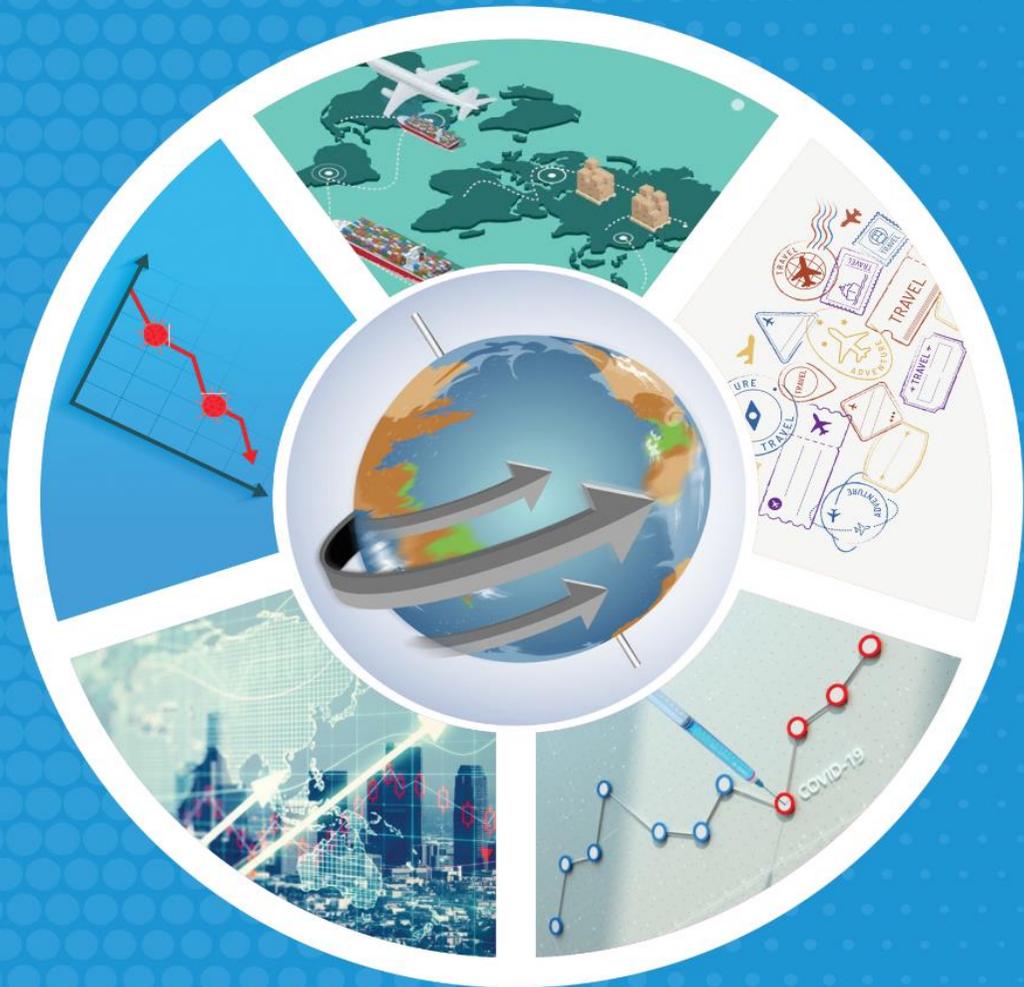


OIC ECONOMIC OUTLOOK 2021

*Trade, Transport, and Tourism amidst the
COVID-19 Pandemic*



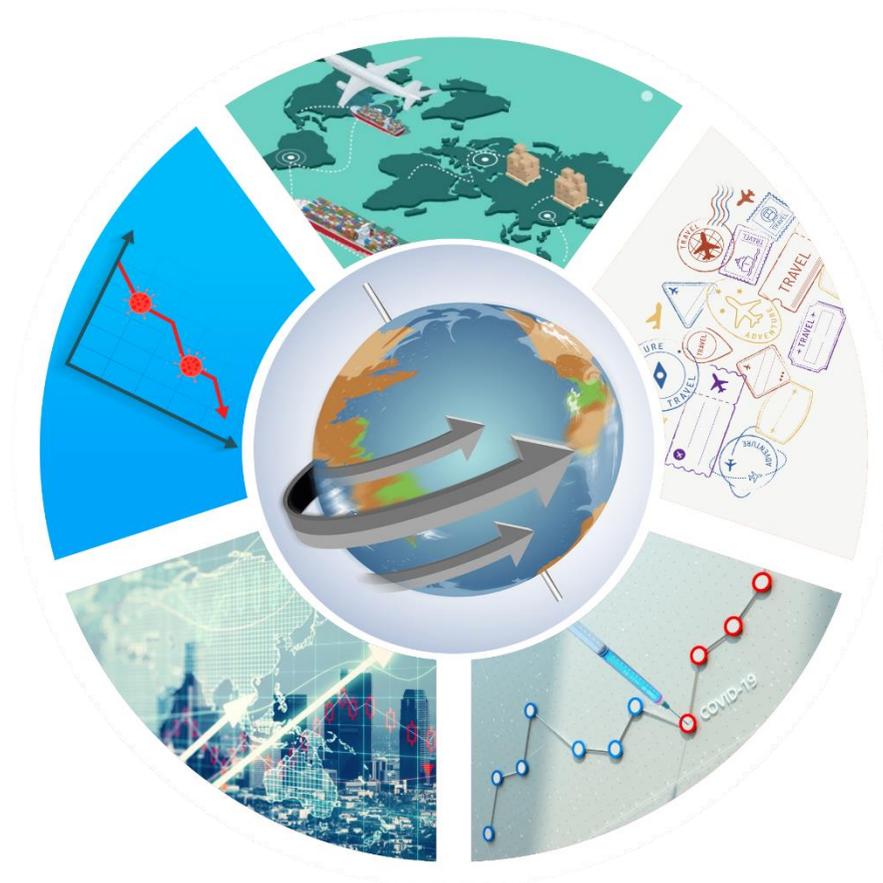
ORGANISATION OF ISLAMIC COOPERATION
STATISTICAL, ECONOMIC AND SOCIAL RESEARCH
AND TRAINING CENTRE FOR ISLAMIC COUNTRIES





OIC ECONOMIC OUTLOOK 2021

Trade, Transport, and Tourism amidst the COVID-19 Pandemic



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Acronyms

3V	Visit, Vaccinate, and Vacation
AED	United Arab Emirates Dirham
CCFI	China Containerized Freight Index
COVID-19	Coronavirus Disease of 2019
CPI	Consumer Price Index
CTK	Cargo-tonne kilometre
DOTS	Direction of Trade Statistics
EPR	Employment-to-Population Ratio
EU	European Union
FDI	Foreign Direct Investment
FTE	Full-time Equivalent
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GNI	Gross National Income
IAPH	International Association of Ports and Harbors
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
ICT	Information and Communication Technology
IFS	International Financial Statistics
ILO	International Labour Organisation
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification of All Economic Activities
ITS	Intelligent Travel Systems
GVCs	Global Value Chains
LAC	Latin America and the Caribbean
LSCI	Liner Shipping Connectivity Index
MECA	Middle East and Central Asia

NTMs	Non-tariff Measures
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OIC	Organisation of Islamic Cooperation
PPP	Purchasing Power Parity
RPK	Revenue Passenger Kilometres
SCFI	Shanghai Containerized Freight Index
SDR	Special Drawing Right
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
SITC	Standard International Trade Classification
SMEs	Small-and-Medium-sized Enterprises
SSA	Sub-Saharan Africa
UAE	United Arab Emirates
UIC	International Union of Railways
