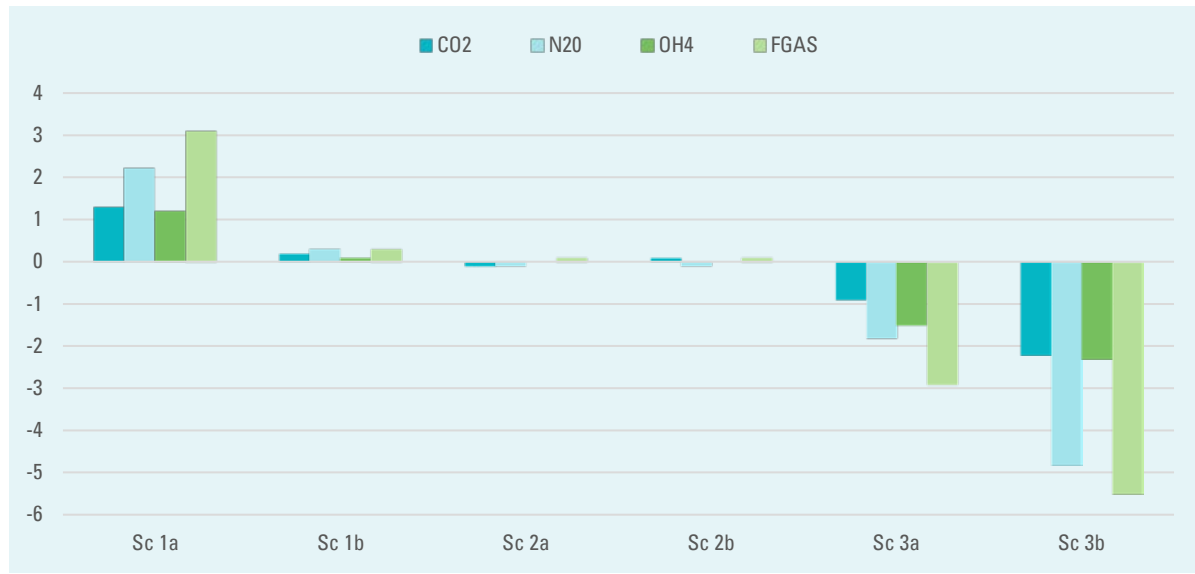
At an aggregate level, GHG emissions are relatively low in the Arab region. However, important disparities exist between countries. To the extent that integrating agricultural

products into both existing and new trade agreements may increase GDP in the Arab region, GHG emissions are also likely to increase. This is mainly the case when trade liberalization is not accompanied by appropriate environmental mitigation instruments or a technological transfer to improve energy efficiency. The results of the simulations point to annual increases or reductions that are quite small. The changes by country, scenario and gas range from -5.5 to 3.1 per cent in 2030 compared with the reference scenario (figure 34). But even after these increases, emission levels remain relatively low in most Arab countries.

Arab integration through the implementation of the ACU tends to bring the largest increases in GHG emissions, while integration with Africa has a quasi-neutral impact. Our estimates show that intra-Arab integration under scenario 1a increases annual emissions of CO₂ and N₂O by about 1.3 and 2.2 per cent respectively on average and of f-gases by 3.1 per cent and CH₄ by 1.2 per cent. On the other hand, emissions of CO₂ increase by about 3.5 per cent in North Africa and 0.6 per cent in West Asia. However, F-gases will increase by 4.4 per cent in North Africa and 2.5 per cent in West Asia. Thus, the impact of a deeper Arab regional integration has a more contained effect on GHG emissions.

However, integration with the European Union under the two sub-scenarios (3a and 3b) reduces annual emissions in the Arab region for the four GHG gases. This reduction mainly reflects the European standards that must be respected by all exporters to the European Union, which influence the adoption of more clean production techniques in the concerned Arab countries.

Figure 34. The impact on GHG emissions in Arab region (Deviation compared with the baseline scenario in 2030)



Source: Authors' calculations using the modelling results.

It is important to highlight that the model used for this study does not address important environment challenges for the Arab region such as local air pollution, water contamination, land degradation and climate change. Nevertheless, the small changes of the GHG emissions in the Arab region due to trade integration initiatives hide important disparities between countries and consequently their respective damages on health and agricultural productivity. In all cases, Arab leaders should pay more attention to the management of the environmental dimension of trade integration scenarios to avoid generating social damages. A better management of the environmental and social impacts of trade reforms should be implemented through two major policy instruments. The first involves imposing pollution tax abatement on specific emissions to encourage producers to adopt less energy intensive activities. The new revenues to be

generated from the pollution abatement tax could be reallocated to assist producers in adopting new technologies and best practices towards clean production processes. The alternative integration paths suggested in this report are likely to bring environmental challenges if trade reforms and their accompanying policies increase Arab connectivity in GVCs. In fact, the most important accelerator of economic growth will not be achieved only through opening the Arab market but through developing regional value chains and new productive capacities to boost the Arab region's participation in GVCs. Finally, and while the discussion here addresses the impact on different countries of trade reforms, it is well recognized that environmental challenges — particularly GHG emissions — have no borders. Solutions will require cross-national cooperation in terms of climate change, but national actions are still required in terms of ancillary benefits.

E. Impacts of COVID-19 on agriculture and agriculture trade regulations

The COVID crisis has clearly shown the limit of the multilateral negotiations and the urgent need to change course not by focusing solely on reducing support but by harmonizing support levels and strengthening fluidity of agricultural trade for greater availability of products in due time for every country around the world. Indeed, both farmers and consumers find themselves heavily penalized by this crisis through the disruption of global and national supply chains, to different degrees. The net impacts are a lower capacity of farmers to produce and sell their products and a difficulty for consumers to access the necessary products in time and when it is needed.

To cope with the crisis, the efforts of several countries have focused on increasing stocks of strategic agricultural and food products. The disruption of supply chains has strongly pushed consumer prices up without significant gains on producer prices. According to preliminary ESCWA estimates, the agricultural sector in the Arab region will be strongly affected by the global crisis from at least three different channels. The first is a difficulty in obtaining the agricultural inputs necessary for production operations, which will be translated into a drop in agricultural production and its ability to supply markets on a continuous and sufficient basis. Second, this decline in the ability to supply markets will have a significant effect on the incomes of a large part of the farming population and at the same time on consumers. Third, world trade in agricultural and food products has been severely affected by the crisis, like other products, which has greatly reduced the export capacity for several products.

In this context, it is urgent that the Arab countries, like the rest of the world, initiate new policies to encourage their national agricultural productions, to improve their storage capacities and ensure a role in supplying the world market with products necessary for the maintenance of social coherence. It is also important to reorient the regulations of international trade in agricultural products to respond to the new challenges imposed by this crisis and similarly to be prepared for any similar crisis in the future. A number of specific recommendations therefore emerge, which will be outlined below.

F. Conclusion

Closer Arab economic integration must be placed in the broader context of the multiple structural challenges facing the region. While some of these challenges – such as climate change, volatile technological advances, threats to growth and job creation and others – are common across the world, others are more particular to the Arab region. Indeed, as has been outlined in this chapter, the region faces a host of gaps and challenges to greater intraregional integration and linkages with the global community even before the COVID-19 crisis. Policymakers will need to examine how closer regional and global economic integration can best contribute to the achievement of shared policy objectives, such as the SDGs. They will also need to be conscious of how different outcomes of alternative economic integration schemes could lead to gains and losses for different economic actors as well as possible trade-offs across competing policy priorities.

One of the major challenges that the region is facing is the growing demand for food in the context of supply constraints. The last OECD/FAO

Agricultural Outlook (OECD/FAO, 2018) finds that in the Middle East and North Africa, approximately 57 per cent of consumption is met through imports. Moreover, the challenges are expected to intensify due to the expected continued increase of domestic demand for food products pushed by higher incomes for households and a growing population. The same report projects agricultural and fish production to increase by 16 per cent over the coming decade, hinting at agricultural opportunities within the region but also with additional pressures on water and energy resources needed to meet such expansions.

Many of these challenges are expected to intensify in the coming years due to climate change. The FAO's 2018 report, *The State of Agricultural Commodity Markets*, anticipates that the Arab region will experience significant declines in agricultural production and exports in the coming years. At the same time, global markets are also expected to further be affected by the increasing role of the new suppliers of agricultural and food products with the capacity to compete effectively. In parallel, reducing direct support to farmers and subsidies to exports will negatively affect the productive capacities of the European Union and United States as two major traditional players in global agricultural markets. These changes make the capacity of agricultural sectors in the Arab region to adjust to these global changes an important determinant of its ability to increase production and meet demand expectations.

Although trade liberalization initiatives have reduced barriers and unlocked opportunities in many sectors, the agricultural sector remains highly protected in Arab and developed countries alike. With a variety of measures shielding farmers from import competition, including tariffs, tariff-rate quotas and other

NTMs. In addition, some Arab countries still provide direct support to their farmers in the form of subsidized inputs, price supports and subsidies to export. These support policies applied make agriculture the most distorted sector in the world economy. Many empirical assessments of the proposals for trade deals under the Doha Round suggest that the global benefits of multilateral agricultural trade liberalization will largely exceed the costs.

The impact of agricultural trade liberalization has been examined under three integration schemes – ongoing discussions on the ACU, the Deep and Complete FTA with the European Union, and the AFCFTA including the potential accession to the COMESA's customs union. The integration with the European Union, including agricultural products, which has been tested under two alternatives on the future of global agricultural distortions, will generate mixed impacts depending on the country and the nature of the trade liberalization scheme. The results of the empirical assessments show that reducing global agricultural trade distortions is likely to increase world agricultural prices, which in turn will positively affect the profitability of the most concerned products – mainly milk and meat, cereals and sugar. However, other sectors may suffer from increased competition from European products, mainly fruits, vegetables and processed products. Some Arab countries will be negatively impacted, at least in the short run, due to the significant financial cost of higher world prices of agricultural and food products. This is the case mainly of net food importing countries. The effects on the consumers depend on the existing support policies to consumption prices which isolate them from world prices if the government will compensate these increases through food subsidies programmes which are still applied in many Arab countries.

