

# THE IMPACT OF COVID-19 on Arab Economies

## Trade and Foreign Direct Investment



Shared Prosperity Dignified Life



E/ESCWA/2020/Policy Brief.6



## Introduction

COVID-19 has had a devastating effect on economies worldwide, disrupting supply chains and production networks, and restricting the flow of goods and services, capital and movement, thus severely impacting trade and businesses in the Arab region. Decline in foreign direct investment (FDI) inflows and a substantial drop in the market capital of Arab stock markets have compounded the losses of businesses and economies in the region.

## Impact Assessment



**In 2019, the Arab region's exports were nearly \$1 trillion (5 per cent of world exports), and imports were around \$828 billion (4.4 per cent of world imports).** The United States, the European Union and China, among others, are major origins and destinations for the region's merchandise exports and imports. Arab exporters find themselves in a state of turmoil as trade in the region's top destinations is paralyzed owing to the negative impact of COVID-19.



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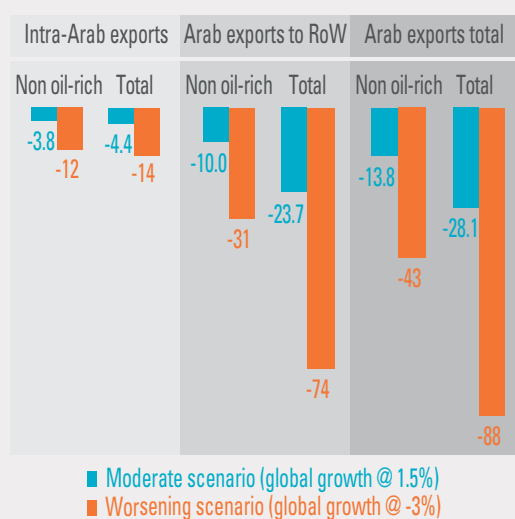


**The Arab region's total exports are expected to decline by \$88 billion owing to the adverse impact of COVID-19, under the worsening scenario** (figure 1). As much as \$74 billion of this \$88 billion is the result of a decline in exports to the rest of the world. The decline in intra-Arab exports is about \$14 billion. With the deepening impact of the virus and extended paralysis of global trade, export losses are likely to be higher. A moderate decline in global growth would result in export losses of at least \$28 billion.

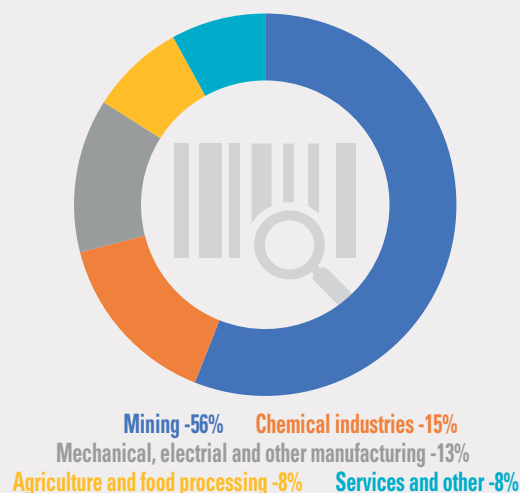


**Mining and chemical industries are the major losers, comprising 71 per cent of the total drop in exports owing to the impact of COVID-19** (figure 2). Manufacturing, including mechanical and electrical industries, constitute about 13 per cent of the total decline in exports - the second most affected sector.

**Figure 1. Impact of COVID-19: Decline in exports (\$ billion)**



**Figure 2. Sectoral composition of decline in exports owing to COVID-19**

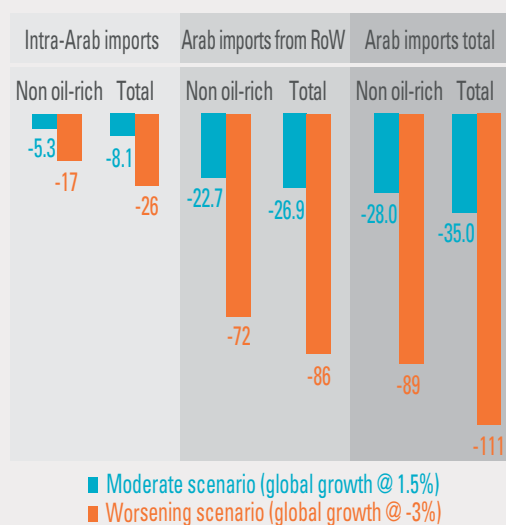


**The Arab region's total imports are expected to decline by \$111 billion owing to the adverse impact of COVID-19 on consumption and exports, under the worsening scenario** (figure 3). The drop in non-oil imports is estimated at \$89 billion, of which 81 per cent would be from the rest of the world. The non-oil imports include consumption items and raw materials for manufacturing industries. A moderate decline in global growth would result in a drop of at least \$35 billion in imports.

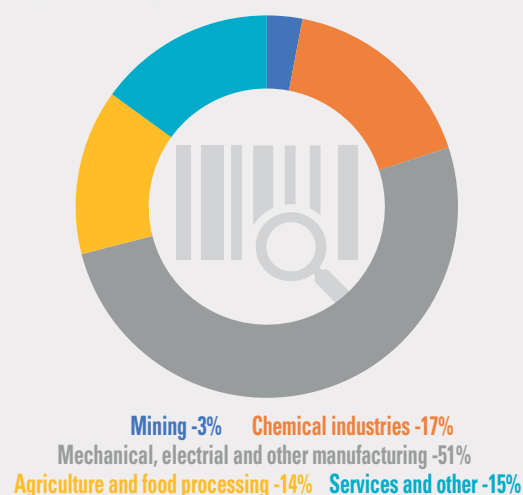


**Mechanical, electrical and other manufacturing products constitute 51 per cent of the total decline in imports.** As a result, manufacturing production and consumption is likely to be significantly affected by the impact of COVID-19. Chemical industries constitute 17 per cent of total import decline - the second most affected industry in the Arab region (figure 4).