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSD	United Nations Statistics Division
UNWTO	World Tourism Organisation
US	United States of America
US\$	United States Dollar
USD	United States Dollar
VAT	Value Added Tax
WATS	World Air Transport Statistics
WCO	World Customs Organization
WEO	World Economic Outlook
WTO	World Trade Organization
WTTC	World Travel and Tourism Council



Foreword

It is with great pleasure that I present to you the 2021 edition of the SESRIC's flagship report "OIC Economic Outlook", which analyses and presents recent economic developments and short-term projections in the world economy and their implications on the economies of OIC member countries. The report is the only annual publication that analyses the performance of the economies of the group of OIC countries. It provides a wide-range of useful comparative statistics and information, which help better understanding of the recent major economic trends and development challenges in the OIC countries.

We are all witnessing an unprecedented global health and humanitarian crisis caused by the COVID-19 pandemic, which has disrupted billions of lives and is threatening decades of socioeconomic development. The pandemic is far from over yet, the human toll is still rising worldwide, but thankfully, we now have multiple vaccines that can reduce the infections and contribute to the path to recovery. It is also promising that the pace of vaccination has accelerated recently as supply constraints have eased. However, we should not forget that the pandemic cannot be under full control unless the virus is controlled everywhere around the world. The resurgence of the pandemic with new virus mutations is challenging countries, particularly those with limited access to vaccines and low vaccination coverage, causing hard times for millions of people who remain at risk of illness and death.