However, in the medium and long term, the global agricultural markets will adjust to the changes in relative prices through a progressive increase in global supply that will push down global prices.

Regarding integration among Arab countries in establishing the ACU, the results show relatively significant impacts depending on the structure of the adopted CET for agricultural products but also for non-agricultural products. The higher the tariff disparities between member countries of the ACU, the higher will be the effects of resource reallocation. In other terms, keeping the CET at 30 or 20 per cent depending on the adopted scenarios is the most appropriate in terms of limited reallocation of resources and productive capacities which will be mainly impacted by relative profitability of each sector and its capacity to compete in both Arab and foreign markets. Accordingly, to generate significant gains for member countries, the ACU should be built in a way to achieve greater discipline on the tariff and non-tariff barriers. The most appropriate policy option is to gradually reduce the maximum level of protection through harmonization of the equivalent ad valorem of NTMs.

Based on these findings, several specific recommendation points emerge, including:

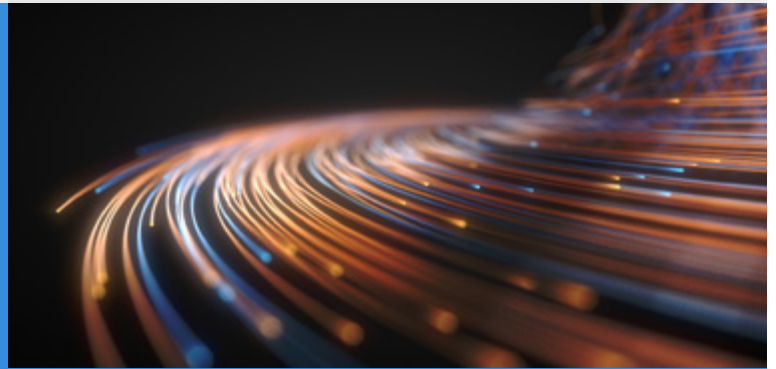
- (a) No longer concentrate agricultural negotiations on reducing support but on harmonizing support among all WTO member countries to both ensure fair trade in agricultural products and safeguard the interests of producers in developing countries;
- (b) Reduce barriers to trade in agricultural products by suspending customs duties and taxes with similar effects to reduce inflationary pressures on consumers;
- (c) Reduce NTBs on agricultural trade for the elimination of double certification on trade in products;
- (d) Formulate new national strategies for encouraging the agricultural sector through specialization strongly linked to natural advantages such as the availability of water resources and the size of rural populations, rather than on the basis of price competitiveness;
- (e) Directly support farmers through financial compensation mechanisms similar to those adopted for services and manufacturing sectors.

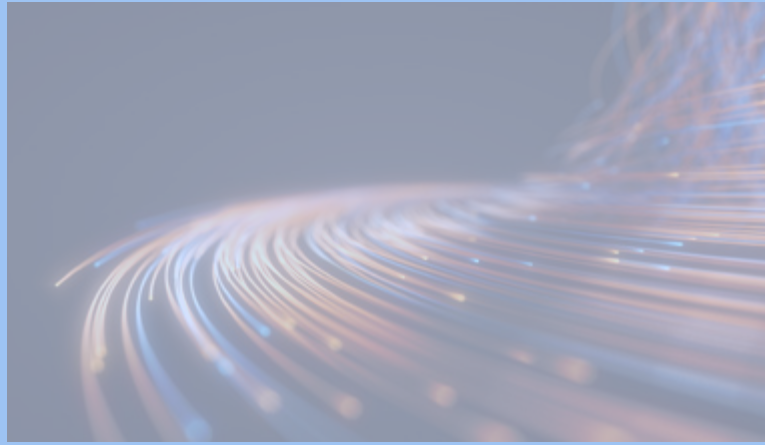
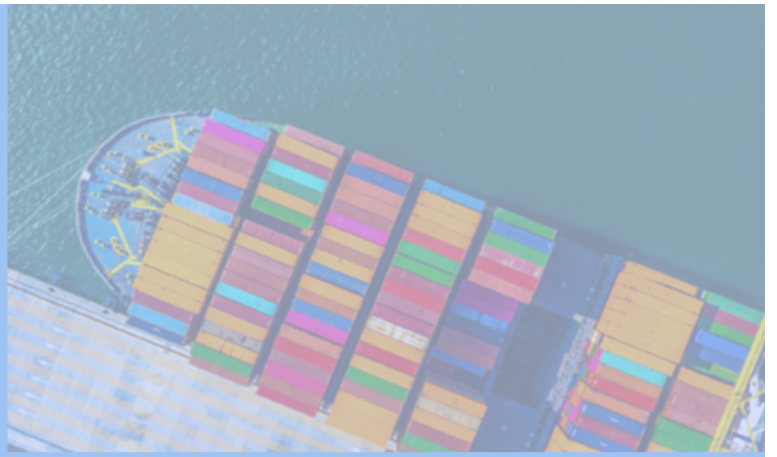
As has been illustrated in this chapter, intra-Arab economic integration with a full inclusion of agricultural products is worth pursuing. This may also help them prepare themselves for greater integration with partners from outside the region, such as Africa and the European Union. However, an important dimension to make agricultural trade liberalization deliver its promises in terms of economic growth, job creation and welfare improvement is the capacity of the concerned countries to design and implement appropriate complementary and accompanying policies. Several assessments show that the size of the gains from trade liberalization in general and agricultural in particular will largely increase if such policies are implemented (Dennis, 2006). One major instrument highly recommended by specialized economists is to ensure a regional flexible factor market which is the most appropriate way to facilitate the reallocation of production factors among agricultural sectors both within a given member county and regionally. This facility in factor reallocation will boost intraregional investment and accelerate the development of productive capacities in the new profitable sectors. Opening trade to services and facilitating the

movement of capital and persons are also key benefits from regional integration schemes (ESCWA, 2018). However, limiting integration to pure trade reforms does not always yield economic gains. Thus, facilitating trade through the development of efficient logistics is another condition to make use of market access. These include measures to reduce the transaction costs related to international trade,

including transport and insurance costs and customs clearance processes. Many ESCWA studies show that a reduction in international logistics costs will boost exports several times more than a simple removal of tariffs on exports in the partner countries. Overall, this speaks to the broad need to accompany regional integration with proactive socioeconomic and complementary policies.

3. Conclusions and Policy Recommendations





3. Conclusions and Policy Recommendations

The desperate global landscape of 2020 calls for a re-commitment to multilateralism not witnessed since the world emerged from war in 1945. Populations are disillusioned, incomes stagnant, borders closing, and a pandemic has forced the world into quarantine, rocking our global economy to its core. There is no one solution that a country can unilaterally take to solve these problems. There is no one region that can grow and develop without growth and development around the world. The Arab region is, despite its latent levels of economic integration, inextricably linked. As always, cooperation and mutual support hold the keys to addressing our many challenges, and the same recommendations on closer integration which have held for years are far more vital given the threats our region and world are now facing. This report's findings call for modernization of Arab integration schema but also for a new definition of integration based on the development of sectoral and regional value chains where the wellbeing of populations should represent the ultimate goal.

A. Moving toward a deeper and complete intra-Arab economic integration

Arab countries must further investigate the nature of their economic cooperation with key partners and the impact this has on SDGs attainment. Integration with the European Union and with other Arab countries and regions involves trade and FDI which can boost

development including through transfer of knowledge and technologies. Integration with China and Asian countries, in general, mostly entails Arab countries exporting natural resources. Little FDI is coming from Asia while Arab countries are investing an increasingly larger share of available financial resources in Asia, at the expense of Arab partners. The impact of both economic relationships on SDGs achievement of Arab countries will not be the same.

Intra-Arab economic integration requires upgrading the PAFTA agreement to, for instance, include significant commitments on services liberalization that go beyond recent agreements, harmonize NTMs at the regional level when possible, finalize negotiations of RoOs and eventually adopt a pan-Arab cumulation of origins, strengthen the credibility of the dispute settlement mechanism, starting by improving transparency and efficacy. A modernized PAFTA, coherent with the latest trends in RTA design and with the experiences and lessons learnt from the redaction and negotiation of most recent RTAs among developing countries, would allow Arab countries to improve the business environment, and offer investors the discipline necessary to build supply chains and production networks within the region and in cooperation with non-Arab partners. This will be vital in attracting the dwindling investment flows due to COVID-19 as well as the windfall investments of a post-pandemic global economic rebound.

According to ESCWA, a modernized PAFTA, as well as the implementation of the ACU, is the way to create an Arab space of shared prosperity. However, for the time being, the coronavirus, ongoing conflicts and economic sanctions are taking their toll on Arab economic integration efforts and achievements, hence on the achievement of the SDGs using trade as a means of implementation. The situation encourages economic integration of Arab countries with non-Arab partners, and intra-Arab economic integration has been weakening instead of acting as a backdrop in a global environment rapidly changing and heading towards “slowbalization”, characterized by slower growth of trade, FDI and capital flows. Intra-Arab economic integration, despite the obstacles and delays, remains a key step to fully harness the potential for Arab countries to attract part of the international demand and insert themselves in GVCs. Putting intra-Arab integration at the core of a holistic approach to economic integration for the Arab region would bear the greatest developmental fruits, especially when it comes to agricultural markets.

