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Economic and Social Commission for Western Asia (ESCWA)**REPORT****EXPERT GROUP MEETING ON MACROECONOMIC AND SECTORAL POLICY
COORDINATION, AND ARAB ECONOMIC INTEGRATION
DUBAI, 23-24 NOVEMBER 2014****Summary**

The Economic and Social Commission for Western Asia, in cooperation with the Dubai Economic Council, organized an expert group meeting on Macroeconomic and Sectoral Policy Coordination and Arab Economic Integration, in Dubai, on 23 and 24 November 2014.

Issues raised at the meeting were related to macroeconomic convergence and the harmonization of sectoral policies with a view to promoting intra-Arab trade, international competitiveness and economic transformation. It was concluded that the coordination of sectoral policies should complement other regional integration measures, including infrastructure reform and the convergence of a set of macroeconomic fundamentals among Arab countries.

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Introduction

1. The expert group meeting on Macroeconomic and Sectoral Policy Coordination and Arab Economic Integration included presentations by the Economic and Social Commission for Western Asia (ESCWA) on its system of regional economic integration indexes and on convergence and economic coordination in the Arab region. Other experts contributed presentations on transformation analysis and on experiences of macroeconomic convergence and sectoral policy coordination in Africa and the Arab region. Two presentations focused on the cases of Morocco and Dubai.

I. TOPICS OF DISCUSSION

2. The meeting was organized in five sessions over two days.

A. A SYSTEM OF TOOLS TO ASSESS REGIONAL ECONOMIC INTEGRATION

3. The first session was chaired by Mr. Abdulrazak al-Faris, Chief Economic Counsellor, Dubai Economic Council, and Mr. Mohamed Lahouel, Chief Economist, Department of Economic Development, Dubai, was the discussant.

4. Mr. Mohamed Chemingui, Chief, Regional Integration Section, Economic Development and Globalization Division (EDGD), ESCWA, gave a presentation on the Commission's system of indexes.

5. Mr. Ghazi Boulila, Expert, highlighting the case of subsidies for construction materials and cement in Tunisia, said that subsidies led to a bias in market competition that hampered trade and regional integration. Besides lowering tariffs, countries needed to improve infrastructure and coordinate sectoral policies in order to stimulate regional trade. Coordination in the areas of industrial policy, agriculture, the environment, water management, energy policy and the financial sector, drove successful integration. The Arab countries were embarked on that process and various agreements had been signed. Greater regional trade was a necessary condition for improved competitiveness and economic diversity and growth. High energy subsidies meant that, ultimately, taxpayers paid for foreign consumers. They distorted competition, fuelled potential inconsistency between different subregional processes, hindered the harmonization of national and regional trade policies and were incompatible with multilateral commitments (such as World Trade Organization rules).

6. Mr. Nadim Ahmad, Director of Statistics, Organisation for Economic Co-operation and Development (OECD), presented a new statistical approach being developed by OECD (Trade in Value Added, or TiVA). Instead of looking only at exports, TiVA reflected the value added by each country by considering its import content of exports. It had emerged that protectionist measures such as higher tariffs could prevent countries from joining international value chains and developing their own exports.

7. Mr. José Antonio Pedrosa García, Economic Affairs Officer, Modelling and Forecasting Section, EDGD, ESCWA, presented the findings of his paper on convergence and economic coordination in the Arab region with regard to income per capita, productive structures, synchronization of business cycles and coordination of macroeconomic policies. Analysis revealed that there had been no income convergence across the region since 1960, although there was evidence of convergence within subregions. The region had become polarized in certain areas, such as savings and public finances. Strong measures would be required to reverse the tendency if regional integration agreements were to be successful. The economies of the Arab region, and hence policy, were structurally very different. Little had been done to advance regional integration, often for geopolitical reasons. Political coordination and coordination in key areas such as public finances were needed. Measures to break the deadlock of what Paul Krugman referred to as self-reinforcing processes would need to be considered.

8. Mr. Lahouel said that Arab countries should use their competitive advantage by producing what they were good at, thereby creating a value chain and contributing to regional economic integration. Global integration should follow. Human capital must be fostered and tools for its assessment improved. The Arab countries' rankings in international education assessment tools, such as the Programme for International Student Assessment (PISA) and Trends in International Mathematics and Science Study (TIMSS), needed to be lifted. Economic integration required political will.

