

On Trade Policy and Inclusiveness: What is at Stake?

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Introduction

- The MENA region liberalized its trade over the last two decades.
- Non-tariff measures and services restrictions proliferated leading to a distorted trade policy.
- Social outcomes did not improve with such a liberalization.
- A more inclusive trade policy can be used as a tool to improve the economic impact of trade liberalization and thus help attain some SDGs.

Outline

- Trade Policy in the MENA Region
- Trade Policy and Inequality
- Towards a More Inclusive Trade Policy

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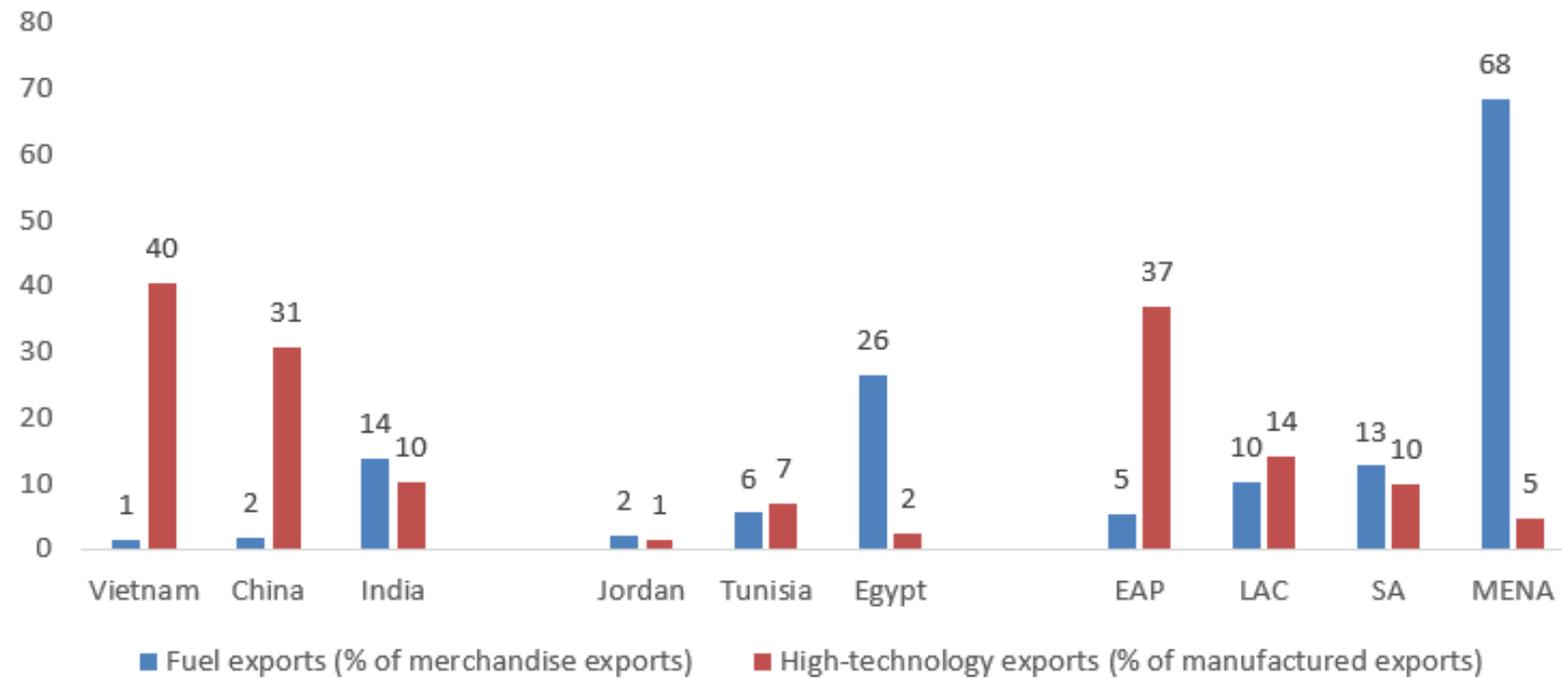
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Trade Policy in the MENA Region