B. Unlock the potential for Arab agricultural integration

Indeed, the COVID-19 pandemic holds many implications for agricultural value chains, further necessitating regional Arab integration. Currently and in the future, some agricultural products from the United States and European Union may be deemed too ‘strategic’ for export, while China may face further production and export shutdowns in the face of pandemics and other crises, making the region’s ability to integrate, trade and build agricultural RVCs even more glaring. Growing fears of concentrating too much production in China may lead to

onshoring or realigning of production to new regions, such as in Arab countries. The effect of investment and mandated labour shortages on large-scale agriculture highlights the importance of small-scale farmers, whose activity will – as always – lead to a more direct injection of cash to lower-income and rural livelihoods in need, with a smaller carbon footprint as well. Specific measures here will be needed to deal with GHG emissions and pollution which may be set to increase due to the greater economic activity from some of these liberalization strategies. Overall, actors across the Arab region and beyond must work together to improve agriculture policy and trade rules in light of COVID-19.

The relatively “good news” for agriculture in the Arab region is that food processing and agricultural exports are only anticipated to account for 5 per cent and 3 per cent, respectively, of the fall in exports caused by COVID-19, as compared with dramatic falls in other sectors. Meanwhile, imports in these sectors will represent 8 and 6 per cent of the fall, respectively, putting pressure on the fragile food security situation and requiring a greater role for national and regional farmers and agro-processors to fill this gap.

The results of the quantitative assessment of alternative intra-Arab and inter-Arab trade integration show that a full inclusion of agricultural products may represent an important source of growth, employment and welfare. Despite the modest aggregated economic gains, integrating agriculture in RTAs may help Arab countries prepare for greater global integration through their participation in GVCs of agri-food processing sectors. Economic integration with Africa and the European Union is among the new directions to boost the development of the agricultural sector in the

Arab region, but under specific conditions in terms of changes in global distortion. The recent increase of public support to farmers and agricultural sectors in the European Union and the United States will significantly lock the process of global agricultural integration but may boost alternative regional integration schemes as a source to trade and generate economic gains.

C. Supporting Arab agricultural producers and enabling regional trade

An important determinant of market access for agricultural products remains the complexity of NTMs imposed on Arab exports to the European Union in particular, which may be generalized to other markets in both developed and developing countries. It is even expected that NTMs related to sanitary and phytosanitary measures will be reinforced as a mean to reduce risks of sanitary contamination, the direct impacts of which will be reflected in higher trade costs and lower export flows. In this new context, Arab countries should develop their own strategies to modernize their productive processes but also to mobilize the required financial resources to accompany Arab farmers in this process of upgrading. In addition, an important dimension to make agricultural trade liberalization deliver its promises in terms of economic growth, gender equality and poverty reduction is the capacity of the concerned countries to design and implement the appropriate complementary and accompanying policies. Indeed, quantitative exercises in this report have revealed the benefits for women of certain forms of agricultural liberalization, with real wages for women in Tunisia increasing relative to men in every scenario except 1b, and in Morocco experiencing significant relative increases in scenario 2a and 2b. this reveals

both the potential benefits as well as the specific ways in which different liberalization strategies will interact with gender inequalities in economic access, warranting very specific responses and interventions.

Several assessments show that the size of the gains from trade liberalization in general and regarding agricultural will largely increase if such policies are properly and timely implemented. At the same time, Arab countries must employ external strategies to deal with these counterproductive NTMs, including through pushing for global adherence to trade rules and cross-border enforcement of agreements on the movement of agricultural products.

Another type of complementary policy which largely enhances the economic effect and gains of trade liberalization is trade facilitation. This involves measures to reduce the transaction costs related to international trade, including transport and insurance costs, and customs clearance processes. Finally, integrating agricultural products in preferential trade agreements should be progressively implemented and supported by additional accompanying policies such as efficient competition policies, better labour market rules, a developed financial sector, and appropriate fiscal policies, among others. The future of the agricultural sector in the region largely depends on the capacity of Arab countries to develop better access markets for their products but also on their capacity to take advantage of market potentials.

Increasing incomes of farmers should guide any development strategy of the sector; there is no future for agriculture without a future for farmers. This goal has been largely endorsed by policy makers in most rich countries but still

under not yet in most Arab countries. The recent financial measures implemented across the world in responses to the economic impacts of the COVID-19 confirm that the region still lacks a clear strategy for agricultural development. The current national policies are rather focusing on food security in terms of food availability and affordability while farmers welfare and well-being are not yet well mainstreamed.

D. Transition from short-term COVID-19 response to long-term enabling of the agricultural sector

Countries in the region are already responding to the crisis – beyond the closing of businesses and borders, United Arab Emirates has announced a \$27 billion stimulus to boost the economy and halt the spread of the virus, with Qatar pledging \$23 billion, Saudi Arabia \$13 billion and Egypt \$6 billion (ESCWA 2020). Government fiscal policy should focus on a number of ways to alleviate some of the suffering felt across the economy, including SME tax exemptions, wage subsidies, debt deferrals, enhanced social spending, and direct government procurement and hiring. Of course, the space to pursue any of these will be constrained by falling government finances. However, and according the IMF's tracker on policy response to COVID-19, the agricultural sector appears to be largely absent from these stimulus packages. Farmers in general, and female workers that represent an important share of workers in the sector, are not yet

covered by the financial compensation measures. Even before the pandemic, workers in agricultural sector are earning the lowest level of salaries and benefits and usually classified in the poorest deciles of households' incomes in national surveys. The situation is even worsening with the pandemic as farmers are faced with the challenges of facing a scarcity of workers and weak demand for their products. They are consistently the most vulnerable population for which quick actions are expected to be formulated and implemented. In the absence of these public support programmes, the goal of achieving food security will be more and more difficult to achieve with a continued migration for farmers for rural to urban areas. Support packages for agricultural workers can therefore serve a dual purpose of alleviating suffering felt across large swathes of the region's population, while also enabling future success of this sector that is vital to employment, exports and livelihoods.

By harnessing these steps towards deeper integration, the Arab region can position itself to tap into a post-COVID-19 rebound, taking advantage of new opportunities for agriculture and other industries in a reformatted global production chain. The potential is clear, if we are ready to put in the work to get there. Implementing quick and short time policy responses to save farmers and facilitate recovery with a long-term strategy to develop an Arab common agricultural policy are believed to form the two major pillars for achieving greater regional integration and food security.

Annexes

Annex 1. ESCWA's Arab Economic Integration Monitoring and Evaluation System of Composite Indexes and Scoreboards: Methodological Note

The Arab Economic Integration Monitoring and Evaluation System of indexes (AEMESI) was initially developed in 2013 and introduced in the first edition of the Assessing Arab Economic Integration Report (AEIR) published in 2015 (ESCWA, 2015). Readers interested in obtaining detailed information about the approach and the methodology are invited to reference this first iteration. Below is offered a short description of the system's main features.

The AEMESI is a monitoring and evaluation system that uses composite indicators to provide synthesized information about economic integration advances of Arab countries at the global, regional and bilateral levels which are deeply intertwined. Focusing on only one integration level would prevent the development of a coherent integration strategy, hence the ESCWA system covers them all.

Selection of indicators, scoreboards and index computation

ESCWA indexes are computed based on trade, FDI and worker remittances, as a proxy for labour movement across borders. All underlying indicators are expressed as ratio to GDP, in an attempt to iron out the impact of development levels and territorial size on the findings. After normalization, country scores are averaged across indicators. All rankings are available for 1999-2018.

The global economic integration index is based on exports, imports, FDI and remittance inflows and outflows. Economic integration is considered as a means to an end. In the AEMESI, linkages between country pair's economic activity and integration are measured through dependency indexes that use export, FDI and workers' remittances inflows. Dependency indexes are also called flow intensity indices in the first edition of the AAEIR. Calculations are made at the regional and bilateral levels. Dependency indexes allow for better assessment of the extent to which Arab

countries benefit from economic integration through their capacity to capture part of international demand, namely to export goods, attract investment, and export their labour force, that is their “dependency” from their partners to boost their economic activity.

In the 2019 version of the report, in an effort to disentangle the specific impact of the importance of the oil sector on Arab countries’ economic integration performances, in this edition of the AAEIR, global, regional and intra-Arab dependency indexes calculated using non-oil trade were incorporated. This is coherent with the goal of the ESCWA evaluation and monitoring system, which is to avoid a strong domination of oil-related phenomena over the findings, despite their de facto dominance over the economic growth of several Arab countries, in order to capture the influence of other integration drivers that matter for the region as a whole and are relevant to regional but also intra-Arab economic integration dynamics.

ESCWA uses a narrow set of indicators to compute economic integration indexes. Aggregating a wide range of indicators in a single composite index complicates the identification of the drivers, patterns and best practices of economic integration dynamics, diminishing the effectiveness of the system as a tool to inform evidence-based policymaking and analysis. Hence, the AEMESI uses only flows that are considered the most relevant indicators of economic integration for the Arab region and are the ones primarily targeted by Arab countries in their efforts to strengthen ties with partners using trade agreements. They are also by far the most important channels of economic integration worldwide.

The selection of indicators also captures how external openness and dependence carry

downside risks, such as: (1) the impact of remittances on long-term development outcomes remains uncertain, while many Arab countries heavily depend on these inflows to ensure the sustainability of payments and currency convertibility; (2) FDI inflows may facilitate access to innovation and technological progress and are a gateway to international production and trade networks, but crowding-out effects, negative wage spillovers, risks of creating a dual economy and other potential negative effects must be factored in; and (3) imports and exports – while weighed the same in the index – would have different implications for the countries’ value-addition, industrial and job-creation strategies.

Arab economic integration indexes are complemented with three scoreboards displaying information about the enablers of the economic integration process, the policies implemented, and the outcomes reached. These scoreboards and the indexes allow for detailed and comprehensive analysis, precise diagnosis and identification of applicable policy recommendations.

