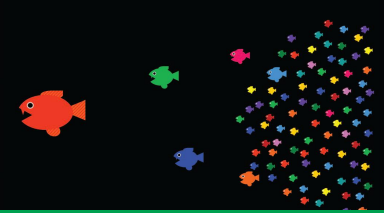


Champions Wanted

Promoting Exports in the Middle East and North Africa

Melise Jaud and Caroline Freund

1st MENA Trade Workshop, Tunis 2-3 June 2015



MOTIVATION

What we know

- Political events in MENA highlighted the urgency of creating jobs, raising the return to education, and distributing the benefits of growth more widely : Export-led growth can deliver all three. (Melitz, 2003; Bernad and Jensen, 1995, 2004; Eaton, Kortum and Kramarz, 2004; Brambilla et al, 2012; Frias et al, 2012)
- But MENA trade performance over the past decade has been weak, and the region has failed to create the jobs it needs: these patterns are well documented at aggregate level
- Traditionally discussed at the aggregate level in terms of countries and sectors,. Yet countries do not export, firms do.

What we do not know

- Lack systematic information on firm-level export behavior due to a lack of data



THIS REPORT - CHAMPIONS WANTED

Focus is on exporting firms in MENA

1. Provide a micro-perspective on why MENA under-exports.
2. Assemble largest firm-level export data for MENA countries - Egypt, Iran, Jordan, Kuwait, Lebanon, Morocco, and Yemen

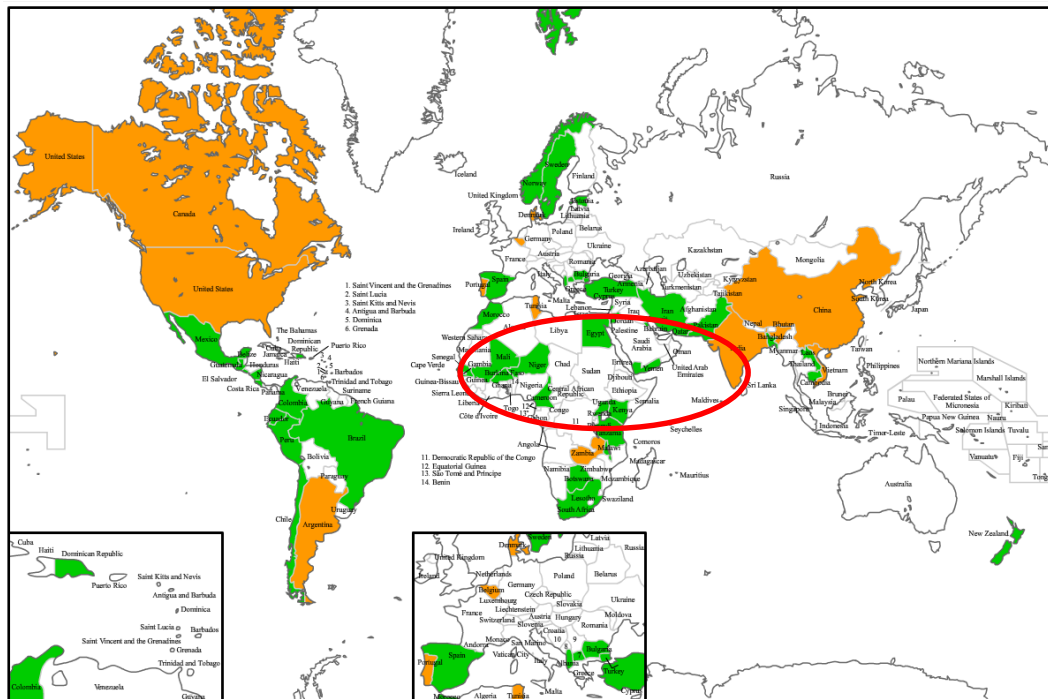
What's new?