9. Mr. Ali Sadik, Senior Economist, Dubai Economic Council, asked whether the Arab countries had the will or ability to achieve economic integration.

10. Mr. Ismail Genc, Professor of Economics, American University of Sharjah, said that industrial cooperation should be promoted in order to generate value chains based on comparative advantage. The extent of comparative advantage could be ascertained only with the appropriate data, which could also be used to identify the strengths and weaknesses of individual countries. Once that was done, Governments could identify means of expanding trade between countries, which would lead to diversity in economic activity.

B. REGIONAL EXPERIENCES IN MACROECONOMIC CONVERGENCE AND SECTORAL POLICY COORDINATION

11. The second session was chaired by Mr. Raed Safadi, Director, Trade Directorate, OECD, and Mr. Ibrahim Elbadawi, Director, Macroeconomics and Forecasting, Dubai Economic Council, was the discussant.

12. Mr. Adam Elhiraika, Director, Macroeconomic Policy Division, United Nations Economic Commission for Africa (ECA), said that creating a common market for 54 African countries should lead to economies of scale and make countries competitive. A framework for cooperation to develop common public goods was needed, for instance in the areas of infrastructure, peace and security. To succeed, integration required macroeconomic stability, fiscal discipline, and financial integration with harmonized money and capital markets to simplify payment systems and provide a primary source for medium to long-term securities, which were essential for investments. Monetary policy integration, or even monetary union, would remove exchange uncertainty and transaction costs, and deepen the integration process. Countries should give priority to accelerating the implementation of regional integration agreements, boost dialogue with the private sector and civil society, and strengthen the role of regional economic commissions in monitoring and evaluating integration. The commissions and member States needed a common platform for sharing best practices to hasten regional integration. They should also support the African Union in its quest for alternative sources of financing.

13. Mr. Belkacem Labaas, Economic Consultant, Arab Planning Institute, said that econometric analyses of income showed that, although sigma convergence was lacking in the region, beta convergence was more visible. Convergence was not the ultimate goal, however, but rather should facilitate integration.

14. Mr. Ibrahim Elbadawi, Director, Macroeconomics and Forecasting, Dubai Economic Council, said that African integration was a benchmark and was much more advanced than in the Arab region. Currency unions operated in Africa and much progress had been made in financial systems, facilitating payments and trade. Integration required political will, policies and resources. Africa had fewer resources than the Arab region but had shown that the key drivers of regional integration were political will and coordination. African countries had received assistance from China in developing infrastructure, which, along with a peaceful environment, was an important factor. Industrialization and manufacturing contributed to greater integration. The role that could be played by a regional champion, such as that played by South Africa in the South African Customs Union, was important.

C. COUNTRY EXPERIENCES IN MACROECONOMIC CONVERGENCE AND SECTORAL POLICY
COORDINATION IN THE CONTEXT OF REGIONAL INTEGRATION INITIATIVES

15. The third session was chaired by Ms. Riwa Nasreddine, First Economic Affairs Officer, Regional Integration Section, EDGD, ESCWA, and the discussant was Mr. Belkacem Labaas, Senior Advisor and Programme Leader, Arab Planning Institute.

16. Mr. Ayache Khellaf, Director of Economic Forecasting and Prospective Studies, High Commission for Planning, Morocco, said that it had been suggested that more openness had had an adverse impact on Morocco's trade balance. However, caution should be exercised and more analytical tools should be developed to study the impact of integration.

17. Mr. Mohamed Trabelsi, Senior Economist, Dubai Economic Council, said that econometric analysis had revealed a lack of diversification in Dubai's exports and trading partners. Compared with similar countries, Dubai exported too little, so exports (and re-exports) must be a priority. However, trade in goods should be distinguished from that in services, as the degree of value added was often different.

18. Mr. Laabas said that countries with strong growth and high unemployment needed to revise the structure of their labour markets and reform youth unemployment strategies. Trade and industrial strategies should be aimed at making an impact on the trade balance.

