

# Economic Development, Trade and Investment

Analytical Report WP5

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# Presentation outline

- Brief recall of the findings of the various WP5 research papers.
- Some details on the proposed recommendations that emerge from these papers



# Determinants of long term growth perspectives (WP5-A)

Factors that were found to have significant and positive growth effect:

- Price stability >> fiscal balance, current account balance and sound monetary policy. Unemployment contributes to price stability!!
- Openness >> trade, capital account openness and FDI (good business climate is important). Exchange rates needs monitoring to ensure competitiveness
- Education >> Spending on education – but only with good governance



# Trade and investment flows (WP5 B)

Manufactured exports are stimulated by :

- Competitive exchange rate
- Good governance (WB Governance indicators)
- Openness (proxy by Economic Freedom Network)
- Good infrastructure
- Benefits from thriving demand from main partners

FDI benefits from:

- Openness of the economy
- Good governance--institutions
- Good infrastructure



# Deep versus shallow trade integration (WP5 C)

- NTBs in MED still high; they reduce imports into MED; they also hamper MED exports but less so as NTB's is destination countries are rather low;
- Tariffs on MED's imports still substantial  $\Rightarrow$  they lower imports and hamper external competitiveness;
- Poor trade logistics and high transport costs reduce trade;
- The traditional gravity variables (GDP and the cultural factors) also provided the expected signs and turned out to be significant

Hence: reducing tariffs, NTBs and improving Trade Logistic Indicators have great potential to expand exports and improve competitiveness.



# Private Sector Development and Privatization (WP5-D)

## Private Sector development:

- MED scores badly on the PSD index of the WB (except Tunisia and Israel)
- Similarly the WB Governance Indicators: poor governance impedes private sector growth
- Access to credit is inadequate (state banks still dominant and poor financial supervision). Large connected firms privileged
- Problem is less with poor legislation (significant improvements still to be made) but with its weak enforcement, clientism and privileges >> Arab Spring



# Private Sector Development and Privatization (WP5-D) (cont)

## Privatization

- All MED countries have privatization policies in place but uneven progress. Best in Israel, Jordan, Turkey and Tunisia. Worse in Libya, Syria and Lebanon. Progress in Morocco and Egypt (large share of the productive sector in hands of military) falls somewhere in between.
- Progress in setting up the institutional and regulatory framework to ensure that privatization does not lead to monopoly operations, also varies from country to country.



# Sector analysis

## Infrastructure

- MED lags behind similarly situated countries in terms of its infrastructure>>hinders economic growth
- Significant new investments are required to catch up
- These can be scaled down so as not to create unbearable fiscal burdens and still contribute substantially to boost trade and economic growth



# Sector Analysis

## Information and Communication Technology

- Telephone density is lower than in most other regions of the world—particularly fixed lines. But MED is catching up fast in cellular telephony
- Privatization of the sector focused on cellular while fixed lines still largely under state control
- Regulatory framework still needs greater focus to ensure fair competition
- Sector will benefit from better business climate to ensure it can absorb fast technological changes in this sphere



# Sector Analysis

## Tourism

- Sector is **very** important for several MED countries in terms of GDP, forex receipts and employment – except Algeria, Libya and Israel (due to its greater diversification).
- Growth of sector was faster than in the world in the 1990's and 2000's, both for inbound and domestic tourism; it suffered greatly from the 2011 events, but is coming back.
- Competition of other regions and necessity to adjust to climate changes; both require better public policy—where lack of continuity is a problem
- Better business climate and access to finances will help



# Sector Analysis

## Agriculture

- In terms of contribution to GDP and employment the sector is losing importance, as in the rest of the world
- Per worker productivity increased largely due to better agriculture practices and investment in irrigation
- Domestic agricultural price subsidies distort incentives
- Trade in agriculture products with EU restricted
- Climate changes will have a great impact on sector>> need to focus on irrigation



# Sector Analysis

## Textiles

- Very important sector (exports, employment) in Tunisia, Morocco, Turkey, Jordan, Egypt and Syria.
- Expiration of the WTO Multi-Fiber Arrangement (MFA) in 2005 had negative impact on regional competitiveness as it removed preferential access to major markets and thus opened up to stiff competition of Asian low-cost producers.
- Need to improve competitiveness : (i) better overall business environment, (ii) moving up the value chain that will benefit from better worker training, access to finances, and (iii) further trade liberalization.



# Selected Social issues

## Unemployment and demography

- Fast population growth
- High unemployment, especially for youth (one quarter of the age group)
- Low female labor participation

## Income inequality

- High and growing income inequality

## Gender issues

- Lower education level than males
- Higher unemployment than for males
- Low labor participation



# Key Policy Recommendations

- **Macroeconomic Policies**

- Fiscal balance contributes to price stability : role of **subsidies** needs to be revisited to achieve its objective of assisting the poor. **Better targeted instruments** at lower fiscal cost are possible. They need to be investigated and implemented.
- Ensure a **competitive exchange rate** to maintain sustainable current account balance and stimulate external competitiveness
- Continue to foster **greater openness** of the economy—see later
- **Avoid expensive employment public policies.** Replace them by improving business environment that will create private sector jobs.
- Keep eye on **non distortive resource mobilization policies**: replacing tariff revenues by broad based sales taxes/ VAT rather than by increasing business income taxes



## Trade Policies and FDI

- Continue the **lowering of tariffs** and maintain **competitive exchange rate**
- Identify **NTBs** and prepare strategy to reduce them—mobilize resources, domestic and external.
- Identify sources of **poor trade logistics** and establish strategy to improve them. Improved **infrastructure** will be important
- Improve **business environment** and **governance**



## Private Sector Development and Privatization

- Each country should review the factors that account for its poor business climate and elaborate a remedial strategy.
- Improving access to finance for the SMEs and new enterprises, the dynamic and job creating sector
- Focus not only on formal reforms but also on their implementation >> strengthen implementing institutions>> listen to representative delegates of the private sector
- Pursue privatization process and strengthen the regulatory framework – also for ICT sector



# Selected sector policy issues

## Infrastructure

- Reserve sufficient resources to “catch” up with the rest of the world >> benefits for trade and GDP growth

## Agriculture

- Focus on irrigation to increase productivity and prepare for climate changes
- Food security not self-sufficiency should be driving force of sector policy
- Reduce distorting price subsidies
- Negotiate with trading partners to include agriculture in free trade agreements

## Information technology

- Continue privatization - particularly of fixed telephony
- Strengthen business environment --also to attract FDI—and regulatory institutions to ensure competition and absorb new technologies



# Selected Sector policy issues (cont)

## Tourism

- **Improve business environment**—access to finance for SME's
- Strengthen **public policies** with respect to tourism—focus on continuity and implementation. **Involve private sector** more in setting sector strategies and policies
- **Diversify tourism offers**

## Textile

- As for all industrial sector there is need for **competitive exchange rate, better business environment, improved governance, technical education** and access to **finance**