In addition to dramatic implications for the health of people around the world, the COVID-19 outbreak has triggered major economic and financial consequences. The report shows that, in 2020, most macroeconomic indicators deteriorated significantly all over the world, and OIC member countries were no exception. OIC countries were affected not only from the domestic outbreak of the pandemic and its consequences but also from the economic spillovers of the deep recession in developed countries. Before the outbreak of the pandemic, the economies of the OIC countries were projected to grow, on average, by 3.7% in 2020, but under the pandemic conditions, they actually contracted by 1.6%; a moderate contraction though as compared to a 3.2% contraction in the global economy. In addition, the unemployment rate bounced to 7.1%, inflation rose sharply to 9.1%, fiscal deficits rose to 7.6% of GDP, FDI inflows dropped by 12.5%, and merchandise exports fell by 17% while services exports plummeted by 37.6%. This year, however, projections signal for a brighter economic outlook with recovery in many indicators, though some of them are only partial.

Looking a layer deeper, the current issue of the report investigates the impacts of the pandemic on three major sectors of the economy, international trade, transport, and tourism, with particular reference to the OIC member countries. Containment measures have disrupted supply chains and generated serious demand and supply shocks, placing significant downward pressure on trade flows particularly in the first months of the pandemic. The measures have also brought severe disruptions to nearly every aspect of domestic and international transport, with passenger transport hit hardest due to lockdowns, strict quarantine measures, and travel restrictions. With the demand for travel plunging to a modern all-time low due to a wave of travel restrictions in

different forms and intensities, the tourism sector entered the biggest crisis in its history since World War II. The global tourism sector is estimated to have lost between five- and seven-years' worth of growth, and given the uncertainty over the duration of the pandemic, it may take several years to reach the pre-pandemic levels. For these three sectors, the report describes a number of policy recommendations for the benefit of the OIC member countries.

Economies and societies have gradually improved their ability to cope with the pandemic, but with the emergence of more contagious strains of the virus, the evolution of COVID-19 and its ultimate impact on economic and social development remains highly uncertain. Moreover, just as the effects of the pandemic differ between and even within countries, the recovery process from the pandemic is also uneven, leading to divergence between countries and exacerbating disparities. Large divergences in recovery speed also raise the prospects of divergent policy stances across countries, which are likely to cause negative spillovers. Therefore, formulation and implementation of targeted, country-specific or regional policies is of great importance, but stronger international coordination and cooperation are also required to address the unevenness of social and economic conditions during the recovery from COVID-19 and beyond and to pave the way for a more balanced, inclusive, and sustainable development.

The *OIC Economic Outlook 2021* is a result of a substantial investment in time, effort and dedication by the SESRIC Research Team. I would like to acknowledge their contributions in hope that you will find the report engaging, but above all, useful and informative.

Nebil DABUR
Director General
SESRIC



Executive Summary

RECENT DEVELOPMENTS IN THE WORLD ECONOMY

Economic Growth

Various measures taken to contain the COVID-19 pandemic have inevitably resulted in unprecedented slowdown of economic activities all over the world. Following an already weakening global economic growth –down to 2.8% in 2019 after peaking at 3.8% in 2017– due to challenges predating the pandemic, the world real GDP is now estimated to have contracted by 3.2% in 2020. Developed economies contracted more than developing countries did, -4.6% and -2.1%, respectively. After the contraction in 2020, which is smaller than the pessimistic projections made earlier that year, the global economy is projected to grow at 6% in 2021, moderating to 4.9% in 2022. Additional fiscal supports, the anticipated speeding and widening of vaccination coverage, and the continued adaptation of all sectors of the economy to pandemic life are expected to contribute to the recovery process. Nevertheless, there are rising concerns over uneven recovery and divergence between countries.

Unemployment

With the pandemic wreaking havoc on labour markets worldwide, recent estimates of the International Labour Organization (ILO) point out that, relative to the fourth quarter of 2019, 8.8% of total working hours were lost in 2020 –the equivalent of the hours worked in one year by 255 million full-time workers. According to these estimates, relative to 2019, total employment fell by 114 million in 2020 as a result of workers becoming unemployed (33 million) or dropping out of the labour force (81 million). The estimates also indicate that the global unemployment rate rose by 1.1 percentage points to 6.5%, the highest level in the last three decades. As current forecasts signal for a global economic recovery with a rebound in world output, global rate of unemployment is also expected to improve, first falling slightly to 6.3% in 2021 and then to 5.7% in 2022. However, despite this improvement, the unemployment rate will remain above the 2019 level.

International Trade

Under the unprecedented adverse effects of the pandemic, global trade volume is estimated to have decreased by 8.5% in 2020, smaller than earlier estimates due to fast recovery in merchandise trade in the second half of the year. The containment measures and lockdowns aimed to curb the pandemic have affected both demand and supply in a negative way. International transportation and global value chains were also disrupted remarkably during the closures. Projections indicate that the volume of world trade is expected to increase by 8.4% in 2021 and 6.5% in 2022, driven mainly by improved prospects for rapid recovery in merchandise trade. However, services trade, international travel in

particular, is expected to remain more vulnerable to disruptions than merchandise trade and to recover more slowly.