- Trade policy reforms in the MENA region began in the nineties as part of their comprehensive economic reform and structural adjustment programs.
- The region is among the most open regions in the world, with exports accounting for more than 40% of their GDP.
- Out of 21 MENA countries, 13 are WTO members and most MENA countries are members in Preferential Trade Agreements (PTAs), such as the bilateral Association Agreements (AA) with the EU, the Agadir Agreement and the Pan Arab Free Trade Area (PAFTA).

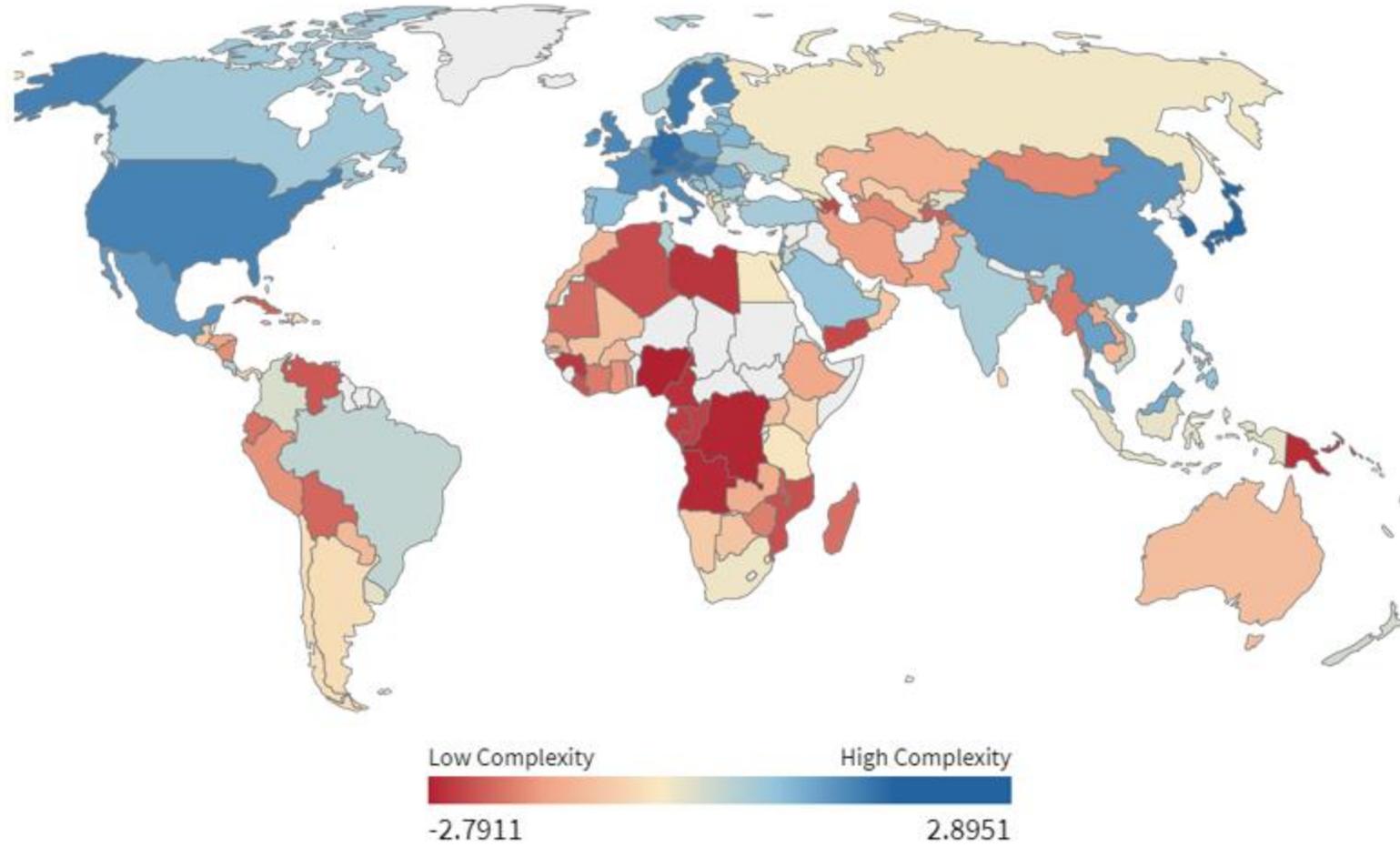
Export structure

Figure 1: Exports Structure (2019)



Source: Authors' elaboration using the World Development Indicators dataset.

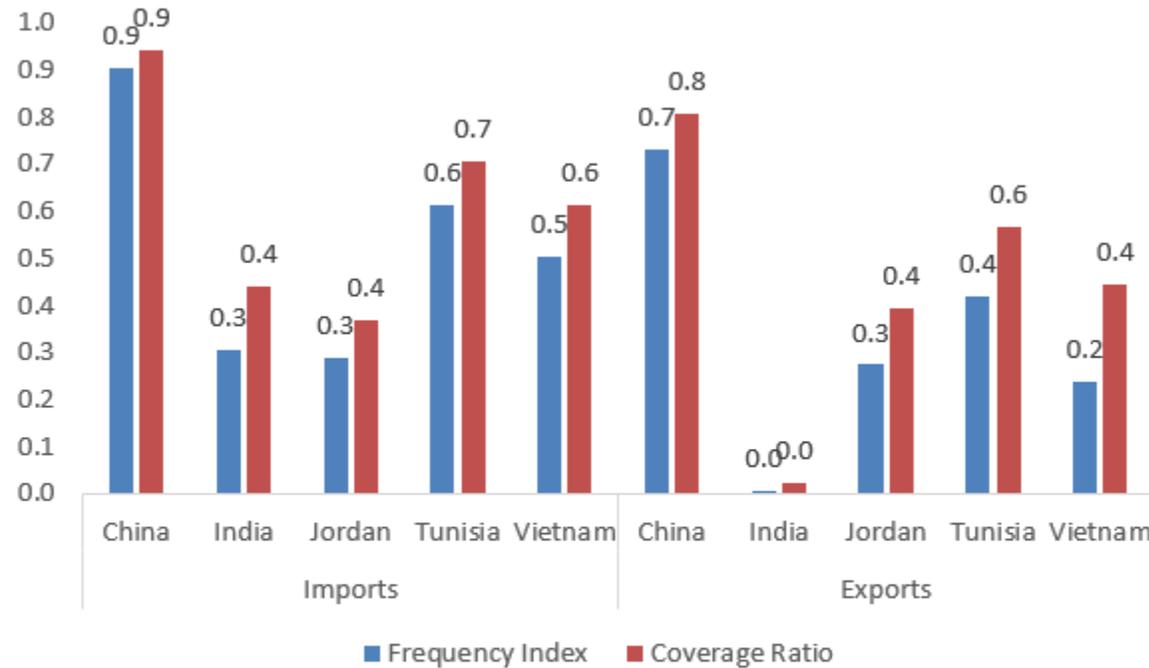
Figure 2: Exports Complexity Index (2018)



Source: Atlas of Economic Complexity dataset.