Country coverage, groupings and benchmarks

The AEMESI includes 127 countries and 10 regions. Following the previous editions of the AAEIR, three economic groupings have been included: the Gulf Cooperation Council, Agadir and the Arab Maghreb Union (box A1.1). The remaining Arab countries, which are not bound together by any specifically subregional trade agreement, have been classified into two categories: the least developed countries (Comoros, Djibouti, Somalia, the Sudan and Yemen), and the diversified economies (Egypt, Iraq, Jordan, Lebanon, the State of Palestine, the Syrian Arab Republic).

This classification applies throughout the report when analyses of regional groups performances are carried out, including when studying performances at the country level, whether in the first chapter or in the second chapter that uses CGE models to assess the consequences of various integration schemes. Concretely, Mauritania is considered as a member of the Arab Maghreb Union when regional issues are investigated and as a least developed country having a number of partners linked to some of which by trade agreements, when the focus is on country performances.

When it comes to comparisons, Viet Nam, which is integrated with the Association of Southeast

Asian Nations (ASEAN) through a free trade agreement, is considered as a medium-term benchmark, and Poland, which is fully integrated with the European Union, is viewed as a long-term benchmark. These two countries have undergone tremendous structural transformation and are improving their ability to seize the benefits of financial flows injection in the domestic economic system through global and regional economic integration, providing useful insights into the challenges and potential ways forward for Arab countries. Regional benchmarks have been added: the European Union (28 members, EU28), ASEAN, ASEAN Plus China, Japan and South Korea (ASEAN+3) and the North American Free Trade Agreement (NAFTA).

Box A1.1 Economic groupings used in ESCWA's monitoring and evaluation system of composite indexes and scoreboards

An economic grouping is defined as an organization that encourages and enhances economic relationships among its member countries. In ESCWA's Arab economic integration monitoring and evaluation system have been included: The Gulf Cooperation Council, the Agadir agreement and the Arab Maghreb Union.

The Gulf Cooperation Council (GCC) is a political and economic institution. It was initiated in 1981 through the signing of a Charter by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. In 2008, a common market was launched with the objective to form a fully integrated single market that would facilitate the movement of goods and services. The project was delayed due to the 2009 financial crisis. A Customs Union was effective as of 2015. In 2015, the common market was also further integrated, allowing full equality among GCC citizens to work in the government and private sectors, social insurance and retirement coverage, real estate ownership, capital movement, access to education, health and other social services in all member states.

The Agadir Agreement is a free trade agreement between Egypt, Jordan, Morocco and Tunisia. It came into force in 2007. The agreement is open to further membership by all Arab countries that are members of the League of Arab States and PAFTA. It is linked to the EU through an Association Agreement. Its goal is to facilitate integration between its members and with the EU under the broader EU-Mediterranean process.

The Arab Maghreb Union (AMU) is a trade agreement initiated by Algeria, Libya, Mauritania, Morocco and Tunisia in 1989 with the signature of a Treaty. The objective is not only to take part as a region in international dialogue, but also to reinforce the independence of its members and safeguard their assets as the region has large reserves of phosphate, oil and gas and is a transit center to Europe.

When classifying countries to analyse performances at the regional level, membership in an economic grouping comes first. Hence Mauritania, for example, is considered as a member of the AMU and does not appear in the Arab Least Developed Countries (LDC) grouping. However, when focusing on individual countries, the usual classification applies, and Mauritania is viewed as an LDC facing specific challenges. This rule has been respected throughout the report.

Results interpretation

Countries have been ranked using the global, regional and bilateral dependency economic integration indexes. While interpreting the findings, it is important to keep in mind that high and low values in the rankings are only a measurement of the extent to which a country fares relative to the best and worst performers. The rankings do not evaluate whether a country's level of economic integration with partners is optimal. Country performance may be quite similar and a one-rank difference may correspond to a fraction of a percentage point of openness as percentage of GDP, hence a change, up or down the ranking, is considered as significant when the number of spots gained or lost is above the average number of ranks gained or lost by the countries and regions in the sample.

Finally, it is key to remember that comparisons of countries' economic integration performances over time should be undertaken using the scores and ranks published in a single report, rather than in multiple editions. Indeed, since the last edition of the AAEIR, data has been updated, estimations have been replaced with actual data as it has become available and the number of countries covered has been revised to reflect data availability. All these changes affect the rankings. Differences between one edition of the report and another may also arise from the normalization of the statistical information, a necessary step to compute the indexes and rankings. Regarding the scoreboards, most underlying factors monitored, whether in policy, agriculture, trade or industry, do not change significantly over the selected two to three years' timeframe. Hence, only the most relevant factors and those presenting some important change will be used to explain the findings.

Annex 2

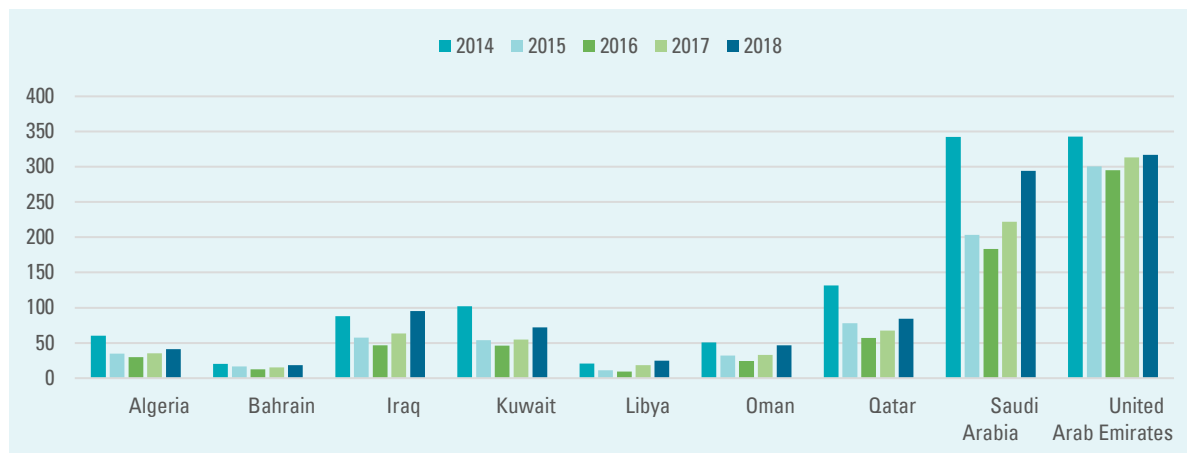
Table A2.1 Globalization index, 2015-2018

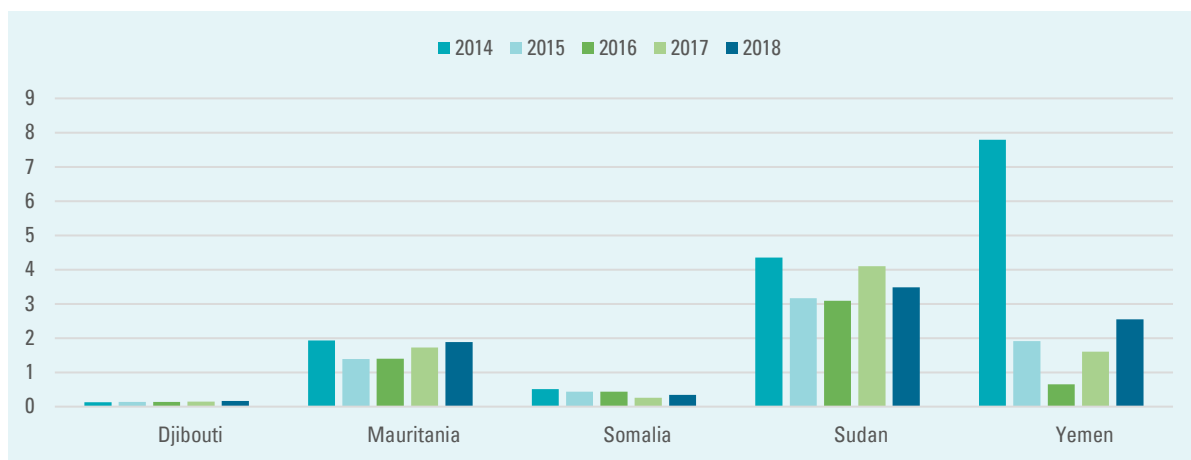
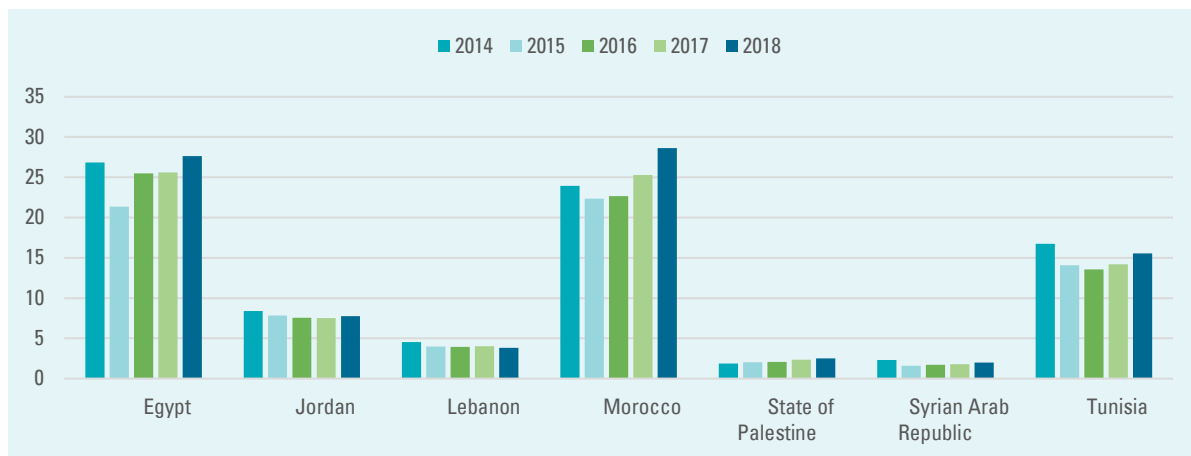
	2016	2017	2018
1.0	EU_Luxembourg	ASIA_Singapore	ASIA_Singapore
2.0	ARAB_United Arab Emirates	EU_Luxembourg	ARAB_United Arab Emirates
3.0	ASIA_Singapore	ARAB_United Arab Emirates	EU_Luxembourg
4.0	ARAB_Oman	ASIA_Viet Nam	ASIA_Viet Nam
5.0	ASIA_Viet Nam	ARAB_Oman	Lesotho
6.0	EU_Belgium	EU_Belgium	EU_Belgium
7.0	ARAB_Kuwait	EU_Slovak Republic	EU_Slovak Republic
8.0	EU_Slovak Republic	EU_Czech Republic	ARAB_Oman
9.0	Moldova	EU_Hungary	EU_Hungary
10.0	Lesotho	Lesotho	EU_Czech Republic
11.0	EU_Czech Republic	Moldova	EU_Slovenia
12.0	EU_Hungary	ARAB_Kuwait	EU_Netherlands
13.0	EU_Netherlands	EU_Netherlands	Moldova
14.0	ARAB_Lebanon	EU_Slovenia	ASIA_Cambodia
15.0	ARAB_Libya	ARAB_Lebanon	Honduras
16.0	GCC	ASIA_Malaysia	ASIA_Malaysia
17.0	ASIA_Malaysia	Honduras	ARAB_Kuwait
18.0	EU_Slovenia	EU_Lithuania	ARAB_Lebanon
19.0	Nepal	GCC	EU_Lithuania
20.0	Honduras	ASIA_Cambodia	Dominica
21.0	ASIA_Cambodia	ARAB_Libya	Nepal
22.0	EU_Lithuania	El Salvador	El Salvador
23.0	EU_Estonia	Nepal	GCC
24.0	El Salvador	EU_Estonia	Macedonia
25.0	Congo	Bosnia and Herzegovina	Bosnia and Herzegovina
26.0	Switzerland	Macedonia	ARAB_Bahrain
27.0	Bosnia and Herzegovina	ARAB_Bahrain	EU_Estonia
28.0	ARAB_Bahrain	Serbia	Serbia
29.0	Nicaragua	EU_Bulgaria	Armenia
30.0	ARAB_Qatar	EU_Latvia	Belarus
31.0	Serbia	Belarus	Ukraine
32.0	Macedonia	Congo	Georgia
33.0	EU_Latvia	Nicaragua	Nicaragua
34.0	Togo	Armenia	Mongolia
35.0	Ukraine	Ukraine	Congo
36.0	Armenia	Georgia	EU_Bulgaria