- Provides new perspectives on how policy affects trade costs and market structure.
- Makes it possible to identify these effects through largely unexplored adjustment margins like pricing or the breadth of product and destination portfolios.
- Estimate “within-firm” effects, filtering out many confounding influences

=> More robust evaluation of policy impacts and ultimately policy prescriptions

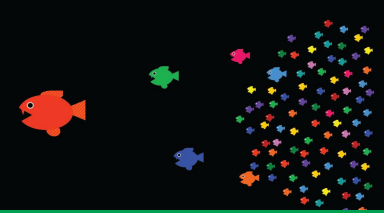
Firm-level customs data

- Collected from customs agencies (2000-2012) part of larger Exporter Dynamics Database (Cebeci, Fernandes, Freund, and Pierola , 2012)
 - Export transactions (value) at the firm-product(HS6)-destination-year level, all sectors excluding oil (HS 27)
- Benchmark MENA against ROW on several indicators of export performance



8 MENA countries

- Egypt
- Iran
- Jordan
- Kuwait
- Lebanon
- Morocco
- Tunisia
- Yemen



OUTLINE

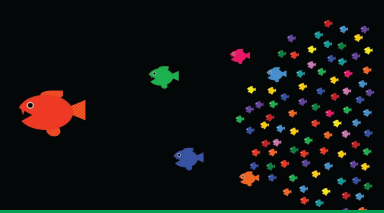
1. Study MENA firms characteristics and dynamics

- MENA has champions – the top 1 firms
- But it lacks teams of world-class exporters to surround and emulate the “number ones.” Top 1 percent exporters are significantly smaller than in other regions.

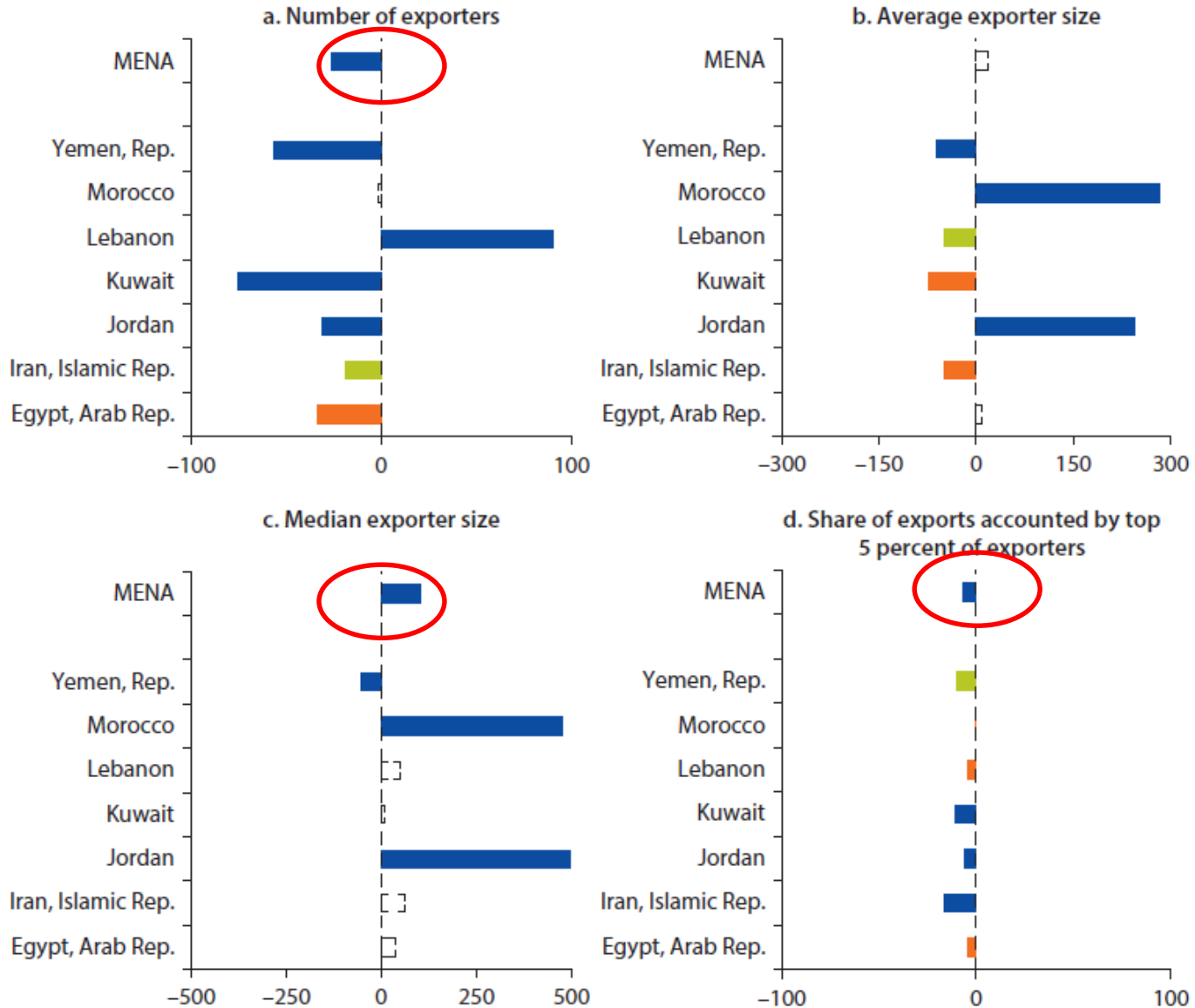
2. Why has MENA failed to nurture a group of export champions?