Trade Protection

Figure 3: Non-Tariff Measures in Selected Countries



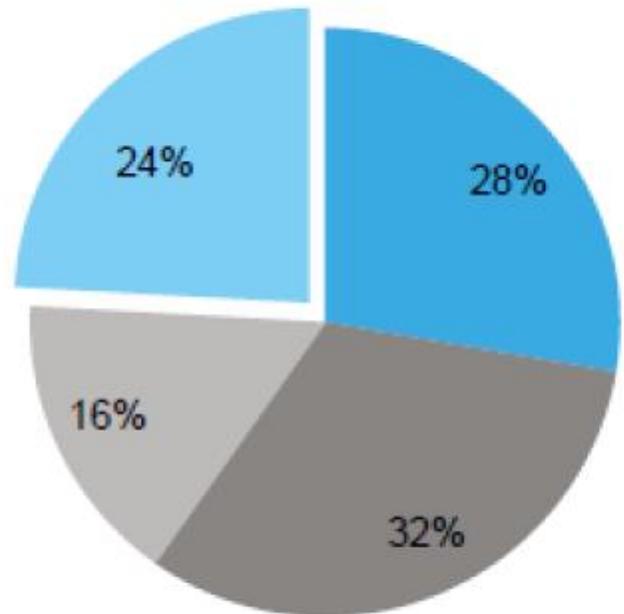
Source: UNCTAD (2017)

Notes: (i) The Frequency Index (Fi) captures the share of products of country i covered by NTMs. (ii) Coverage Ratio is the share of trade subject to NTMs for a country i (or for a region), or a group of products. (iii). Coverage and Frequency indices range between 0 and 1. The higher the index, the higher the incidence of a non-tariff measure. (iv). Data for Egypt are missing.