	2016	2017	2018
37.0	ARAB_Jordan	Jamaica	EU_Latvia
38.0	Jamaica	ARAB_Jordan	ARAB_State of Palestine
39.0	League of Arab States	ARAB_Qatar	Jamaica
40.0	EU_Bulgaria	Mongolia	ASEAN
41.0	Belarus	League of Arab States	ASIA_Thailand
42.0	ASIA_Thailand	ASIA_Thailand	Costa Rica
43.0	ARAB_Somalia	Switzerland	League of Arab States
44.0	EU_Cyprus	ASEAN	ARAB_Qatar
45.0	Georgia	Dominica	ARAB_Tunisia
46.0	ARAB_State of Palestine	Mozambique	ARAB_Jordan
47.0	ASEAN	ARAB_Somalia	Switzerland
48.0	Dominica	Mauritius	ARAB_Libya
49.0	EU_Malta	ARAB_State of Palestine	ARAB_Somalia
50.0	Albania	Togo	Mozambique
51.0	Mauritius	EU_Cyprus	ASIA_Brunei Darussalam
52.0	Namibia	ARAB_Tunisia	Togo
53.0	EU_Poland	ASIA_Brunei Darussalam	Mauritius
54.0	Mozambique	EU_Poland	EU_Poland
55.0	ASIA_Brunei Darussalam	Albania	Namibia
56.0	Senegal	Senegal	Albania
57.0	ARAB_Saudi Arabia	EU_Austria	ARAB_Mauritania
58.0	Fiji	Croatia	Senegal
59.0	ARAB_Tunisia	ARAB_Mauritania	Fiji
60.0	ARAB_Syrian Arab Republic	ARAB_Saudi Arabia	Agadir

Source: ESCWA calculations for the AEMESI.

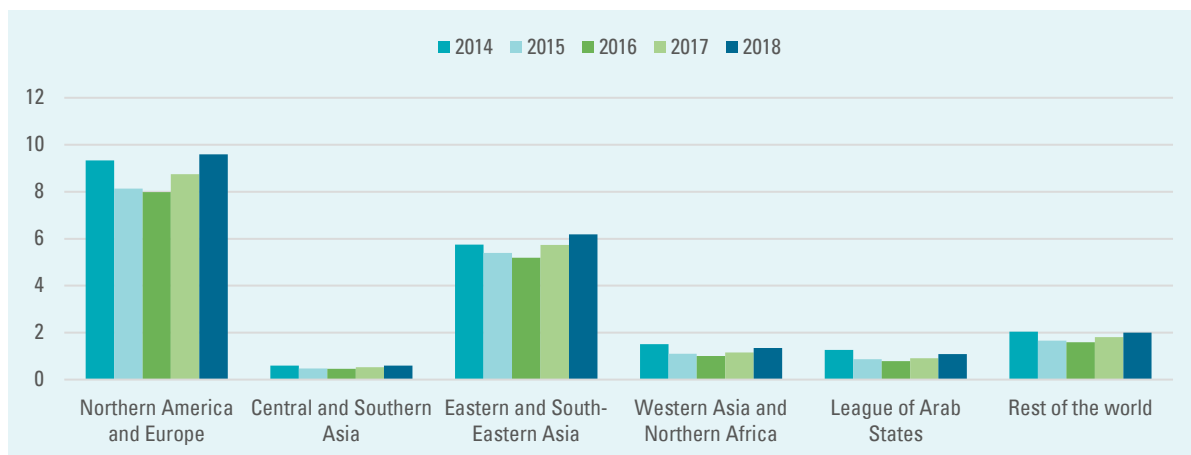
Figure A2.1 Exports, Arab countries, billion dollars, 2014-2018

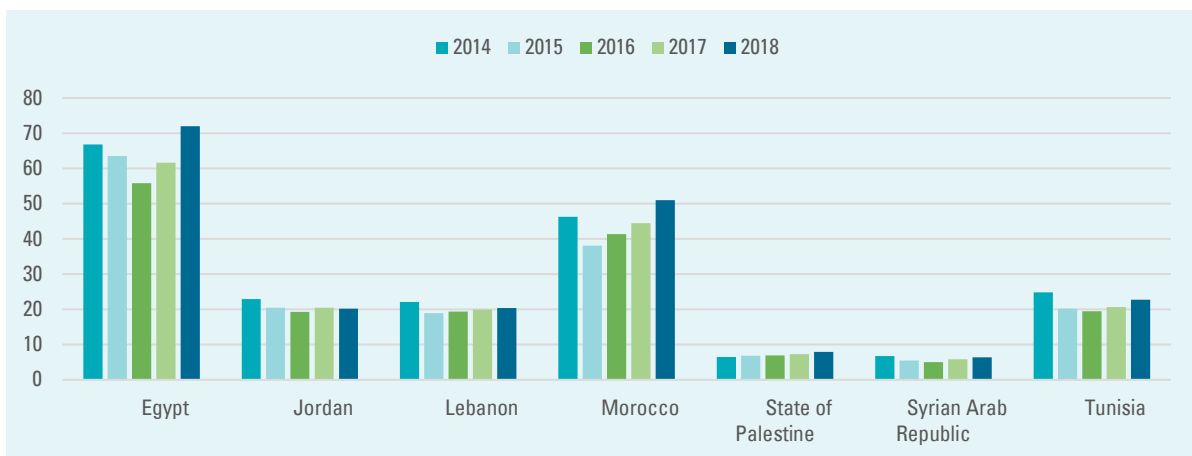
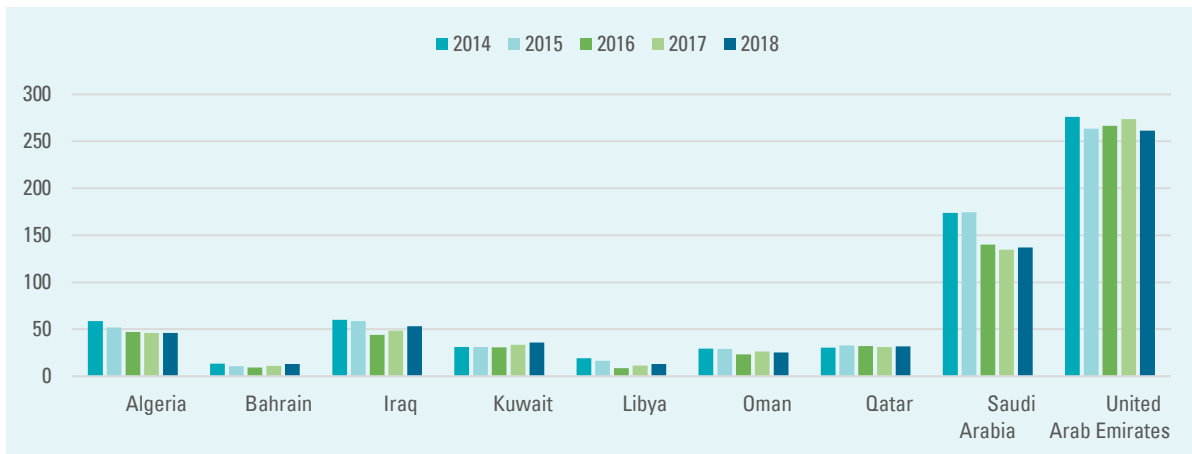
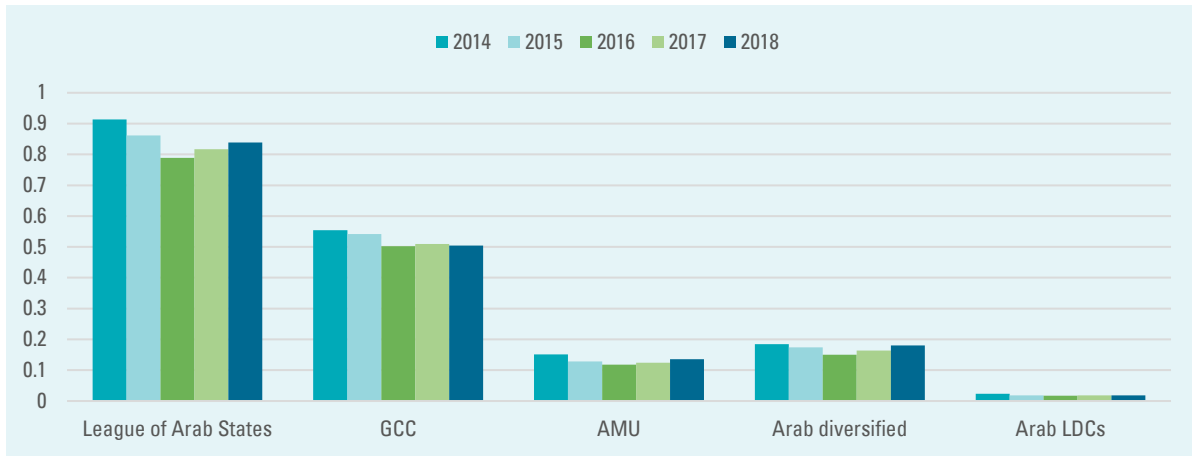


