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MENA'S NON-OIL EXPORT PERFORMANCE IN THE LAST DECADE

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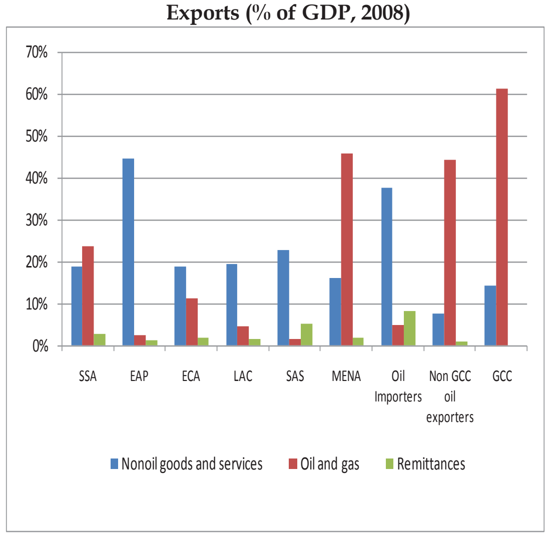
Introduction: The political events reshaping the MENA region underlines that the key to political stability and renewed growth is going to depend on enabling more inclusive political and economic paths. Exports and especially non-oil exports will play a key role in developing the robust and inclusive growth model that the region needs to secure its future.

Background: Exports of non-oil goods and services play a much smaller role in MENA than in other regions. In 2008, MENA's share of exports of non-oil goods and services in GDP was just 16 percent compared to 44 percent in East Asia and 22 percent in South Asia, and lower even compared to the shares of LAC and SSA (Figure 1). These statistics are not surprising since about two thirds of the countries in MENA are net oil exporters, but the imperative to address employment challenges in MENA calls for a special focus on the state of nonoil exports.

The regional picture hides big differences in the contribution of non-oil exports of goods and services within MENA – in particular, between oil importing and oil exporting countries.[2] In the oil importing countries, non-oil exports of goods and services accounted for 38 percent of GDP – a ratio slightly lower than only East Asia's, yet they are insignificant as a share of total output in the GCC countries,[3] and especially in the developing oil exporters. Furthermore, the temporary movement of people to deliver services abroad is of particular importance in oil importing countries where remittances account for a high share of income.

Figure 1. Export Revenue by Type of Exports (% of GDP, 2008)



Source: Comtrade for goods, UN Services Trade Statistics for services, and World Bank for remittances.

Non-oil Export Performance Varies Greatly Across MENA: The non-oil export performance of MENA countries has been assessed by comparing countries' nonoil exports with their estimated potential to export goods and

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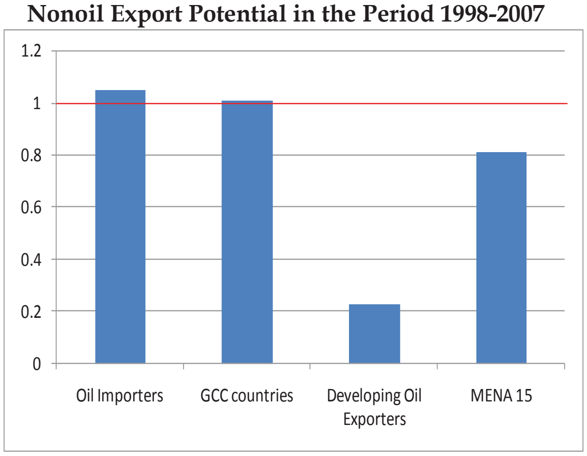
[2] The group of oil importing countries includes Egypt, Tunisia, Morocco, Lebanon, Jordan and Djibouti. The group of developing oil exporters includes Algeria, Iran, Iraq, Libya, Syria, and Yemen.

[3] The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates (UAE).

services, while adjusting for the presence of natural resources and the capacity to export. Nonoil exports of goods and services of oil importers and the GCC countries are found to be at potential, but the situation for the developing oil exporters is much weaker than for the other two groups (Figure 2).

Developing oil exporters' non-oil exports are, on average, only one fifth of predicted levels. This weak performance pulls down MENA's average to 80 percent of predicted levels. The four countries with weakest export performance among the 71 middle-income countries in the sample are Algeria, Iran, Yemen, and Saudi Arabia. Those with strong performance include UAE, Bahrain, Jordan, Tunisia and Morocco (Figure 3). The rest of the fifteen MENA countries appear to be underperforming as well.