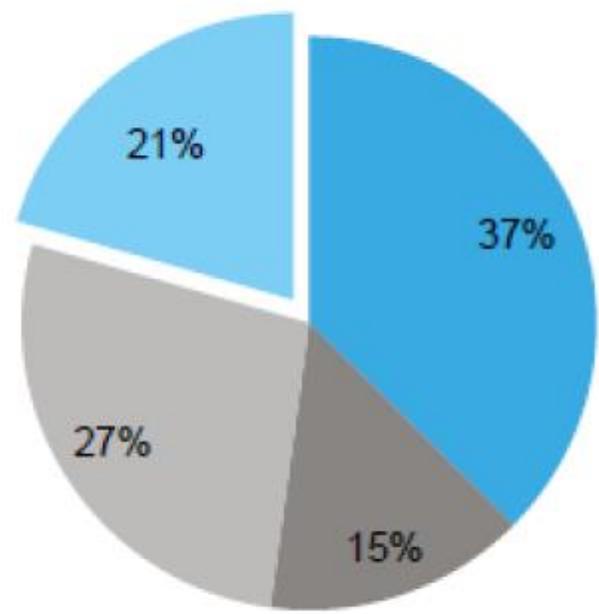
Trade Protection

Breakdown of burdensome NTM cases reported by exporters in Arab States

Agricultural



Manufacturing



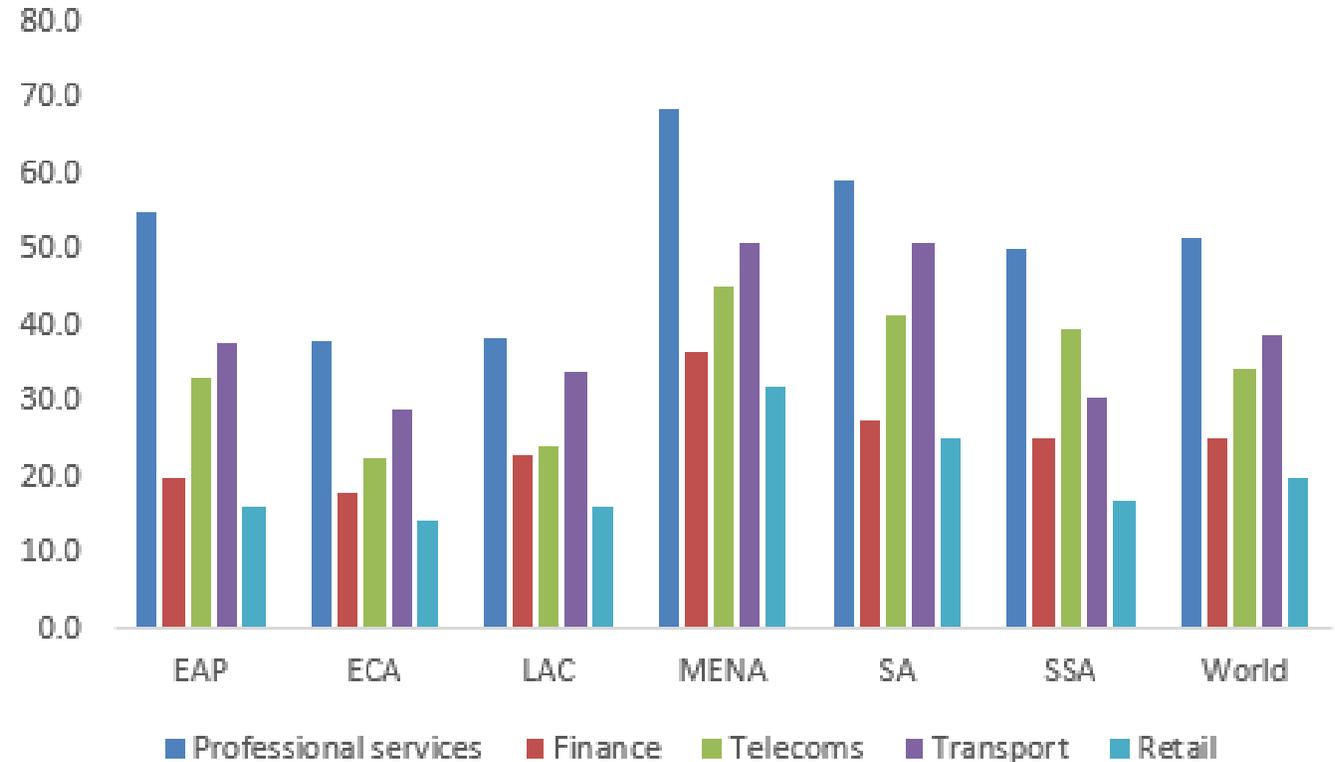
■ Arab States ■ EU ■ RoW ■ Home

Source: ITC (2015)

Services Restrictiveness