Investments

Lingering uncertainties around the pandemic outlook have negatively affected investments across the world. Declined gradually in the past few years, investments-to-GDP ratio fell down to 26.3% at the global scale in 2020, while it decreased to 22.0% for developed countries and increased to 32.9% for developing countries. Projections for 2021 and 2022 indicate that both developed and developing countries are expected to see an increase in their ratios, with investments encouraged by the improving outlook for demand along with the projected recovery in global economic activity as well as large public support and recovery packages provided in developed countries.

Global FDI inflows dramatically fell in 2020, back to the 2005 levels, due to the pandemic. They dropped by 35% to around US\$ 1 trillion from US\$ 1.5 trillion in 2019 mainly due to the decline in flows into developed countries. FDI inflows to developed countries decreased by more than half (58%) to US\$ 312 billion while inflows to developing countries fell only by 12% to US\$ 687 billion mainly due to resilient flows to Asia. Looking ahead, global FDI flows are expected to increase by 10 to 15% in 2021, still about 25% below the 2019 level.

Financial Conditions

Under the stress of the prolonged pandemic situation, the risk of global financial instability remains high. Global financial conditions, which were relatively stable for global economic activities before the pandemic, tightened significantly in the first half of 2020 but eased significantly in the afterwards in both developed and developing countries –except in China– as extraordinary policy measures have supported the economy, helping to contain financial stability risks. However, the actions taken during the pandemic that led to highly accommodative financial conditions are likely to result in unintended consequences. Developing economies, especially those with large external financing needs, may face a risk of tighter financial conditions and large portfolio outflows if developed countries move toward policy normalization and rapidly increase interest rates. In that situation, they would also suffer an increase in currency volatility.

Current Account Balance

The slowdown in economic activities, disruptions in the global value chains, a sudden halt in tourism activities, and reduced demand in developed countries have shaped the current account balances across the world recently. Aggregated current account surplus of developed countries decreased by half to US\$ 175.8 billion in 2020 compared to the previous year, mainly due to massive deficit of the United States. Aggregate balance of developing countries, which yielded a surplus for the first time in 2019 after four consecutive years of deficits, improved significantly in 2020 and reached US\$ 196.2 billion. Widening surpluses of developing Asian countries played a significant role in this improvement.

Fiscal Balance

Governments around the world have responded to the pandemic with their fiscal policies at unprecedented levels. They have used the budget to reinforce health systems and provide emergency support for households and firms. However, these measures, along with reduced tax revenues due to economic downturn, have led to historically high fiscal deficits. General government fiscal deficits as a percent of GDP enlarged from 2.9% in 2019 to 11.7% in 2020 in developed countries and from 4.7%



to 9.5%, respectively, in developing countries. Limited improvement is expected in 2021 –somewhat larger in developing countries– due to the prevailing pandemic conditions. Despite the further recovery projected for 2022 as pandemic-related supports run out or loosen up and revenues recover, deficits are not expected to return to pre-pandemic levels by that time.

Prices & Inflation

In 2020, commodity prices declined sharply as a result of tumbling global demand, with oil prices particularly affected, falling by a third from 2019 mainly due to a large contraction in travel and transport activities. With the projected recovery in global economic activity in 2021, energy prices are expected to rise almost by half, returning to pre-pandemic levels of 2019. Weak demand and the fall in oil prices pushed down global inflation to 3.2% in 2020 from 3.5% in 2019. This slowdown in global inflation was driven by developed countries, where average inflation fell to 0.7% in 2020 from 1.4% a year earlier, while inflation in developing countries remained stable at 5.1% in both years. In 2021, the recovery in economic activity is expected to push inflation in developed countries up to 1.6% while developing countries are expected to see a slight fall to 4.9%, with global inflation rebounding to 3.5%.

RECENT ECONOMIC DEVELOPMENTS IN OIC COUNTRIES

GDP

The COVID-19 pandemic has negatively affected the economies of OIC member countries as well, like most economies in the world. At current prices, total GDP of OIC member countries contracted by 5.6% from US\$ 7.3 trillion in 2019 to US\$ 6.9 trillion in 2020. Given the ongoing gradual recovery, it is estimated to rebound to US\$ 7.7 trillion in 2021, exceeding the 2019 level. With this economic size, OIC member countries accounted for 8.1% of global GDP in 2020, down 0.2 percentage points from the previous year. The share of OIC countries in total GDP of developing countries also fell, from 20.6% in 2019 to 20.2% in 2020, indicating that the economic contraction was deeper in OIC countries relative to the rest of the world.

GDP per capita

Given the decline in output and the continued increase in population, per capita GDP values at current prices declined worldwide in 2020 compared to the previous year. In US dollar terms, the global average fell 4.2% to US\$ 11,058. The fall in OIC member countries was even larger, with the average GDP per capita dropping by 7.4% to US\$ 3,680. Although non-OIC developing countries also witnessed a decline (-4.4%), GDP per capita continued to be lower in OIC countries, with the gap even getting wider.