- Structural factors – RER
- Policy induced factors

3. Can we offer some policy leads to achieve the objective of increased aggregate export growth and diversification?

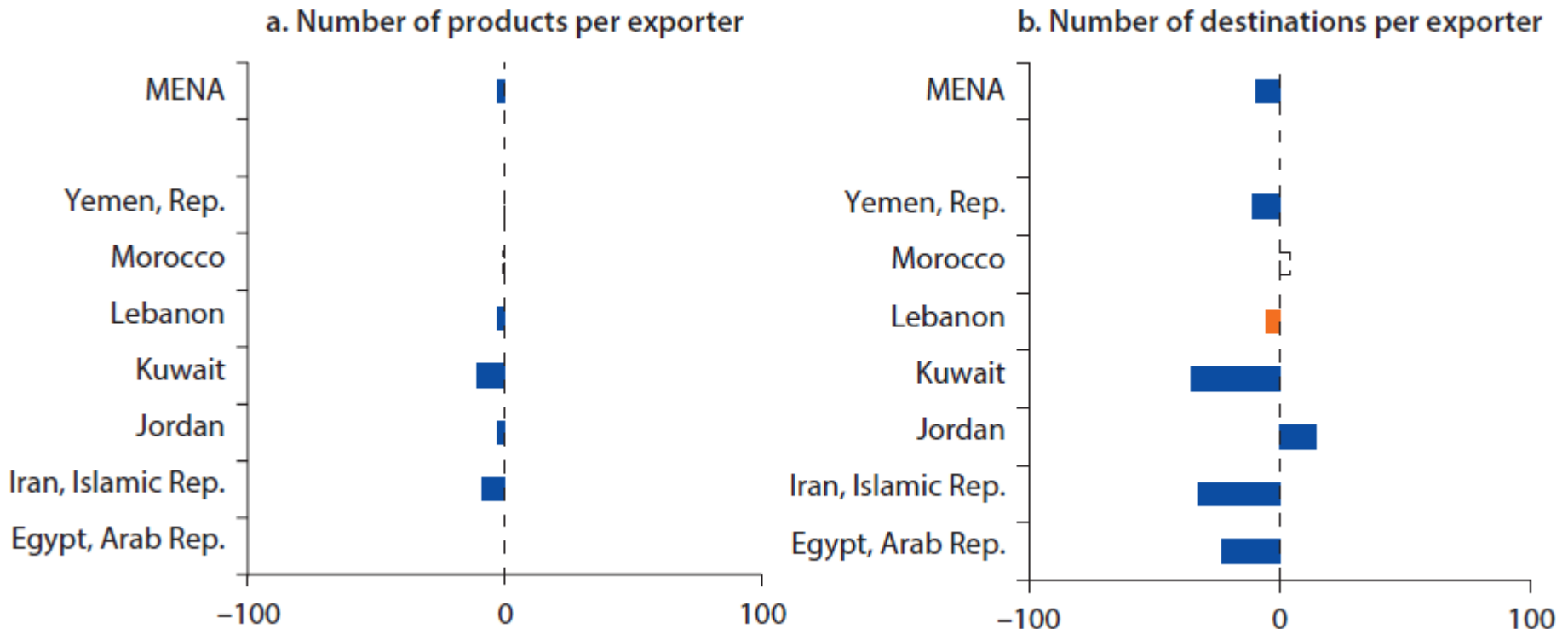


WHO ARE MENA EXPORTERS ?