Services are also characterized by strong forward and backward linkages, acting as inputs in the production process or support services to the final product.

Some services also act as the “glue” that holds together fragmented activities of a product value chain.



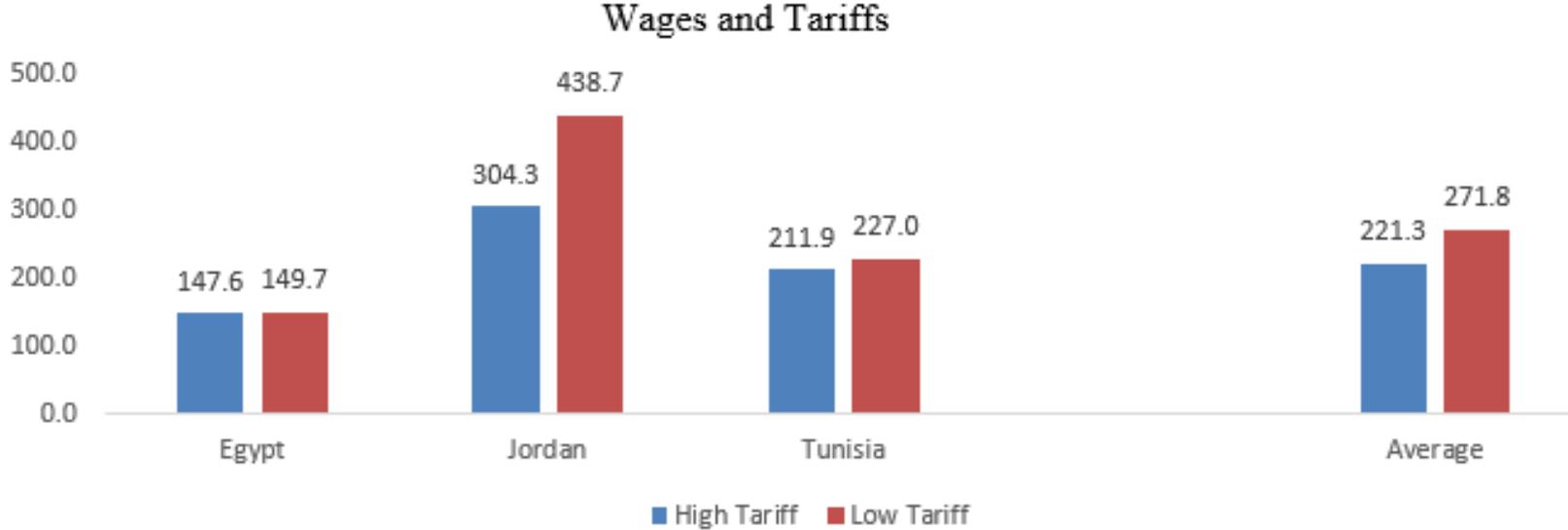
Source: OECD dataset.