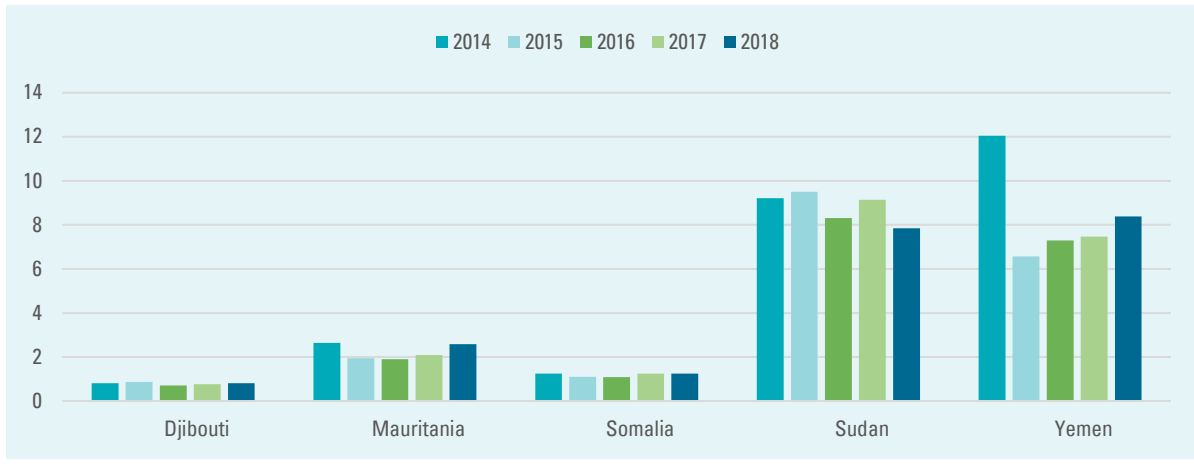


Source: COMTRADE; ESCWA calculations for the AEMESI.

Figure A2.2 Imports, main world regions and Arab regions and countries, billion dollars, 2014-2018



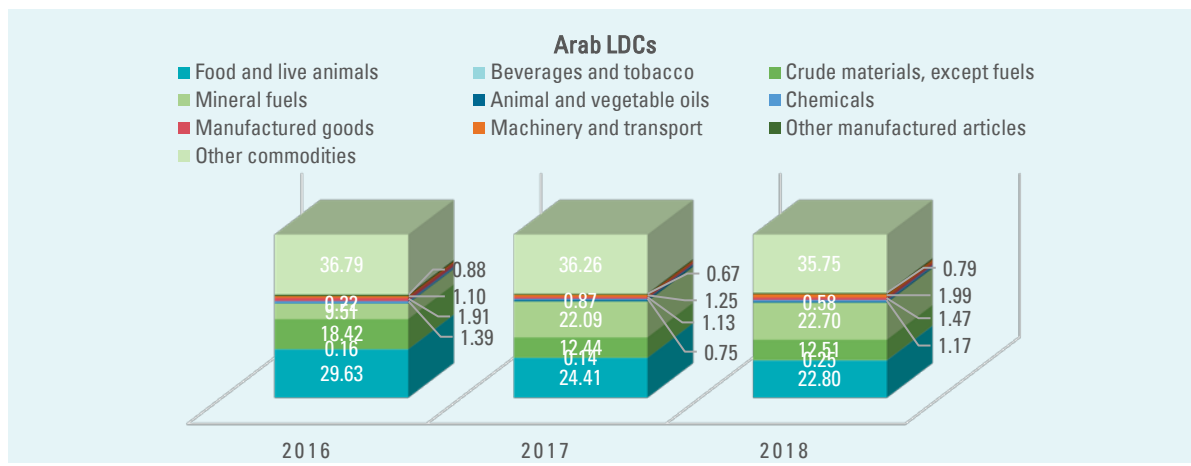




Source: COMTRADE; ESCWA calculations for the AEMESI.

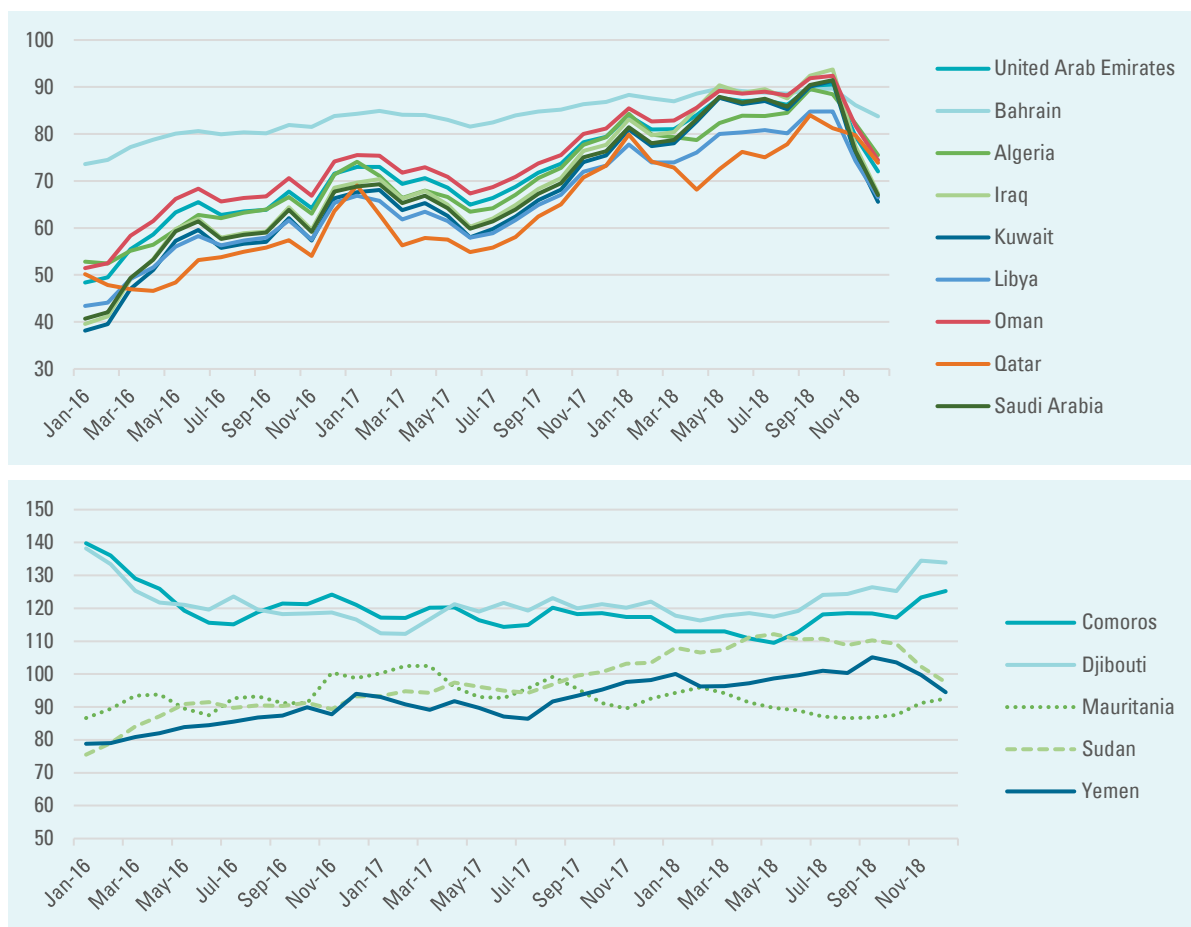
Figure A2.3 Comparison of Arab countries globalization performances in 2018 relative to the trend