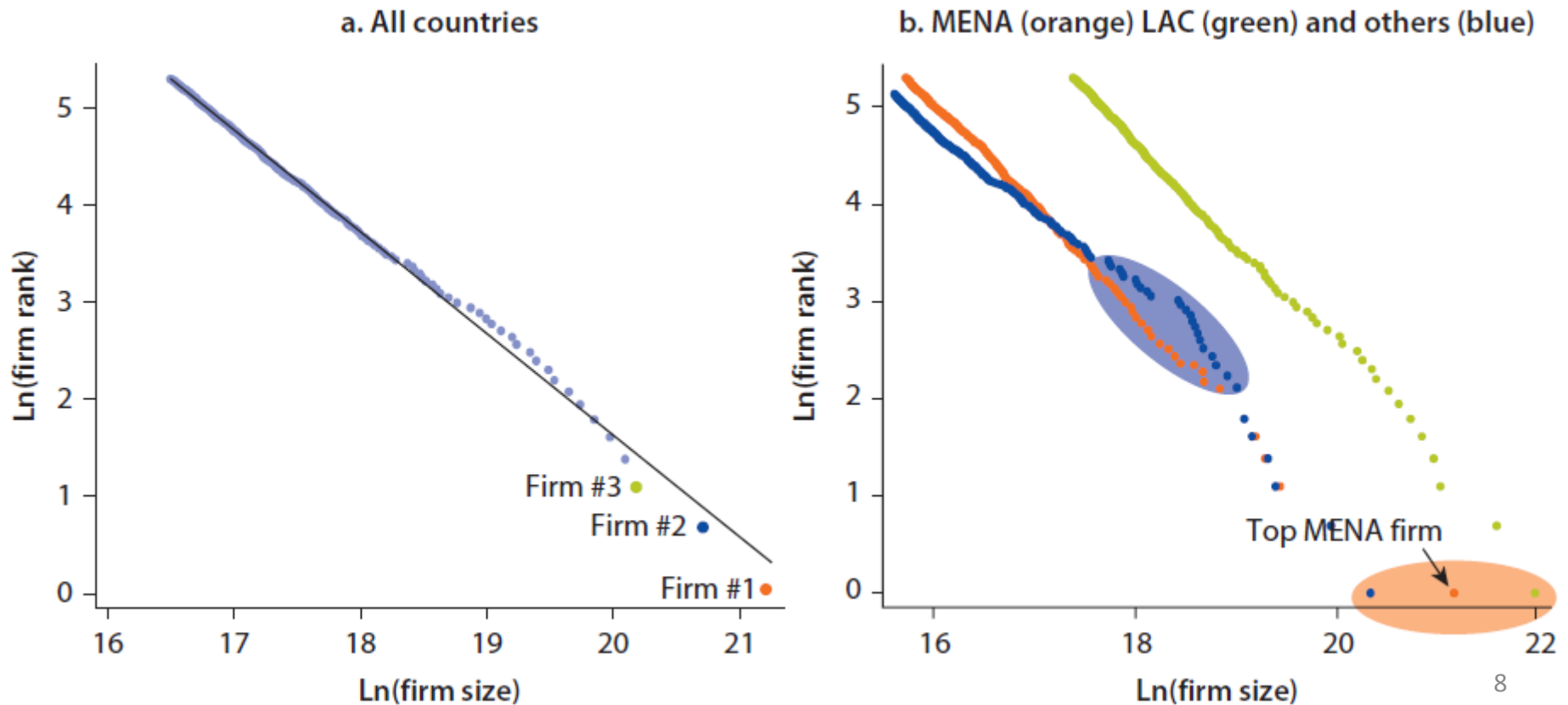
HOW DIVERSIFIED ARE MENA EXPORTERS ?