Figure 2: MENA Underperformed Relative to Its Nonoil Export Potential in the Period 1998-2007

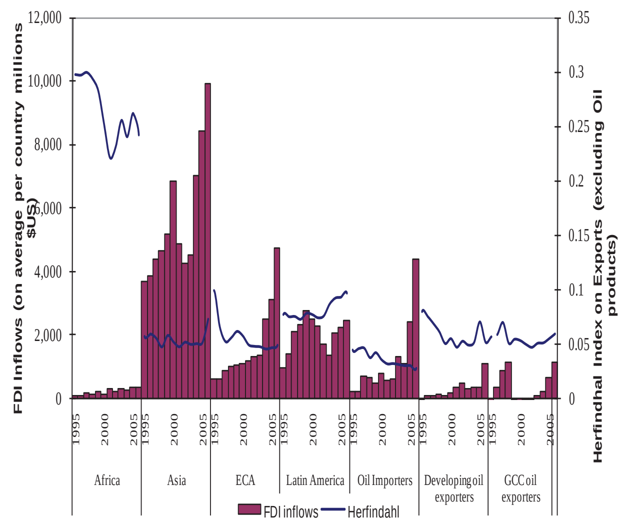


Source: Staff calculations of export potential is based on the following estimated regression: PCNOX =-181.09+0.2* PCGDPPPP-0.185*PCNatRes, sample size is 71, Adj R2=0.54, where PCNOX stands for per capita exports of nonoil goods and services, PCGDPPPP is the value of the PPP GDP in per capita US$, PCNatRes is the value of per capita resource-based exports in US$. The data has been adjusted for re-exports.

MENA's Progress as the Economy Liberalized and Exports Diversified: During the past decade most MENA countries increased their openness and the average MENA share of nonoil merchandise exports in GDP rose from 7.5 percent in 1996-99 to 9.2 percent in 2006-08. All MENA oil importers also made progress in reducing the concentration of their merchandise export baskets (Figure 3). Only the GCC oil exporters have made virtually no progress in diversifying their merchandise exports, although the UAE and Qatar have made advances by expanding and diversifying services exports.[4]

Oil exporting countries mostly export processed industrial products and primary and processed food items (Figure 4). Capital goods such as machinery and equipment represent a tiny share of merchandise exports. By contrast, oil importers have more diverse exports. They export a mix of industrial, food and other consumer items, including parts and components, and to a smaller extent, capital goods such as machinery and equipment. Tourism and transport are the main sources of export revenue in the service sector (Figure 4). In the GCC the communication sector is another major source of export revenue.

Figure 3. Export Concentration in Developing Regions



Source: Gourdon (2009). Herfindahl index is a flow-weighted concentration index $H = (\sum(s_k)^2-1/n)/(1-1/n)$, where s_k is the share of export line k in total exports, and n is the number of export lines. A drop in the index indicates a decline in the degree of export concentration.

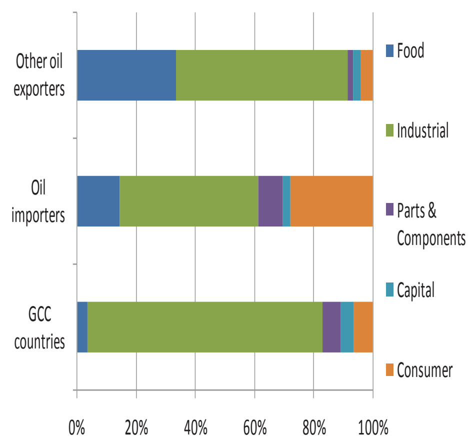
MENA has made a major shift towards the fast-growing markets of Asia (Figure 5). In 1998, 14 percent of MENA's non-oil merchandise exports went to Asia, but by 2008 this share nearly doubled and reached 25 percent. The switch has been particularly dramatic for developing oil exporters, whose share nearly

[4] Note that exports of services are not captured in Figure 3.

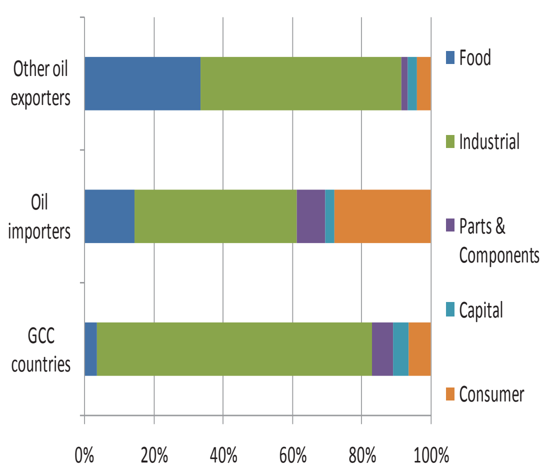
tripled from 12 percent in 1998 to 35 percent in 2008. The move towards greater reliance on Asia was much less pronounced in the oil importing countries, with the share of exports to Asia increasing from 8 percent in 1998 to 13 percent in 2008.