Economic Growth

Economic growth in OIC countries followed a decelerating trend in the past decade, from 6.0% in 2010 to 2.6% in 2019, averaging annually at 4.3%. Under the pandemic conditions in 2020, the OIC economy contracted by 1.6%, but it is expected to recover in the next two years with 4.3-4.5% growth –around the past ten-year average. The contraction in 2020 was moderate as compared to the global averages. The growth performance of OIC countries differed across income groups and individual countries. Although all of the four income groups recorded a negative growth rate in 2020 due to the ramifications of the pandemic, high-income economies contracted the most, mainly because of the decline in oil demand as well as in oil prices. At the individual country level, 39 OIC countries recorded a negative growth rate in 2020, though this number was only 11 during the global financial and

economic crisis in 2009. In 2020, Libya witnessed the largest economic contraction (-59.7%), not only in the OIC but also in the world, while at the other side of the spectrum, Guyana, with a growth rate of 43.4%, was the fastest growing economy in the world, attributed to the commencement of oil production after the discovery of large offshore oil reserves.

Structure of GDP: Value Added by Sector

The latest available data for 2019 show that, constituting only 1.2% of total value added in developed countries, *agricultural activities* have a high share of 10.0% in total value added in OIC countries, which is even higher than that in non-OIC developing countries (8.2%). The share of the *non-manufacturing industry*, which is much higher in OIC countries as compared to the rest of the world, has been falling slowly over the past decade all over the world. For OIC countries, it was measured at 27.8% in 2010 and 23.2% in 2019, reflecting a decline by 4.6 percentage points. The *manufacturing sector*, which has greater potential to promote productivity and competitiveness, has a share of 14.6% in total value added of OIC countries, which is comparable to that of developed countries (13.9%) but significantly below that of non-OIC developing countries (22.1%). The *services sector* continues to play a key role in the majority of OIC economies, accounting for an average of 52.3% of the total value added.

Structure of GDP: Expenditures

In 2019, final consumption expenditures (by both households and government) continued to have the highest share in GDP over the years in OIC countries as well as in the rest of the world. *Household consumption* accounted for 55.9% of GDP in OIC countries, higher than that in non-OIC developing countries (50.3%) but lower than that in developed countries (60.0%). The share of *general government final consumption expenditures* in GDP was low in OIC countries (13.7%) relative to both developed and developing countries. The share of *gross capital formation* averaged at 28.1% for OIC countries, lower than the average for non-OIC developing countries but higher than the average for developed countries. International trade –in goods and services– accounted for a higher share of GDP in OIC countries than in both developed and developing countries. For OIC countries, the share of *exports* and *imports* in GDP averaged at 32.2% and 30.0%, respectively.

Labour Market

Given the working-hour losses, it is estimated that the pandemic caused a loss of 53.6 million FTE jobs across OIC countries in 2020, accounting for a fifth of the global loss. Employment losses, due to rising unemployment or shift to inactivity, caused the employment-to-population ratio (EPR) to fall to a historically low level of 54.9% globally in 2020, reflecting a wider gap between employment growth and population growth. In OIC countries, EPR dropped by 2.3 percentage points to 50.9% in 2020 (the lowest level ever seen given the available data dating back to the early '90s) and continued to be lower than in the rest of the world. The number of unemployed in OIC countries increased by over 4 million to reach 49.3 million in 2020. Consequently, the unemployment rate bounced to 7.1% in that year, up 0.7 percentage points from 6.4% in 2019. Although the unemployment rate increased to a larger extent in both developed and non-OIC developing countries, it still remained higher in OIC countries.

Inflation

With the collapse in economic growth rates due to the pandemic crisis, consumer price inflation fell in most countries across the world in 2020. Nevertheless, unlike the global inflation rate, which declined 0.3 percentage points to 3.2%, inflation in OIC countries rose sharply to 9.1% in 2020, compared with 7.5% in 2019. Considering that the inflation rate declined down to 0.7% in developed



countries and to 4.5% in non-OIC developing countries, OIC countries, on average, continued to have a higher inflation rate in 2020. This trend is expected to continue in 2021 as well, given that inflation is projected to further rise to 9.9% in OIC countries but only to 3.5% in the world.

Fiscal Balance

The fiscal measures implemented to contain the effects of the pandemic, combined with reduced government revenues due to the economic downturn, have led to historically high government deficits all around the globe. Deficits have also expanded in OIC countries, averaging at 7.6% of GDP in 2020, compared with 3.6% in the previous year. This expansion in deficits resulted from the increase in expenditures from 26.1% to 27.7% of GDP and the concurrent decrease in revenues from 22.5% to 20.1% of GDP. Current projections for the year 2021 signal for a decline in expenditures to 26.1% of GDP and an increase in revenues to 20.8% of GDP, resulting in a reduction in deficits to 5.3% of GDP, still above the pre-pandemic levels.