D. ARAB ECONOMIC INTEGRATION: EXPERIENCES, CHALLENGES AND OPPORTUNITIES

19. The fourth session (day two) was chaired by Mr. Mohamed Chemingui, Chief, Regional Integration Section, EDGD, ESCWA.

20. Mr. Safadi said that there was no long-term correlation between imports and unemployment and that liberalization, while necessary, was not in itself sufficient for economic integration. Rather than protecting jobs, countries should protect workers through targeted unemployment schemes and social protection mechanisms. Efficiency in the services sector was crucial for the creation of jobs and promotion of economic growth. Preconditions for unlocking much-needed private sector-led growth included: freeing the entrepreneurial spirit; moving from privileges to merit; establishing fair rules; and making markets more flexible. At the same time, account needed to be taken of structural transformation resulting from the new global trade and foreign direct investment (FDI) landscape, market access and rules, competitiveness and diversification, trade facilitation and trade finance (especially for small and medium-sized enterprises), inclusiveness, equity and sustainability. Governments should pursue heightened regional integration, since trade and investment could contribute considerably to productivity, growth, income and jobs. They should invest in education and skills development, and improve the business climate through investment in physical infrastructure and active labour market policies. Growth itself contributed to the creation of more job opportunities.

21. Mr. Elbadawi disagreed with the notion of concentrating on services. China had been more successful than India because India had moved too quickly to the services sector. Having recognized the error, the latter was now focusing on industrialization.

22. Mr. Elhiraika said that the role of the market should be limited and that greater emphasis should be placed on development planning. Countries like the Sudan had failed because of a lack of planning, while the success of China, Chile and Brazil was due to planning.

23. Mr. Safadi conceded that competitiveness in industry was important, but underlined that competitiveness in the services sector was also beneficial to manufacturing. Concentration on the services sector and development planning were not mutually exclusive.

24. Mr. Lahouel said that trade within the Arab region was weak and amounted to only 10 per cent of the volume of trade with other regions. The figure for Africa was at 20 per cent. The Arab region received only around 1 per cent of gross domestic product (GDP) in FDI, which was much less than other regions. Algeria received considerable FDI but that did not translate into growth. Elasticity of employment with respect to GDP in the Arab region, at around 0.65, was higher than the global average of around 0.55. The problem in the region, therefore, was one of slow growth rather than a need to change the growth model. Although integration could be beneficial, countries with similar production structures tended not to trade with one another. Governments should consider all the available options for integration, one of which might be to link them in infrastructure projects, while waiting for politicians to come around to the idea of deeper integration. Civil society groups should be involved in the process, as their interests differed from those of the private sector.

E. RECOMMENDATIONS AND DISCUSSION ON A FUTURE RESEARCH AGENDA

25. The final session was chaired by Mr. Ali Sadik, Senior Economist, Dubai Economic Council, Mr. Mohamed Chemingui, Chief, Regional Integration Section, EDGD, ESCWA, and Mr. Ibrahim Elbadawi, Director, Macroeconomics and Forecasting, Dubai Economic Council.

26. Mr. Elbadawi suggested that the product space in the Arab region, Turkey and Iran should be analysed in order to determine what could be achieved in terms of economic development and the potential benefits for individual countries. A top-down approach had failed to achieve economic integration. The private sector needed to play a more active role in the process and infrastructure should be developed. Chile had developed industry and an efficient financial sector, in addition to dealing with exchange rate issues. Exchange rate policy could contribute to creating a favourable environment for new industries, but must be complemented by other measures.

27. Mr. Chemingui noted that Tunisia's free trade agreement with the European Union had been, since the Arab uprisings, cited as the source of that country's economic woes. ESCWA would focus on assessing policies and reforms implemented to reduce costs and improve the outcome of such agreements. ESCWA was also working on assessing Arab and African partnerships and cooperation.

II. ORGANIZATION OF THE MEETING

A. VENUE AND DATE

28. The expert group meeting on Macroeconomic and Sectoral Policy Coordination and Arab Economic Integration was held at Al-Jaddaf, Dubai, on 23 and 24 November 2014.

B. PARTICIPANTS

29. The meeting was attended by representatives from regional and international organizations, such as OECD, the Arab Planning Institute, Dubai Economic Council, ECA, and experts from various Arab countries.

C. OPENING

30. On behalf of Mr. Hani al-Hamli, the Secretary General of the Dubai Economic Council, the Council's Chief Economic Counsellor, Mr. Abdulrazak al-Faris, opened the meeting and welcomed cooperation between ESCWA and the Council. He highlighted the importance of macroeconomic convergence and the harmonization of sectoral policies in order to promote intra-Arab trade, international competitiveness and economic transformation.

31. Mr. Mohamed Chemingui, Chief, Regional Integration Section, EDGD, ESCWA, thanked the Dubai Economic Council for co-organizing the meeting. He welcomed the review by external experts of papers prepared by ESCWA.

Annex*

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