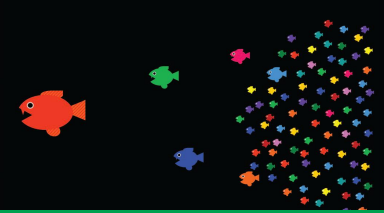




ONE CHAMPION, BUT NO TEAM

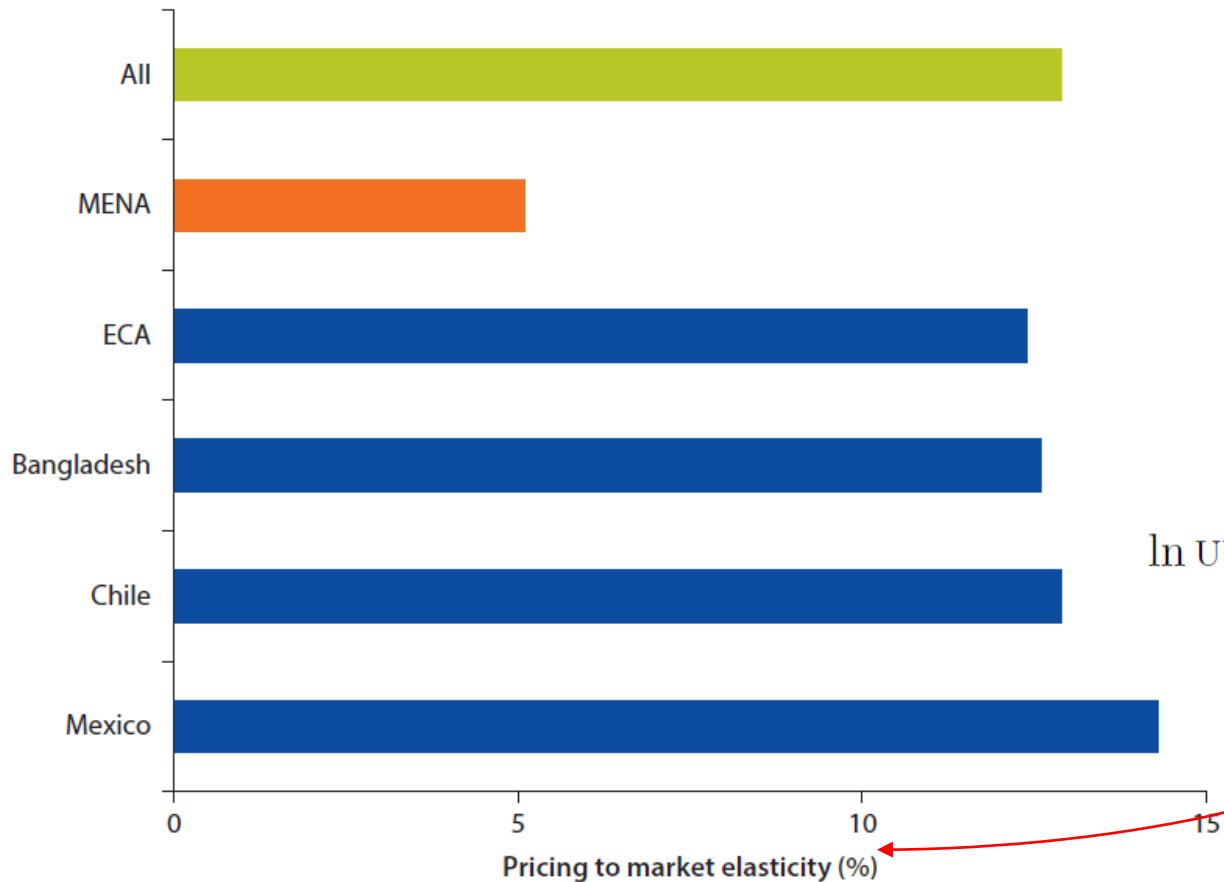
- the largest exporter is alone at the top
- MENA's elite exporters—the top 1 percent are smaller and weaker compared to their peers in other regions.