Merchandise Trade

The annual value of global merchandise trade, after falling by 2.7% in 2019, further declined by 7.3% in 2020 amidst the pandemic. Both exports and imports of OIC countries followed a parallel course, though sharper declines were experienced, particularly in exports. Falling already by 5.4% in 2019, merchandise exports of OIC countries further fell by 17.0% in 2020. Merchandise imports, on the other hand, declined by 8.3% in 2020 following a decline of 2.8% in the previous year. Consequently, the exports, which declined to US\$ 1.49 trillion in 2020, accounted for a smaller share of the global exports; 8.6% in 2020 compared with 9.6% in 2019. The imports, which declined to US\$ 1.58 trillion, also had a somewhat lower share in global imports, declining from 9.1% in 2019 to 9.0% in 2020.

Services Trade

The impact of the pandemic on international trade has been more critical in services than in goods. The value of global trade in services shrank by one fifth in 2020 from the previous year. OIC countries experienced even a greater fall in services trade. Their services exports plummeted 37.6% and amounted to US\$ 279 billion, such that their share in global services exports dropped down to 5.6% in 2020 compared with 7.2% a year earlier. Similarly, their services imports fell by 28.4% and amounted to US\$ 432 billion, with their share in global services imports falling to 9.2% in 2020 from a constant share of 10.1% during the previous four years.

Trade Balance

OIC countries, on aggregate terms, became a net importer in merchandise trade in 2020, with a trade deficit amounting to US\$ 90 billion as compared to a surplus of US\$ 70 billion in the previous year. In 2020, only 19 member countries reported a surplus. In services trade, OIC countries remained a net importer of services. The aggregate deficits of OIC countries in services trade amounted to US\$ 152 billion in 2020, almost the same as in the previous year (US\$ 155 billion). Only eight member countries did report a positive balance in 2020, compared with 13 countries in 2019.

Intra-OIC Merchandise Trade

The sharp fall in total merchandise exports of OIC countries (17.0%) under the pandemic conditions of 2020 was – in small part – due to a decline in the trade among OIC countries. While their exports to non-OIC countries shrank 18.5%, intra-OIC exports decreased to a lesser extent, by 9.5% to US\$ 290 billion in 2020. Similarly, the previous year, intra-OIC exports increased slightly by 0.4% despite the fall

in their total exports by 5.4%. These developments translated into an increase in the share of intra-OIC trade in total trade of OIC countries in the last two years, from 18.1% in 2018 to 18.7% in 2019 and 19.5% in 2020, the highest rate achieved in the last decade.

Current Account Balance

OIC countries, on aggregate terms, have recorded current account deficits every year since 2015, with the exception of 2018, when they had a surplus of US\$ 33 billion. In 2020, the deficits increased to US\$ 186 billion, 5.7 times the deficits in the previous year (US\$ 32 billion). Thus, the 2020 deficits were 2.7% of GDP, up from 0.4% in 2019. Given that the deficits in services trade actually decreased by US\$ 3 billion in 2020, the deterioration in balance of merchandise trade (from a surplus of US\$ 70 billion in 2019 to a deficit of US\$ 90 billion in 2020) contributed significantly to the widening current account deficits. Looking ahead, projections signal for narrowing deficits to US\$ 48 billion or 0.7% of GDP in 2021.

FDI Flows and Stocks

The dramatic one-third fall (34.7%) in global FDI inflows in 2020 due to the pandemic crisis resulted largely from a 58.3% drop in flows to developed countries, compared to a 12.1% drop in developing countries. Flows to OIC countries followed a similar course as developing countries and fell 12.5% to US\$ 100 billion in 2020 compared to US\$ 114 billion in 2019. Thus, the share of OIC countries in global FDI inflows rose up to 10.0%, the highest rate in the last decade. Greenfield investments showed a steeper decline in developing countries (45.1%) than in developed countries (16.4%). In OIC countries, the decline was also substantial, both in value and in the number of announced greenfield FDI projects. The number of projects fell by 38.1% to 1292 –the lowest since 2008– while the value of the projects fell by 27.4% to US\$ 98 billion –below US\$ 100 billion for the first time, with available data dating back to 2003. Global inward FDI stock reached US\$ 41.4 trillion in 2020, up 45.3% from the level in 2016. In the same 5-year period, FDI stocks increased only by 15.6% to US\$ 2.2 trillion in OIC countries. Thus, OIC countries hosted a smaller share of the global inward FDI stocks in 2020 (5.2%) than in 2016 (6.6%).