**Figure 3. Impact of COVID-19: Decline in imports (\$ billion)**



**Figure 4. Sectoral composition of decline in imports owing to COVID-19**





**The higher decline in imports from the rest of the world compared with exports would result in a \$12 billion trade surplus for the Arab region.** Under the worsening scenario, the Arab region's exports to the rest of the world are expected to decline by \$74 billion, while imports are expected to decline by \$86 billion. As a result, the net trade balance will be positive (figure 5).



**The region is expecting a loss of nearly \$20 billion in fiscal revenues from indirect taxes owing to the impact of COVID-19, under the worsening scenario** (figure 6). Lower imports would weigh on customs revenues, resulting in a loss of \$5 billion in import tariff revenues. The losses are particularly high for countries that rely on customs revenues as a significant source of government income. The loss of other indirect taxes, including value added tax (VAT) and specific consumption taxes, is expected to be about \$15 billion, which would adversely impact government revenues, especially for non-oil rich Arab economies.



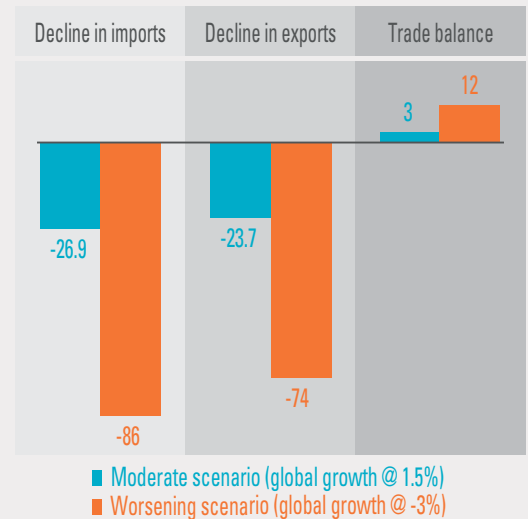
**The impact of COVID-19 combined with a dramatic plunge in the oil price in March 2020 could lead to a decline in FDI inflows to the Arab region of \$17.8 billion in 2020, which is a drop of about 45 per cent.** Globally, the top 5,000 multinational corporations have announced an expected decline of 30 per cent in their profits for 2020 owing to the impact of COVID-19, which would negatively affect FDI inflow to all Arab countries. The region is already facing a decline in FDI inflows, reaching 31 billion in 2018 compared with 88.5 billion in 2008. The estimated drop in FDI inflows in 2020 will be the highest to date. It would be even higher than the decline in FDI noted in 2011, associated with political unrest in the region. This substantial drop in FDI aggravates concerns of financing businesses in the region, where energy and petrochemicals sectors receive a large share of FDI inflows.

## National Policy Response

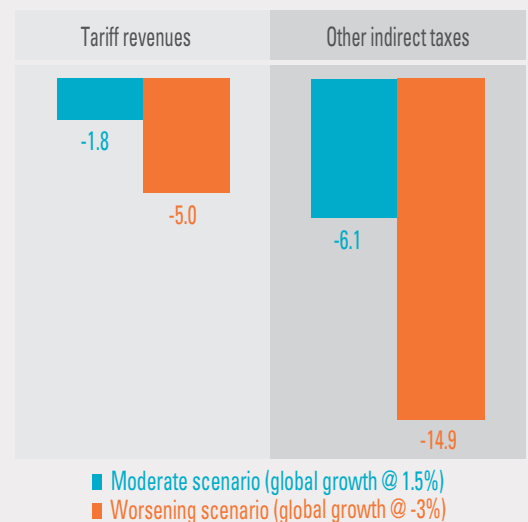
**Arab Governments must ensure a swift emergency response to protect vulnerable businesses, and promote trade and investment to sustain their economies through coordinated actions. Key national policy responses should include the following:**

- a. Supporting exporters and impacted businesses to reduce job layoffs, and to keep essential operations running by postponing social contribution payments for employees, extending tax exemptions, providing wage subsidies to maintain workers on payroll, temporarily suspending loan repayments, and extending concessional credit support during the COVID-19 crisis;

**Figure 5. Trade balance (\$ billion)**




**Figure 6. Impact of COVID-19: Losses in fiscal revenues (\$ billion)**





- b.** Urging multinational corporations to hold back on shifting primary incomes to avert further vulnerabilities to the balance of payments and financial accounts;
- c.** Developing e-commerce to ensure sustainability and expand into alternative markets.

## Regional Policy Response

 Coordinated actions by Arab Governments are needed to remove all barriers on imports and exports, mainly on food, medical products and inputs for industries producing essential goods. Arab Governments should consider removing all remaining barriers to the Pan Arab Free Trade Agreement (PAFTA) to boost intraregional trade. They also need to develop a strategy to rapidly diversify supply chains to reduce vulnerabilities to such crises.

 Regional specialized Arab funds should encourage quick and significant financial support under aid-for-trade initiatives, by designing and financing appropriate programmes to support Arab exporters and importers.

 We call upon members of the World Trade Organization to facilitate the flow of essential medication and vaccines to address the COVID-19 crisis in developing countries.

 We also call for strengthening regional cooperation among member States of the World Trade Organization and intergovernmental bodies to establish their rights under the compulsory licensing for non-commercial usages once a COVID-19 vaccine has been developed.



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