MENA EXPORTERS LACK MARKET POWER

- PTM relates to firm size and market power in destination (Feenstra, Ggabo, Knetter, 1996; Atkeson and Burstein, 2008; Berman et al, 2012)

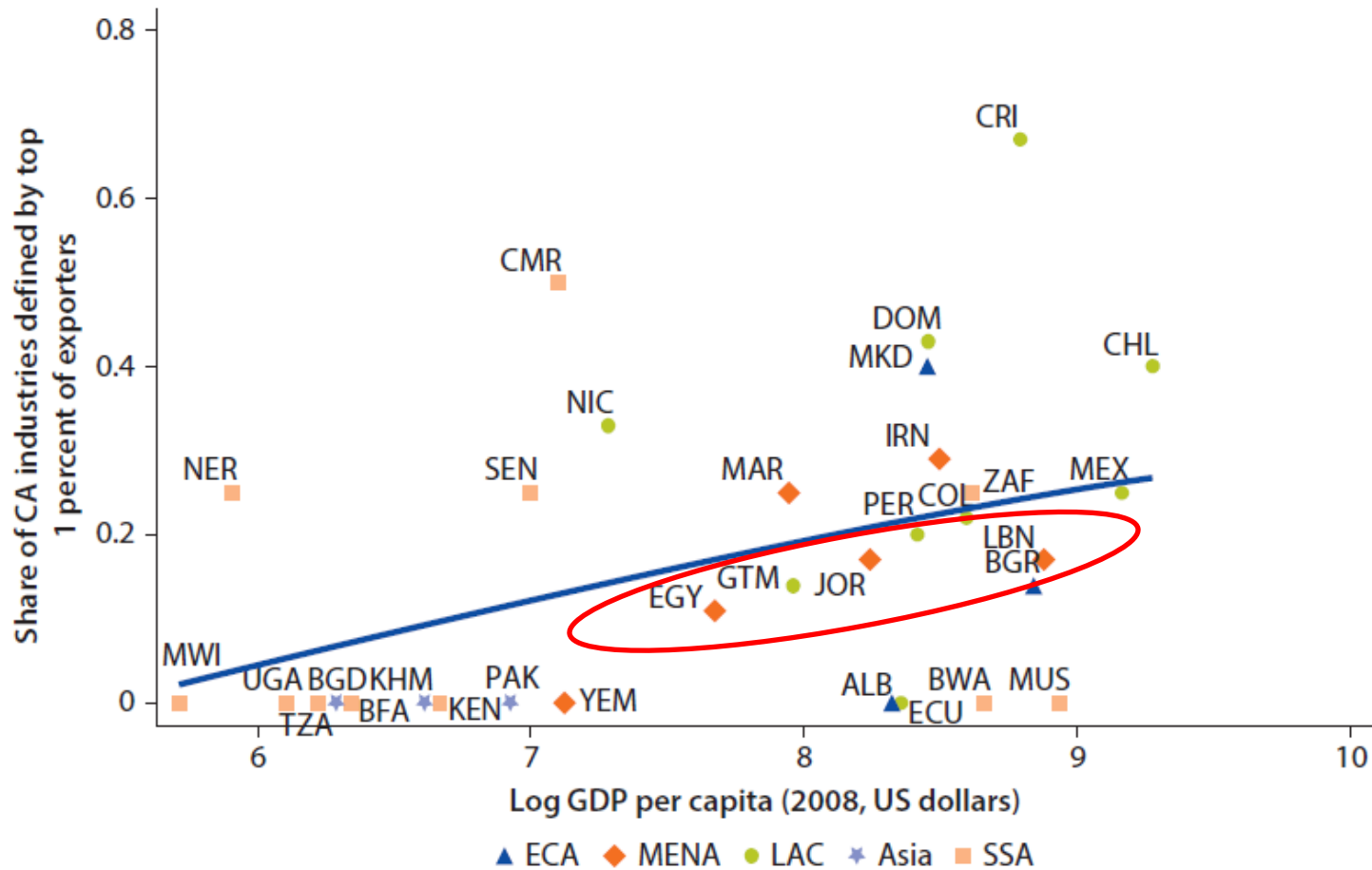


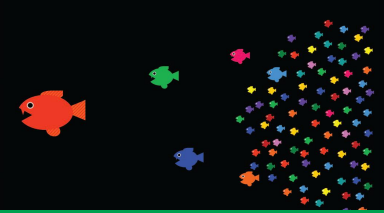
$$\ln UV_{fdpt} = \beta_1 \ln e_{odt} + \gamma \mathbf{x}_{dt} + \mathbf{FE}_{ot} + \mathbf{FE}_{fpd} + \varepsilon_{fdpt}$$



AND FAILING TO DRIVE COMPARATIVE ADVANTAGE

- Role of top 1% in shaping country RCA





PRICED OUT OF GLOBAL MARKETS

Well-known issue of over-valued RER

- Gravity equation results: MENA is under-exporting and over-importing is suggestive of overvalued RER.