External Debt

Total external debt stock of OIC countries increased by US\$ 69 billion or 4.1% to US\$ 1,770 billion in 2019, up from US\$ 1,701 billion in 2018. *Public and publicly guaranteed debt*, which expanded by US\$ 60.5 billion or 7.3% to US\$ 890.4 billion, contributed the most to this increase and continued to be the largest component of the total external debt stock of OIC countries (50.3%). The second largest component of total external debt stock (31.8%), *Private nonguaranteed debt* decreased by US\$ 8.1 billion or 1.4% to US\$ 562.2 billion. Overall, *long-term debt stock* amounted to US\$ 1,453 billion in 2019, up US\$ 52.4 billion or 3.7% from the previous year, and accounted for 82.0% of the total external debt stock. *Short-term debt* reached US\$ 269.3 billion in 2019, with an increase of US\$ 12.0 billion or 4.7% from the previous year, and maintained its share at around 15%. The smallest component of the total external debt stock, *IMF credits* increased by 10.5% or US\$ 4.6 billion to US\$ 48.5 billion in 2019, constituting 2.7% of the total external debt stock.

International Reserves

The COVID-19 crisis and the associated financial shocks have once again highlighted the need for having sufficient international reserve buffers to help preserving macroeconomic and financial stability in the face of such shocks. In this respect, given the differences in availability of reserves between countries, the shock has not been uniform across countries and they have not entered the crisis in the



same way. World total international reserves amounted to US\$ 14.5 trillion in 2020, with an increase of US\$ 1.2 trillion or 9.1% from the previous year. Nearly two-thirds (64%) of this increase originated from developed countries, which increased their reserves by US\$ 772 billion, or 13.6%, to US\$ 6.4 trillion. In OIC countries, the 2020 data available for 35 member countries indicate a decline in reserves by 3.2%, or US\$ 47 billion, as compared to 2019.

Due to the IMF's general allocation of Special Drawing Rights (SDRs) equivalent to about US\$ 650 billion in August 2021, OIC member countries, in proportion to their quotas at the IMF, saw an increase of about US\$ 77 billion in their total international reserves. At the country level, this translated into an increase in their 2020 reserves at a varying rate from 2 to 40%.

ODA and Remittances

In 2019, net ODA flows received by the developing world reached US\$ 168.4 billion, with an increase of US\$ 1.9 billion, or 1.1%, from the previous year. Flows to OIC countries increased by 1.2% to US\$ 64.7 billion in 2019 as compared to US\$ 64.0 billion in 2018 and continued to account for over half (57.1%) of the total ODA flows to individual developing countries (one third of the total ODA flows is not reported at the country level).

Remittance flows remained resilient in 2020 across the world. At the global level, officially recorded remittance flows reached US\$ 646 billion in 2020, just 1.2% below the 2019 total of US\$ 654 billion. Inflows to OIC countries decreased by 1.7% to US\$ 160 billion, while inflows to non-OIC developing countries remained at around US\$ 365 billion with a slight fall of 0.1%.

TRADE, TRANSPORT, AND TOURISM AMIDST THE COVID-19 PANDEMIC

COVID-19 and International Trade

The rapid spread of COVID-19 and the measures taken by governments to contain it have had serious consequences for the global trade. Many productive activities have been suspended, global value chains disrupted, and there have been widespread border closures. This has resulted in a distortion in global supply networks and a reduction in demand for goods and services. While global value chains were the main channel for transmitting the effects of COVID-19 to global trade in goods, restrictions on cross-border movements were the main driver of contraction in global trade in services.

OIC countries have been affected disproportionately during the pandemic in terms of international trade in goods and services. With the outbreak of the COVID-19 pandemic, exports of goods fell sharply by 35.6% in the second quarter of 2020 and 15.6% in the third quarter of 2020. After falling for eight consecutive quarters during 2019-2020, the total value of exports from OIC countries rebounded only during the first quarter of 2021. Strong growth in global exports in March 2021 (27.4%) and April 2021 (54.9%) as compared to their previous year values reflects a substantial recovery in the flow of goods across borders. The growth of exports was significantly high in OIC countries as well in March (34.4%) and April (80.3%), even surpassing the growth rates observed in global exports in both months.

In line with these trends, intra-OIC exports have also declined sharply by 25.7% in the second quarter of 2020 and the growth rate turned positive only in the first quarter of 2021. Despite the ongoing challenges and restrictions, the total volume of intra-OIC exports exceeded US\$ 87 billion in that period, representing the highest value of quarterly exports among OIC countries since 2015.

With regard to the trade in services, total contraction in global services exports reached 20% in 2020. However, the impact of the pandemic on OIC countries was more severe, which resulted in a 37.6% fall in services exports. Severe contraction in the two most critical services sectors (travel and transport) brought a sharp decline in services exports from OIC countries. Travel services have been hit particularly hard and contracted by 64.4% in OIC countries in 2020 as a result of restrictions on cross-border movement of people. The transport sector, the largest sector in services trade in OIC countries, experienced a fall of over 33%.

