

MENA-OECD WORKING GROUP ON INVESTMENT AND TRADE

3 December, 2020

KEY MESSAGES

The annual meeting of the MENA-OECD Working Group on Investment and Trade took place on 3 December 2020 via Zoom. It was attended by senior policymakers from MENA and OECD economies, as well as representatives from international organisations, the private sector and academia both from OECD countries and the region. The meeting focused on challenges and policy options to support the post-pandemic recovery of the MENA region.

The Working Group focused on two key areas: (i) recent trends and impact of COVID-19 on investment and trade in the MENA region and (ii) the role of global value chains and regional integration in a post Covid-19 era.

The following background papers and publications informed the discussions:

- [OECD Note: Foreign direct investment flows in time of Covid-19](#)
- [Covid-19 and international trade: Issues and actions](#)
- [Investment in the MENA region in time of Covid-19](#)
- [Middle East and North Africa Investment Policy Perspectives](#)

Key messages

The pandemic has had a severe impact on trade and investment in the MENA countries

- **The MENA region has been hit hard by the Covid-19 pandemic through simultaneous shocks, including a drop in domestic and external demand, low oil prices, a fall in consumer and investor confidence.** The resulting shocks led to a decline of trade and foreign direct investment (FDI) in the region. In Africa and the Middle East, exports dropped 8% in 2020 compared to 2019 while imports dropped 3% during the same period. A review of greenfield FDI in eight MENA economies shows that announced greenfield projects declined by 80% in the first half of 2020 compared to the first half of 2019.¹ This is a significantly greater decrease than in emerging and developing economies as a whole and OECD countries, which saw declines of 42% and 17% respectively in the same period.²

The pandemic will accelerate already existing trends in the reorganisation of global value chains

- **Given such large decline in trade and FDI, participants highlighted the importance of rethinking trade and investment strategies to attract new investment that would enhance regional economic integration and participation in global value chains (GVCs).** They highlighted the importance of attracting investment in certain sectors that have become very relevant in the context of the pandemic such as agriculture, IT, medical supplies and food industry.
- GVCs have allowed companies to achieve efficiency and productivity gains, and through them companies are also more resilient to risk of supply chains. A very important debate is now taking place on value chains and whether the pandemic may reinforce and accelerate a phenomenon observed in the past decade, whereby

¹ The eight economies are: Algeria, the Palestinian Authority, Egypt, Jordan, Lebanon, Libya, Morocco and Tunisia

² OECD (2021), Middle East and North Africa Investment Policy Perspectives, OECD Publishing, Paris, <https://doi.org/10.1787/6d84ee94-en>.

companies shorten their supply chains and reduce the distance between suppliers and clients (nearshoring), or chose to move manufacturing activities back to the home country (reshoring). **The growth of services in manufacturing also drives relocation strategies, as companies try to produce closer to consumers.** In addition, the rise of the digital economy, changing consumer habits and climate change are affecting the way global value chains are organised.

- As companies will look to more competitive manufacturing markets, **MENA has a big opportunity to gain from potential new investments by multinationals thanks to geographical proximity, industrial potential and a young population and labour force.** This could ultimately increase MENA economies' share of European trade and FDI vis-à-vis Asia.
- **The MENA region can also become a manufacturing base for companies looking to trade with the rest of the African continent.** Given that currently only 4% of Sub-Saharan imports come from North Africa, there is also a great potential for MENA-Africa trade and investment co-operation. North Africa remains one of the most attractive sub-regions in Africa for FDI, with companies increasingly focusing on setting up manufacturing bases in MENA.

Deepening regional integration is important for the recovery of the MENA region

- **While there has been an improvement in the level of regional integration among MENA economies, participants acknowledged that different barriers remain.** This results into low level of intra-regional trade, currently reaching 13% for exports and 15% for imports. The lack of infrastructure has led to low intra-regional connectivity of the economies in the region, while the lack of economic diversification confines trade primarily on oil and agriculture.
- While there are a multitude of trade agreements among Maghreb countries and with the EU, they are not being implemented effectively. Additionally, current trade agreements cover only goods and there is no services agreement despite the fact that services have been the fastest growing sector in terms of international trade and investment.

Policy considerations for the MENA region in a post-pandemic period for trade and investment

- **Governments need to adapt to global value chains dynamics.** Policies need to be aimed at attracting industrial investments in targeted sectors. In this context, Investment Promotion Agencies (IPAs) play an important role in making a location more attractive for GVC activities. This also requires policies to strengthen human capital, education, innovation and research, migration, intellectual property rights, and deeper capital markets at the national and regional levels.
- **Deep trade agreements with and beyond the region could offer more stability and certainty for trade and investment, and help the economies of the region to recover.** These could include new generation trade agreements that cover not only trade in goods, but also services and potentially other provisions such as investment. Such agreements could provide more stable and predictable environments for goods and services. In this context, the African Continental Free Trade Agreement can play a particular role, but governments could also develop new FTAs with other regions, including with Asia.
- **Investments in trade-related infrastructure connectivity.** The Covid-19 pandemic revealed the need to investment more in connectivity infrastructure, including in ports and airports and the associated logistics to ensure a smooth functioning of trade, including for essential goods. Yet, many countries do not have the capacity to invest and there is a need to involve the private sector to provide additional resources. Better connectivity can facilitate the movement of goods, capital and information, which depend largely on services, therefore removing restrictions on services related to infrastructure is necessary.
- **Advancing the digital transformation.** Crucial for a post-COVID-19 pandemic is a digital agenda in the MENA countries in various sectors. This notably includes the transport system, which has become increasingly digitalised, which has important implications on the way global supply chains are structured. E-commerce is

expected to grow fast alongside other digital services, which do not only require new generation trade agreements but also cross-border infrastructure for firms to be able to trade internationally.

- **Strengthen co-operation with the private sector.** As the MENA region addresses the effects of the current crisis and lays the foundations for a greener, more inclusive post-Covid-19 world, a stronger co-operation with the private sector is needed to “build back better” and support reforms, including through structured public-private dialogues in sectors that are relevant for the recovery.

Next steps

Participants called for more policy actions and capacity-building activities on trade and investment at regional and country levels, building on OECD expertise, instruments and tools. Areas of interest include working on trade agreements; infrastructure and connectivity; digitalisation and e-commerce; and support to SMEs for integration into regional supply chains.

- The Investment and Trade Working Group will continue focusing on these issues in the context of the **renewal of the mandate of the MENA-OECD Initiative on Competitiveness and Development** for 2021-2025. The new mandate will place an even greater emphasis on private sector development, economic empowerment and inclusiveness as a strong basis for the recovery, as well as on transitioning from policy dialogue to implementation of reforms.
- Under the new mandate, **the Investment and Trade Working Group will evolve into a community of practice.** Learning from the new methods of work developed during the Covid-19, practitioners involved in the Competitiveness Programme’s networks will engage in regular technical dialogues, including online meetings, to promote OECD standards and enhance analytical work.

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Learn more about our work on trade and investment in the MENA region:

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