	(1)	(2)	(3)	(4)	(5)
<i>Country groupings</i>	<i>MENA-All</i>	<i>MENA-4</i>	<i>MENA-Others</i>	<i>EU Periphery1</i>	<i>EU Periphery2</i>
<i>Sample period</i>	<i>2005-09</i>	<i>2005-09</i>	<i>2005-09</i>	<i>2001-03</i>	<i>2003-06</i>
<i>Panel b: Non-petroleum trade</i>					
Exports	-0.64**	-0.35***	-0.63***	0.039	-0.37***
Imports	0.22**	0.37**	0.14	-0.11	-0.33***
Regional trade	-0.24***	1.06***	-0.54***	0.37	0.25***

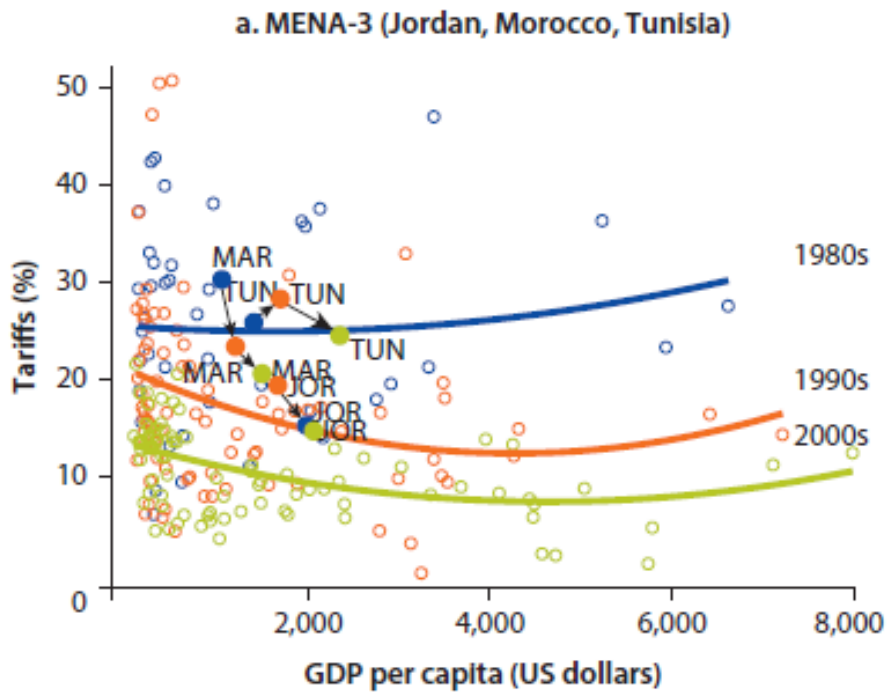
- Over-evaluation hurts all the way down to the firm-level.
 - Growth accelerations (Hausman, Pritchett and Rodrik, 2005)
 - Export growth surges (Freund and Pierola, 2012)
 - Firms expansion at the intensive and extensive margin.