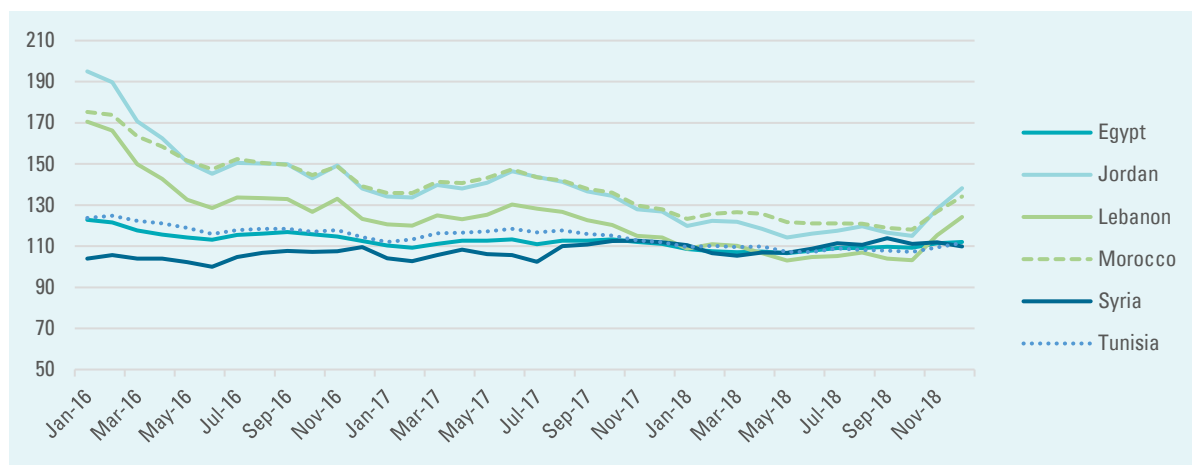




Sources: COMTRADE; ESCWA calculations for the AEMESI.

Figure A2.5 Arab countries terms of trade, January 2016-December 2018





Source: Gruss and Kebhaj, 2019.

Table A2.2 Economic integration performance of Arab countries with key partners, top 40, 2018

Receiving country	Partner	Depen-dency ranking	Dependency flows per cent of GDP	Exports ranking	Exports per cent of GDP	Workers' Remittances ranking	Workers' Remittances per cent of GDP	Foreign Direct Investment ranking	Foreign Direct Investment per cent of GDP
Tunisia	EU	8	36.1%	7	30.1%	47	4.1%	16	1.9%
Bahrain	GCC	16	26.4%	13	23.9%	307	0.0%	13	2.6%
Libya	EU	20	35.7%	3	36.8%	307	0.0%	463	-1.6%
Morocco	EU	21	23.6%	19	16.3%	41	6.0%	15	2.0%
Oman	China	28	23.9%	14	23.9%	307	0.0%	186	0.0%
Egypt	EU	32	9.0%	79	4.6%	88	0.7%	6	3.9%
Algeria	EU	37	15.3%	22	13.4%	75	1.1%	31	0.9%
Oman	EU	44	4.1%	202	1.2%	196	0.0%	11	3.4%
Oman	GCC	48	11.9%	25	11.1%	307	0.0%	25	1.0%
Syrian Arab Republic	AD	54	13.6%	33	9.5%	49	4.1%	186	0.0%
Mauritania	China	55	10.5%	30	9.8%	307	0.0%	40	0.8%
Yemen	GCC	59	13.3%	134	2.5%	27	10.8%	186	0.0%
Egypt	GCC	60	9.7%	160	1.9%	38	7.4%	35	0.9%

Receiving country	Partner	Depen-dency ranking	Dependency flows per cent of GDP	Exports ranking	Exports per cent of GDP	Workers' Remittances ranking	Workers' Remittances per cent of GDP	Foreign Direct Investment ranking	Foreign Direct Investment per cent of GDP
Kuwait	China	62	10.7%	26	10.6%	307	0.0%	66	0.1%
Comoros	EU	64	11.0%	163	1.8%	28	10.5%	186	0.0%
Jordan	GCC	65	11.7%	90	4.2%	37	7.8%	186	0.0%
United Arab Emirates	GCC	69	9.9%	28	9.9%	307	0.0%	186	0.0%
United Arab Emirates	India	73	8.8%	39	8.7%	307	0.0%	64	0.2%
Iraq	China	75	9.1%	35	9.1%	284	0.0%	423	0.0%
Iraq	India	77	9.0%	36	9.0%	292	0.0%	186	0.0%
Somalia	GCC	78	9.0%	37	9.0%	307	0.0%	186	0.0%
United Arab Emirates	Japan	79	8.4%	41	8.3%	307	0.0%	62	0.2%
State of Palestine	AD	81	9.7%	304	0.4%	33	9.4%	186	0.0%
Kuwait	Korea	82	8.5%	40	8.5%	307	0.0%	186	0.0%
United Arab Emirates	ASEAN	83	8.2%	43	8.2%	307	0.0%	101	0.1%
United Arab Emirates	EU	85	5.3%	81	4.4%	307	0.0%	30	0.9%
Qatar	Korea	88	8.1%	45	8.1%	307	0.0%	425	0.0%
Qatar	Japan	90	7.6%	48	7.6%	307	0.0%	104	0.0%
Iraq	EU	93	7.7%	47	7.7%	137	0.1%	433	0.0%
Libya	China	97	9.4%	29	9.9%	307	0.0%	456	-0.7%
Bahrain	EU	98	5.4%	74	5.0%	307	0.0%	47	0.5%
United Arab Emirates	AD	99	6.8%	53	6.8%	307	0.0%	186	0.0%
Kuwait	India	100	6.7%	55	6.7%	297	0.0%	186	0.0%
Kuwait	ASEAN	101	6.6%	56	6.6%	303	0.0%	186	0.0%
Qatar	ASEAN	102	6.5%	57	6.5%	246	0.0%	186	0.0%

Receiving country	Partner	Depen-dency ranking	Dependency flows per cent of GDP	Exports ranking	Exports per cent of GDP	Workers' Remittances ranking	Workers' Remittances per cent of GDP	Foreign Direct Investment ranking	Foreign Direct Investment per cent of GDP
State of Palestine	Agadir	104	7.1%	303	0.4%	39	6.8%	186	0.0%
Kuwait	EU	107	3.5%	124	2.8%	288	0.0%	39	0.8%
Oman	India	108	6.1%	61	6.1%	307	0.0%	436	-0.1%
United Arab Emirates	China	110	5.2%	73	5.0%	307	0.0%	61	0.2%
Saudi Arabia	China	113	5.7%	62	5.7%	290	0.0%	435	-0.1%

Source: UNCTAD, COMTRADE, UN-Stat and IMF Balance of Payments and International Investment Position Statistics; ESCWA calculations for the AEMESI.

Note: The darkest the grey shade, the closer the economic relations between Arab countries and partners.

Table A2.3 Change in exports between Arab regions and key Arab and non-Arab partners, 2016-2018
(Percentage of the total)

Exports					
GCC			AMU		
Partners	2018	Difference/2016	Partners	2018	Difference/2016
ASEAN+3	43%	6.2%	EU28	63%	0.9%
<i>China</i>	13%	3.1%	<i>France</i>	17%	0%
<i>Japan</i>	11%	0.8%	<i>Spain</i>	14%	0%
<i>Korea, Republic of</i>	8%	0.9%	<i>Italy</i>	13%	-1%
ASEAN	11%	1.4%	<i>Germany</i>	5%	1%
<i>Singapore</i>	4%	0.4%	<i>Netherlands</i>	3%	0%
<i>Thailand</i>	3%	0.3%	<i>United Kingdom</i>	3%	0%
League of Arab States	17%	-0.1%	ASEAN+3	9%	3.6%
<i>GCC</i>	10%	-0.8%	<i>China</i>	5%	3%
<i>United Arab Emirates</i>	3%	0.4%	<i>ASEAN</i>	3%	1%
<i>Saudi Arabia</i>	3%	0.0%	United States	7%	0.1%
<i>Oman</i>	2%	-0.4%	League of Arab States	6%	-2.5%
<i>Arab diversified</i>	6%	0.9%	<i>AMU</i>	3%	-1%
<i>Iraq</i>	3%	0.9%	<i>Other Arabs</i>	2%	0%
India	10%	0.4%	Brazil	4%	0.8%
EU28	9%	1.2%	Turkey	3%	-0.6%
United States	5%	-0.2%	India	2%	0.3%
Arab diversified			Arab LDCs		
Partners	2018	Difference/2016	Partners	2018	Difference/2016
ASEAN+3	28%	7.1%	League of Arab States	62%	-15.7%
<i>China</i>	17%	4.3%	<i>GCC</i>	52%	-10.5%
<i>Korea</i>	7%	1.4%	<i>United Arab Emirates</i>	31%	-4.4%
ASEAN	3%	1.5%	<i>Saudi Arabia</i>	13%	-7.8%
<i>Singapore</i>	2%	1.6%	<i>Oman</i>	7%	1.9%
EU28	21%	-0.8%	<i>Arab diversified</i>	8%	-5.8%
<i>Italy</i>	5%	-0.6%	<i>Egypt</i>	7%	-5.0%
<i>Greece</i>	4%	0.8%	<i>Arab LDCs</i>	2%	0.8%
<i>Netherlands</i>	3%	0.0%	ASEAN+3	21%	15.1%
<i>Spain</i>	2%	-0.2%	<i>China</i>	14%	10.7%
India	17%	4.4%	<i>Korea, Republic of</i>	2%	1.4%
League of Arab States	12%	-8.8%	<i>ASEAN</i>	4%	2.5%
<i>GCC</i>	6%	-6.3%	<i>Thailand</i>	3%	1.9%
<i>United Arab Emirates</i>	3%	-3.0%	EU28	4%	-1.1%
<i>Arab diversified</i>	4%	-1.7%	India	4%	0.8%
United States	11%	0.9%	Ethiopia	2%	-0.7%
Turkey	3%	-0.3%	Belarus	1%	1.0%

Source: COMTRADE, ESCWA calculations for the AEMESI.