Figure 4: MENA's export structure 2008

Export of Non-Oil Goods

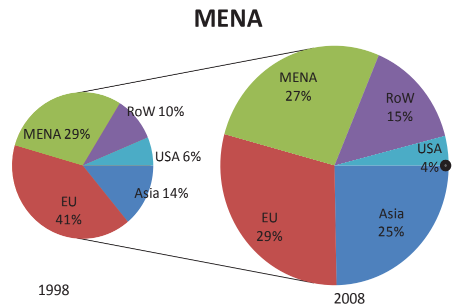


Export of Services



Source: Comtrade data for goods and UN Services Trade Statistics for services.

Figure 5: MENA's Nonoil Merchandise Export Destinations



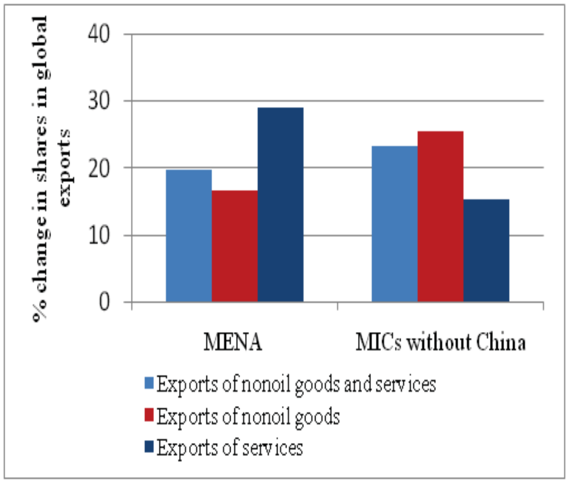
Source: Comtrade data

The shift towards Asia and other emerging markets is good news for MENA as these markets are well positioned to drive trade growth in the future. Despite the shift away from the old continent, Europe remains the most important export destination for MENA's nonoil goods. This reflects largely the fact that the EU received half of the oil importing countries' exports in 2008. For the GCC oil exporters, nonoil exports destined to other MENA countries represented the largest share, while for developing oil exporters, Asia became the most important destination for their nonoil merchandise exports.

Services as MENA's Area of Relative Strength: In 2008, MENA's share in world exports of nonoil goods and services was just 1.2 percent, up from 1 percent in 1998, and the share grew at a pace comparable to the average for middle income countries (MICs) excluding China, largely due to the expansion of services exports (Figure 6). During 1998-2008, MENA's share in world exports of services grew by nearly 30 percent compared to 15 percent for MICs excluding China (Figure 6). However in exports of nonoil goods, the situation is reversed with MENA's share of exports of nonoil goods growing by 17 percent compared to 26 percent for the MICs other than China (Figure 6).[5] These results suggest that MENA firms exporting nonoil goods remain less competitive than firms in other MICs, but the opposite is true for MENA firms exporting services.

[5] In this comparison we allow other MICs to benefit from exports of commodities other than petroleum.

Figure 6. Growth in Shares in Global Exports Between 1998 and 2008



Source: COMTRADE data.

Regional nonoil merchandise export growth was driven more by expansion of existing products to new markets and new products to existing markets than by an increase of exports of existing products to existing markets. Growth at the extensive margin[6] played a much bigger role in MENA than in other regions. This was especially true in the case of the developing oil exporters, whose extensive margin accounted for 82 percent of nonoil export growth during 1998-2008 – an outcome consistent with the spectacular shift in their nonoil export destinations.

The dominance of the extensive margin can be explained partly by the decline or disappearance of exiting flows to some existing markets, notably Europe. MENA's exports of existing products declined or disappeared at the highest rate in the developing world. Some of the reasons might be linked to increased competition from China and other emerging economies in specific markets such as the EU. China and other East Asian developing countries were able to scale up in a big way their existing exports in the EU and elsewhere. Indeed, East Asia's intensive margin accounted for 82 percent of export growth in the past decade, compared to 45 percent in MENA. Had MENA countries been able to maintain the level of existing export flows that actually declined or disappeared, export growth would have been 50 percent higher in MENA, 59 percent higher in the GCC and developing oil exporters, and 39 percent higher in oil importers. For East Asia, the decline and disappearance of existing exports reduced export growth by just 30 percent.

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[6] The extensive margin captures the expansion of existing products to new markets and new products to existing and new markets.