Note: EAP stands for East Asia and Pacific, ECA for Eastern and Central Europe, LAC Latin America and Caribbean, MENA Middle east and North Africa, SA South Asia, SSA Sub-Saharan Africa.

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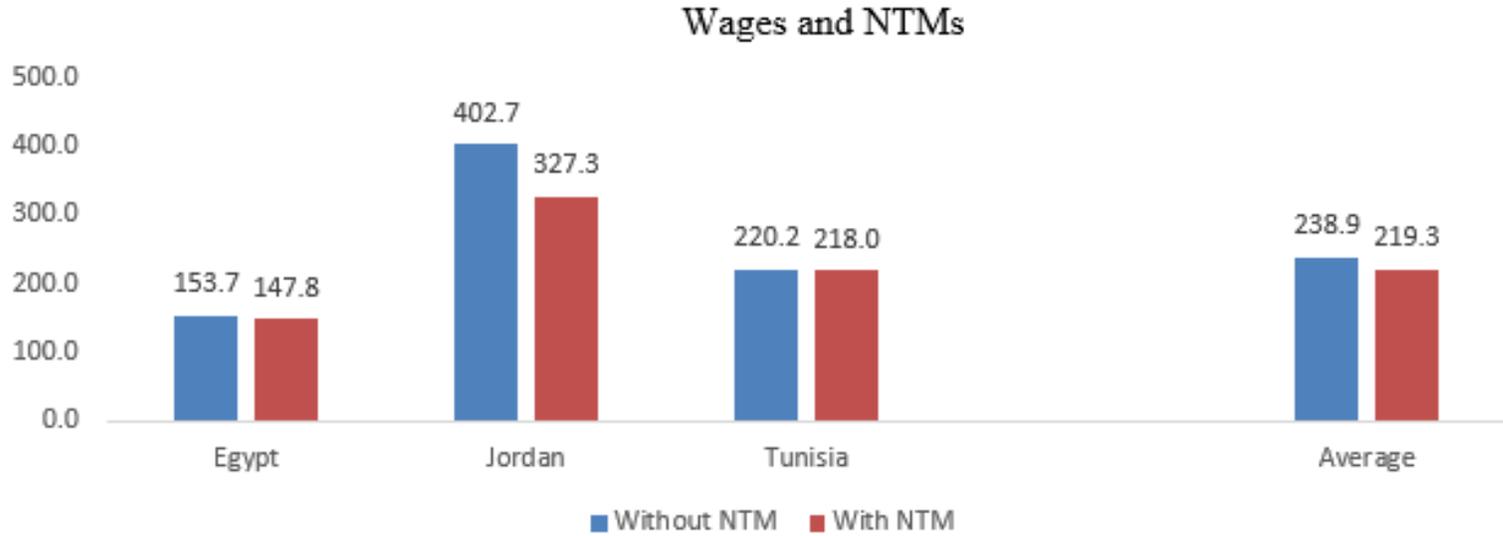
Trade Policy and Inequality



Source: Aboushady et al (2019) using ILMPS.

