

Global Value Chains Diagnostic – Case Study

Opportunities for SEMED from diversification and resilience in GVCs¹

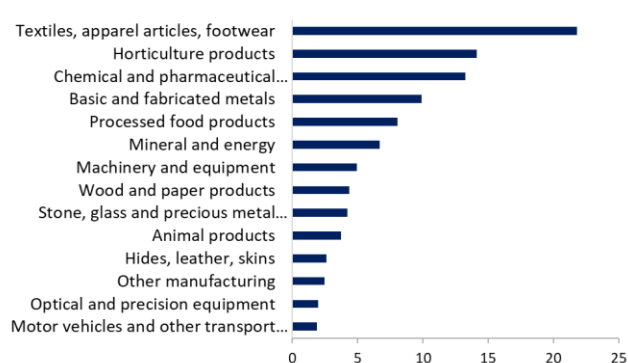
- There are export opportunities for countries in the South and Eastern Mediterranean (SEMED) region if companies were to seek to strengthen resilience in global supply chains
- SEMED economies show comparative advantage and high export volumes in several sectors in which China is a dominant supplier globally, suggesting potential to scale up exports
- Morocco, Tunisia, Jordan and Egypt are found to have a comparative advantage in the export of textiles, horticulture, chemical and manufactured products

Comparative advantage

In the longer-term, the Covid-19 crisis may lead to greater scrutiny of global value chains across a multitude of sectors, with a greater focus on diversification and resilience in global supply networks. In many industries, China is a dominant supplier globally and economies in the SEMED region do have a comparative advantage in some of these industries. Building on their comparative advantages, there is an opportunity for firms in the region to scale up their exports or expand to products closely related to those currently exporting.

All four economies Morocco, Tunisia, Jordan and Egypt have a high revealed comparative advantage in exports of textiles, horticulture, chemicals and other manufactured products (see Chart 1).²

Chart 1: Product groups with a comparative advantage (RCA>1)
(as per cent of total products with RCA)



Sources: International Trade Centre and authors' calculations. Note: 4-digit Harmonised Classification product lines.

In absolute numbers, Egypt and Tunisia have the highest number of exported product groups with a comparative advantage in 2018, with 253 and 212 products respectively (see Chart 2). According to the Harmonised System Classification, which covers 1246 product groups on the 4 digit level, Egypt has a comparative advantage in 20 per cent of all product groups.

¹ This note was produced by Olivia Riera from SEP/EPG and Philipp Paetzold from OCE. The analysis was supported by the [Value Chain Competitiveness Programme](#), implemented by the European Bank for Reconstruction and Development and financed by the European Union. The views expressed in this note are those of the authors only and not necessarily those of the EBRD or the EU.

² Revealed comparative advantage measures the relative advantage of a country in a certain class of goods as evidenced by trade flows. A country with an RCA value > 1 in a product group is said to have a comparative advantage in this product.

Overall, Egypt, Jordan and Morocco are strong in exports of horticulture; Egypt and Jordan in chemical products and Tunisia in machinery equipment. In addition, the highest number of products with a comparative advantage is found in the textiles and apparel sector in all four countries.

Chart 2: Number of product groups with comparative advantage (RCA>1)

Product groups with RCA (2018)	EGY	JOR	MAR	TUN
Animal products	7	8	10	5
Horticulture products	44	26	30	14
Processed food products and beverages	23	20	16	6
Mineral and energy	20	9	16	9
Chemicals, pharmaceuticals, plastics and rubber products	44	37	10	16
Hides, leather, skins	3	4	6	8
Wood and paper products	9	12	7	7
Textiles, apparel articles, footwear	48	19	41	68
Stone, glass and precious metal products	16	5	5	8
Basic and fabricated metals	28	18	9	25
Machinery and equipment	5	5	7	23
Motor vehicles and other transport equipment	2	3	5	5
Optical and precision products	1	4	0	11
Other manufacturing	3	6	4	7
Total product lines with RCA>1	253	176	166	212
Total 4-digits product lines (HS classification)	1246	1246	1246	1246
Share of 4-digits product lines with RCA>1	20.3	14.1	13.3	17.0

Sources: International Trade Centre and authors' calculations. Note: 4-digit Harmonised Classification product lines.