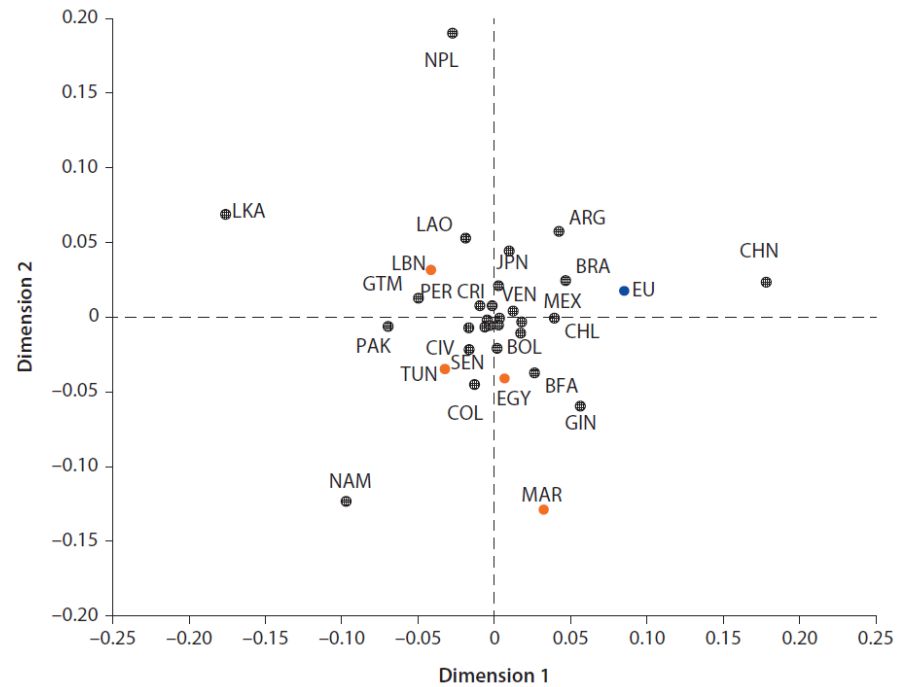
GETTING POLICY RIGHT

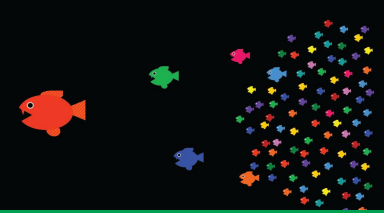
Region's has failed to push for trade and business climate reforms energetically.

Evolution of average tariffs, 1980-1990-2000



Regulatory distance, 2010





GETTING POLICY RIGHT

No successful exporting without successful importing:

- i. Using matched firm-level import-export data for Morocco we find strong, firm-level evidence that export performance correlates with the quality of imported intermediaries.
- ii. => governments should facilitate all firms' access to imported inputs, not just those in GVC

Regulatory reform can play an important role in enhancing firm competitiveness. E.g. of Morocco's regulatory harmonization with the EU:

- i. tougher regulations, do not necessarily hurt the competitiveness of domestic firms
- ii. They can have a "clean-up" effect on the domestic market by keeping out lower-end suppliers, providing better incentives to upgrade quality.
- iii. They can also help overcome managerial failures and encourage innovation



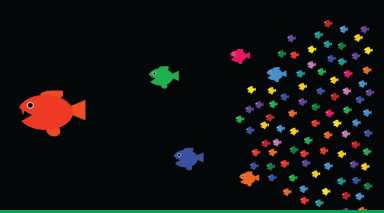
The BIG

- Evidence of politically connected firms' stronghold of the economy in pre-Arab spring Egypt and Tunisia
 - Dissipation of rents by beneficiary firms with no evidence that they created jobs or turned into national champions

And the SMALL

- Some targeted interventions seem to work: FAMEX program evaluation generated 9 dinars of additional exports for 1 dinar of matching grant
- But rather a problem of size and scale : Focus is on SMEs which only make up for tiny share of aggregate exports

=> Such programs cannot be game changer



FEW POLICY LEADS

1. **Seek a competitive exchange rate** – Eliminating subsidies now that prices are low is a first step
2. **Make significant improvement in business climate** to facilitate entry of young efficient firms and attract large FDI firms
3. **Attract FDI** – Most champions are born big or grow big within couple years often trough FDI
 - MENA has weaker dynamics among top 1% firms may be correlated to lower level of FDI inflows
4. **Rethink export promotion strategies**
 - Policies focused on SMEs are unlikely to bring large economic impact of trade performance : by construction
 - Only if SMEs in MENA are small because of distortions, policies that would remove these distortions would have significant effect
 - But their focus needs to be on removing distortions not promoting specific firms

READ THE BOOK: [HERE](#)
ACCESS THE DATA: [HERE](#)



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