Note: (i) Figures represent real monthly wage in constant USD (2010). (ii) High tariff means a sector with a tariff greater than the median one.

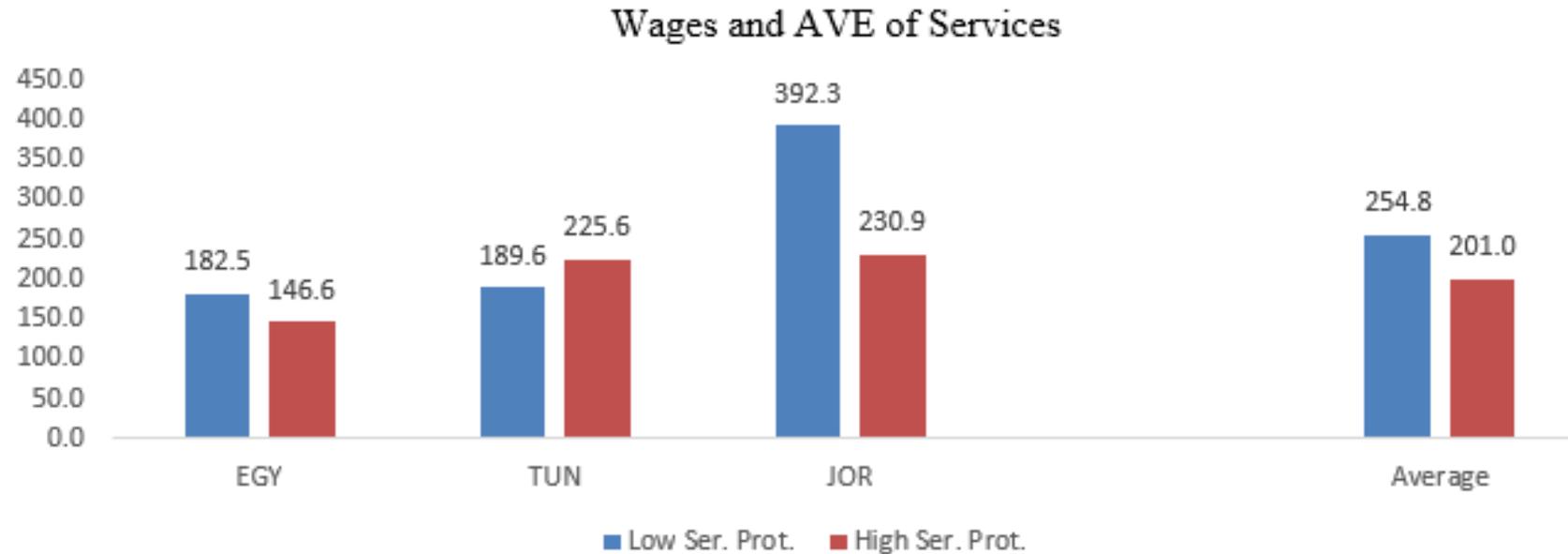
Trade Policy and Inequality



Source: Aboushady et al (2019).

Note: (i) Figures represent real monthly wage in constant USD (2010). (ii) With NTM means that there is a least one non-tariff measure imposed on this sector.

Trade Policy and Inequality



Source: Aboushady et al (2019) using ILMPS.

Note: (i) Figures represent real monthly wage in constant USD (2010). (ii) High Ser Prot. means a sector with an AVE of services greater than the median one.