Table A2.4 Change in exports between Arab regions and key Arab and non-Arab partners, 2016-2018
(Percentage of the total)

Imports					
GCC			AMU		
Partners	2018	Difference/2016	Partners	2018	Difference/2016
ASEAN+3	27%	0.2%	EU28	50%	-0.7%
<i>China</i>	14%	1.6%	<i>France</i>	11%	-1%
ASEAN	6%	-0.1%	<i>Spain</i>	10%	0%
<i>Japan</i>	4%	-0.7%	<i>Italy</i>	9%	0%
<i>Korea</i>	2%	-0.6%	<i>Germany</i>	6%	0%
EU28	21%	-1.2%	<i>Netherlands</i>	2%	0%
<i>Germany</i>	5%	-1.9%	ASEAN+3	18%	-0.8%
<i>United Kingdom</i>	3%	0.2%	<i>China</i>	13%	0%
<i>Italy</i>	3%	-0.1%	<i>Korea</i>	2%	0%
<i>France</i>	2%	0.2%	ASEAN	2%	0%
League of Arab States	16%	2.2%	League of Arab States	8%	0.6%
<i>GCC</i>	13%	3.1%	<i>GCC</i>	3%	0%
<i>United Arab Emirates</i>	6%	1.4%	AMU	3%	0%
<i>Saudi Arabia</i>	4%	1.0%	United States	6%	0.4%
<i>Other Arabs</i>	2%	-0.7%	Turkey	5%	0.5%
United States	10%	-0.5%	Russian Federation	3%	0.6%
India	8%	-0.5%	Brazil	2%	-0.1%
Arab diversified			Arab LDCs		
Partners	2018	Difference/2016	Partners	2018	Difference/2016
EU28	23%	-2.2%	League of Arab States	32%	-3.1%
<i>Germany</i>	4%	-1.0%	<i>GCC</i>	26%	-1.0%
<i>Italy</i>	4%	-0.4%	<i>United Arab Emirates</i>	16%	0.2%
ASEAN+3	21%	-1.2%	<i>Saudi Arabia</i>	8%	-1.0%
<i>China</i>	14%	-0.8%	<i>Oman</i>	2%	-0.4%
<i>Korea</i>	3%	-0.2%	Arab diversified	5%	-2.0%
ASEAN	3%	0.2%	<i>Egypt</i>	4%	-1.9%
League of Arab States	16%	2.3%	ASEAN+3	25%	3.6%
<i>GCC</i>	11%	1.8%	<i>China</i>	15%	5.1%
<i>Saudi Arabia</i>	5%	1.8%	<i>Japan</i>	2%	-0.9%
<i>United Arab Emirates</i>	3%	0.5%	ASEAN	6%	-0.2%
Arab diversified	4%	0.2%	EU28	10%	-0.7%
Turkey	9%	-0.2%	<i>Germany</i>	2%	-0.4%
United States	6%	0.5%	India	8%	-1.1%
Russian Federation	4%	0.8%	Turkey	7%	-1.0%
Iran	4%	0.0%	Brazil	3%	0.2%
India	3%	0.5%	Russian Federation	2%	1.5%

Source: COMTRADE, ESCWA calculations for the AEMESI.

Annex 3. The Linkages Global CGE model

The Linkages Model has been constructed in order to assess the impact of globalization on the individual regions in the global economy. The model is a relatively standard neo-classical model of economic activity. It is based on the Global Trade Analysis Project (GTAP) data set. The model is designed for analysing dynamic scenarios. The scenarios are solved as a sequence of static equilibria, with the periods being linked by dynamic variables — population and labour growth, capital accumulation and productivity. Policy scenarios, for example the introduction of a regional free trade area, are compared to a baseline, or business-as-usual, scenario. The GTAP data set is particularly attractive for trade analysis since the base data set includes a fully consistent set of bilateral trade flows, bilateral trade measures (both on the export side and the import side), and bilateral international trade and transport margins.

The broad features of the model resemble fairly standard CGE models. Constant returns to scale is assumed in production in all sectors. Producers choose an optimal mix of intermediate goods, capital and labour to produce goods, subject to exogenous substitution elasticities. Production in the model differs mostly in two ways from the standard model: Firstly, energy plays a prominent role in the production structure in all sectors. It is possible to substitute energy for the other factors of production, as well as to choose the optimal mix of fuels as a function of relative fuel prices and existing technology, Secondly, a distinction is made between old (or installed)

capital and new capital. Typically, the substitution possibilities with older capital are smaller than with new capital. Economies with higher rates of investment will have more flexibility since on average they will have a larger share of new capital.

There is a single representative household to which all wages income accrues. Households purchase an optimal bundle of goods, under a modified Stone-Geary demand system, known as the Extended Linear Expenditure System. The level of savings is directly integrated into the decision making of households.

Government receives tax revenues from households, and an assortment of indirect taxes (production, consumption, import tariffs....). Aggregate government expenditures are fixed as a proportion of GDP, and a fixed coefficient expenditure function is used to determine sectoral purchases. One of the closure rules is that the government deficit to GDP ratio is fixed. The household direct tax schedule is endogenous in order to achieve the given target.

Trade in goods and services assumes that goods are differentiated by region of origin (this is the so-called Armington assumption). Typically, the more homogeneous the definition of a good, the higher will be the substitution elasticity between domestic and imported goods, though a low degree of substitution can also reflect high or prohibitive transportation costs.

Cost, Insurance, and Freight and Free on Board

The model distinguishes four different trading prices: producer prices or pre-Free on Board, Free on Board (FOB) at border price, Cost, Insurance and Freight (CIF) price inclusive of international trade and transport margins, and post-CIF that is prices inclusive of import tariffs. All price wedges are distinguished both by region of origin and destination. Unlike most standard models, there is no distinction between domestic output sold on domestic markets and exported, in other words, there is a single price for domestic production. The final closure rule concerns the trade balance (or equivalently the capital balance). In each time period, and for each region, the trade balance is fixed. Equilibrium on the current account is achieved through an endogenous real exchange rate. For example, a reduction in tariffs typically leads to a real exchange rate depreciation as an increase in imports needs to be matched by an increase in exports.

Dynamics are captured through changes in factor supplies and changes in productivity. Population and labour growth are exogenous. The capital stock in each period is equated to the previous period's depreciated stock plus new investment. Overall land supply is assumed to be available in fixed quantity, though actual demand may be less than the maximum available supply.

Productivity is calibrated in a reference scenario in order to achieve a given GDP growth rate. The basic assumption is that balanced growth, i.e. the labour/capital ratio, remains constant. Labour productivity is assigned exogenously so that labour in efficiency units grows at the same rate as GDP. Capital productivity is determined residually, consistent with GDP and labour projections. Energy efficiency improvement is exogenous. Finally, productivity in the agricultural sectors is also set exogenously.

Parameters of the model (elasticities of trade, consumption, and production) are extracted from the GTAP global database.

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Endnotes

Introduction

1. World Bank 2019, World Development Indicators, accessed on 15 September.

Chapter 1

2. A methodological note can be found in the appendices.
3. An online platform launched in 2020 is available at <http://simeai.unescwa.org/en-US>.
4. The expansion started in June 2009.
5. In 2018, only the exports and imports of Morocco and Egypt and the exports of Iraq had surpassed their 2016 level.
6. Figures at the country level can be found in annex.
7. Figures for Arab economy individually are provided in ESCWA's trade country profiles.
8. Similar results were obtained carrying out the same comparison using globalization rankings for 2016 or 2017.
9. The figures in annex 2 reflect individual Arab country positions.
10. See the section on intra-Arab integration where the role of Saudi Arabia and oil-exporting Arab countries is discussed in greater detail.
11. Table 1 maps the relative importance of selected partners for Arab region/country. Scores were calculated after normalization for each driver independently, and separate rankings for exports, FDI inflows and remittance inflows were generated before computing a bilateral dependency score using a simple average throughout the indicators. Bilateral relationships were then ranked. For ease of reading, a color code was used: the darker the shade of the cell, the closer the economic relationship between the Arab regions/countries (in row) and its partner (in column).
12. This was due to the GCC countries' geographic diversification of its partners in favour of Asia and to economic difficulties resulting from unstable and low oil prices, which required a production cut to support the market.

Chapter 2

13. Algeria, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, the Sudan, Syrian Arab Republic, Tunisia and Yemen.
14. For information on the European Union's Common Agricultural Policy see https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance_en.
15. The 1996 Rome Declaration on World Food Security agreed on a Plan of Action which provided the following widely-used definition of food security: "Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life".



The severity of the COVID-19 pandemic and the scale of its impact across the Arab region highlight the need for collaborative economic integration that strengthens the region's recovery and builds resilience to external shocks. The present edition of the Assessing Arab Economic Integration Report (AAEIR) examines trends in integration across the Arab region, focusing on the potential of agricultural integration to spur growth, employment and welfare, even in times of crisis. Farming is vital for rural livelihoods, food security and foreign exchange across the Arab region, taking on even greater importance given the production bottlenecks and agricultural disruptions caused by COVID-19. Diversifying sources of inputs and destinations of exports, and increasing the added value of food products will make the region more versatile and link in to onshoring, regionalism and value chain diversification trends across the globe.

AAEIR continues to make the case that economic integration is a realizable goal and an imperative for the Arab region in its path towards peace and shared prosperity. Regional institutions such as the Pan-Arab Free Trade Area and the Arab Customs Union provide avenues to harness shared assets and cement deeper partnerships across borders. The report serves as a call to action to move ahead with an ambitious integration agenda that will help Arab communities rebound from COVID-19, and progress towards inclusive and sustainable structural transformation.

