Trade and Investment Diagnostic

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ECONOMIC PILLAR
DEPUTIES’ MEETING

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Youth Unemployment Rates

MENA has highest youth unemployment rate in the world (%)

Source: Regional Economic Developments and Prospects, MENA, World Bank, 2011
Soaring youth population

Population Pyramid of MENA and the World, 2002

Insufficient economic growth to create enough jobs

Source: From Privilege to Competition, World Bank, 2009
Could Trade & Investment be part of the answer?

- **Trade.** MENA could produce more if it were to export more. Excluding oil exports, the MENA region of over 400 million people exports roughly the same amount as Switzerland.

- **FDI.** Excluding oil and real estate investment, FDI in manufacturing—the type of investment rich in employment—has remained marginal, accounting for just a fifth of all FDI inflows in the region.
Flat share of global exports of goods and services

Source: Regional Economic Developments and Prospects, MENA, World Bank, 2011
A relatively closed MENA region

Market access by regions

Source: World Bank (staff calculations), 2011
Limited intra-MENA integration Measured by nonoil exports

Source: World Bank (staff calculations), 2011
FDI inflows surged

In percent of GDP

Source: Regional Economic Developments and Prospects, MENA, World Bank, 2011
But from a low base

Source: From Privilege to Competition, World bank, 2009
Mainly in real estate and mining

Share of greenfield FDI inflows by sector

Source: Regional Economic Developments and Prospects, MENA, World Bank, 2011
With poor employment content

**FDI and FDI-related employment by sector**

![Bar chart showing FDI flows and jobs by sector: Manufacturing 20% (FDI) and 55% (Jobs), Mining 30% (FDI) and 7% (Jobs), Other Services 5% (FDI) and 19% (Jobs), Real Estate 33% (FDI) and 5% (Jobs), Tourism 13% (FDI) and 14% (Jobs).]

*Source: Regional Economic Developments and Prospects, MENA, World Bank, 2011*
Domestic private investment has not yet taken off

Source: From Privilege to Competition, World bank, 2009
A complex business environment (and indicators hide uneven application of rules)


Overall lack of competitiveness

Source: Global Competitiveness Report, 2011
Top 5 features of successful emerging economies:

- They have committed, credible, and capable governments
- They maintain macroeconomic stability
- They exploit the world economy
- They let markets allocate resources
- They muster high rates of saving and investment

*Source: Growth Commission Report (2008)*
Leadership in both Partnership Countries and partner countries is needed to provide a credible long term vision.

This vision will need to go beyond the immediate benefits in employment and instead promote sustained growth and job creation, in a framework of common values of peace and stability.
Managing the political economy

- Skepticism about the value and integrity of the private sector, and the merits of trade and foreign direct investment:
  - Recent opening did not generate all the advertised benefits—"crony capitalism"
  - Benefits have been captured by a well connected few
  - Concerns about income and wealth inequalities
  - Managing expectations – population expects a better life now!

- In particular, among two groups:
  - Vested interests that benefited from privileges
  - Groups that have an ideological resistance to economic integration
A Vision beyond Trade & FDI

- Parallel implementation of complementary domestic policies as part of a comprehensive reform agenda to improve competitiveness
- Support of the G8 and other partners to help with the restructuring and upgrading of the Deauville partnership economies
  - Genuine market access and labor mobility
  - Technical assistance and capacity building
  - Financial support
Deauville Partnership Finance Ministers tasked the Center for Mediterranean Integration (CMI), drawing on the expertise of the World Bank and in partnership with the Islamic Development Bank, to coordinate an analytical report “to provide an appropriate framework to enhance trade and FDI”

Team of experts co-led by Jean-Pierre Chauffour (World Bank) and Khalid Sekkat (University of Brussels and ERF)

With inputs from consultations with Partnership countries and Deauville partners (G8, Kuwait, Qatar, Saudi Arabia, Turkey and the UAE)

With inputs from an advisory committee of 20+ experts from Deauville Partnership countries and partners
Thank you