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Trade as tool for lower inequalities (SDG5 and SDG10)

- Trade liberalization represents an opportunity for MENA countries to reduce inequalities in line with their SDG agenda (promoting gender equality (SDG 5) and reducing inequalities (SDG 10)).
- Since liberalization allows firms to use foreign inputs to increase the quality and sophistication of their output, this leads to increased labor demand, increased wages, and reduced wage disparities from the skill and gender lens.
 - Aboushady and Zaki (2021) find that exports and innovation in core production techniques increase the demand for skilled production (blue-collar) workers in the manufacturing sector rather than non-production workers (white collars). From a development goal perspective, this effect corresponds to the goal of creating jobs that are more decent and reducing informality. However, a major problem in the MENA region is limited employability and skill shortages in blue-collar workers.
 - Female workers are concentrated in low value-added sectors and in the informal sector. Therefore, inclusive trade policy needs to be accompanied by public private cooperation in order to enhance vocational training and create skilled labor, while considering the gender dimension as well.

On Trade, Industry and Innovation (SDG9)

- In line with the SDGs, MENA countries also need to work on promoting inclusive industrialization and fostering innovation.
- Industrial policies are not inclusive, since manufacturing exports are relatively modest and -due to concentration in low value-added or capital-intensive sectors - are not generating enough jobs. The share of innovative firms is also lower in the region than in other developing countries (Aboushady and Zaki, 2021).
- Firms must be encouraged to innovate in order to be able to enter the exports market and withstand global competition.
- Governments, in coordination with businessmen, trade unions and Civil Society, work on developing industrial strategies that foster inclusiveness through employment creation.
- These should rely not only on promoting traditional labor-intensive sectors, but on exploring new diversified and innovative paths that could contribute to the creation of more jobs for the skilled.

Fostering Deeper Trade Integration (SDG17)

- Bilateral Association Agreements cover only manufacturing products, to a lesser extent agriculture, while services remain completely excluded.
- FDI is one of the main motors of growth and job creation. Yet, EU investments in the region are concentrated in capital intensive sectors, such as oil, banking and real estate.
- MENA countries can make use of the Euro-Mediterranean Partnership to seek assistance in developing and implementing inclusive industrial policies and in aligning these with their trade policies, before proceeding with deeper integration.
- The EU instruments and funds could be used in the design and implementation of such trade and industrial development strategies, be it through enhanced vocational training, fostering innovation through increased access to financial resources and know-how, enhancing the access of small and medium enterprises (SMEs) to regional and global markets through clusters or promoting sectors with high female labor intensity.

Attractiveness Matrix for Arab Countries

	Egypt	Jordan	Tunisia	Morocco	Turkey	China	Vietnam	Bangladesh
Factors of Production								
Hourly Cost of Labor	219.6	646.41	301.64	430.38	439.58	961.03	407.88	309.9
Output per worker	41,603	37620	37,956	25,729	72,296	32,002	11,970	10,067
Capital openness	-0.15	2.33	-1.22	-1.22	-1.22	-1.22	-0.15	-1.22
High-Technology Exp.	0.57	1.81	7.39	3.84	2.90	30.89	41.41	0.30
Domestic Market								
Doing Bus	58.5	61.3	67.2	71.7	75.3	74	68.6	42.5
Global Competitiveness Index	54.5	60.9	56.4	60	62.1	73.9	61.5	52.1
Trade-related								
Distance	3212.4	3329.1	1626.5	2078.5	2179.4	7970.8	8990.0	7724.4
Agreement with EU	AA	AA	AA	AA	CU	NO	Signed TA	NO
Tariffs manufacturing	6.63	3.83	9.32	3.83	1.38	8.35	6.24	12.88
NTMs	8.4	6.5	6.1	7.1	6.2	9.5	4.3	7.6
GVC integration	36.82	34.03	46.67	41.84	49.58	35.3	49.38	26.91

Source: Authors' own elaboration based on different datasets.

Thank you for your attention.