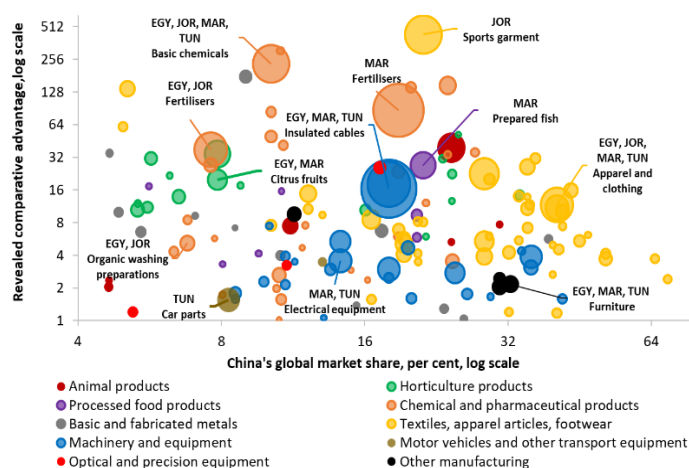
Diversification and opportunities

To better identify diversification opportunities, the analysis zooms in on product groups where China is a major exporter globally and where SEMED economies have a comparative advantage (RCA >1) and existing export capacities (at least US\$ 50 million). In 2018, SEMED countries show 166 exported product groups that could benefit from diversification of global supply chains; in the production of textiles and apparel, horticulture and food products, chemical products, machinery and electrical equipment (see Chart 3).

It should be noted that there could also be opportunities in expanding to products *closely related* to those that SEMED countries are currently exporting. The analysis above only looks at direct overlaps at the 4-digit product classification; it does not study opportunities in

related products across 4-digit groups where opportunities could also exist, for instance based on similar required know-how or inputs.

Chart 3: China's share in global exports and products exported with comparative advantage in the SEMED economies, 2018



Sources: International Trade Centre and authors' calculations.

Note: 4-digit Harmonised Classification product lines. Bubble size indicates the absolute export volume in US\$ millions. Restricted to lines with RCA>1 export volume of more than US\$ 50 million and to product groups where China has at least 5 per cent of global market share.

Recommendations

All four countries in the SEMED region have a high number of industries with a comparative advantage and existing export capacities. Given the preferential market access via their free trade agreements with the EU and the proximity to the large European market, SEMED economies could benefit from the diversification and recalibration of global value chains, in particular in the post Covid-19 context. The region should make use of the opportunities if firms were seek to nearshore production and supply chains, encouraged by the need to strengthen resilience and robustness, the adoption of new digital technologies and the flexibility gained by being closer to customers and final markets.

In order to attract global firms and benefit from nearshoring, countries should address their gaps in infrastructure and transportation, put international standards harmonisation into practice and reduce non-tariff and administrative barriers (GVC diagnostic - [The Southern and Eastern Mediterranean](#) region).

There are also opportunities to facilitate regional value chain integration and exploit untapped complementarity of product group, despite the fact that countries compete with each other on several product categories with similar comparative advantage in international markets. Provided political will, the development of regional value chains in certain industries could create economies of scale and further strengthen the opportunities arising from nearshoring and diversification of global supply chains. Countries in the SEMED region could follow the example of the ASEAN Economic Community (Association of Southeast Asian Nations), which enhanced regional cooperation and integration of value chains by reducing trade barriers, harmonising product standards and focusing on business cooperation in selected industries with firms specialising in different stages of the value chain of a product.

Further information is available to supplement this factsheet:

- GVC diagnostic – The Southern and Eastern Mediterranean region
- GVC country diagnostic - Egypt / Jordan / Morocco / Tunisia