Many governments adopted diverse trade policy tools to respond to the various challenges and pressures posed by the COVID-19 pandemic. These included both tariff and non-tariff measures, either for the sake of trade facilitation or trade restriction. Out of 89 non-tariff measures (NTMs) implemented by OIC countries, 29 were to facilitate trade and 60 to restrict the flow of certain critical goods. Among these measures, 19 trade facilitating measures and 35 restrictive measures are still active. In addition to NTMs, tariff measures were also taken by many countries, but they were mostly directed towards facilitating trade. There is only one tariff measure within the OIC that is restrictive and still active. On the other hand, OIC countries have introduced 24 tariff measures to facilitate trade, 20 of which are still in effect.

COVID-19 and the Transport Sector

The aviation industry experienced a significant fall in revenues, mainly driven by the interruptions in international operations. In 2020, they reported approximately US\$ 371 billion loss of gross operating revenues and the loss of revenue is expected to remain around US\$ 300 billion in 2021 as compared to 2019. The traffic volume, measured by revenue passenger kilometres (RPKs, both international and domestic) plunged by a dramatic 90% in April 2020 and the cumulative decline in 2020 was 65.9% compared with 2019.

Contrary to the air passenger services, air cargo transport demonstrated a strong rebound in the second half of 2020, reflecting mostly the resumption of international trade after the lifting of initial restrictions that had been in place for most of the second quarter. Three air cargo companies from the OIC region were placed among the world's top 10 carriers and they strengthened their positions during the pandemic by taking appropriate measures.

The COVID-19 pandemic has caused diverse temporal and spatial impacts on world ports. Initial impacts on economic activities were severe, with unprecedented consequences on global supply chains. During the second half of 2020, trade and cargo volumes have seen a remarkable recovery, with a particular impact of the growth in the consumption of durable goods. There is a rising trend in the number of fleet, even during the pandemic. OIC countries appear to turn the pandemic into an opportunity, as their share in the global fleet has slightly risen from 7.9% in 2019 to 8.1% in 2021.

Considering the uncoordinated border closures and arising uncertainties, it is recommended for OIC countries to intensify the coordination in increasing the predictability and efficient deployment of border measures in emergency situations. It is also recommended to develop regional and international strategic mechanisms to regulate the transportation systems to ensure resilient supply chains, transport and trade to avoid any disruptive effects of future pandemics or similar shocks.



COVID-19 and the Tourism Sector

The COVID-19 pandemic has led to significant disruption of international tourism activities around the globe. The UNWTO defined the pandemic as the worst crisis since World War II in tourism. Given the interlinkages of tourism with various sectors, the negative impacts of the crisis went beyond the initial projections and were associated with significant losses in the number of new jobs created and the contribution of the tourism industry to economic growth.

The impacts of the pandemic have also become devastating on the tourism sector of OIC countries. It is estimated that, due to the pandemic, OIC countries hosted 207.4 million fewer international tourists during 2020 that led to a potential loss of US\$ 155.5 billion in terms of tourism receipts (foreign exchange earnings). This disruption resulted in a potential collapse of US\$ 292.6 billion in the 2020 GDP and 8.6 million job losses in OIC countries. The pandemic also hit intra-OIC tourism activities severely, given that an estimated US\$ 56.6 billion was lost due to a drop of 89 million in intra-OIC tourist arrivals in 2020.

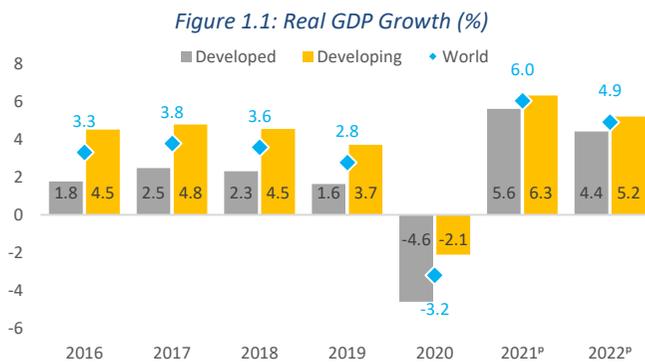
In order to mitigate those negative effects, OIC countries have implemented a wide range of policies and measures since the outbreak of the pandemic, ranging from setting up internal crisis management mechanisms to offering monetary and fiscal stimulus packages. In particular, the start of the vaccination rollout in 2021 in many OIC countries further increased hopes for a restart and recovery in the tourism sector. Yet, projections reveal that the recovery is expected to take a few years, and policies such as investing in the vaccination rollout, development of new tourism products, and furthering intra-OIC cooperation are likely to speed up the pace of recovery.

CHAPTER 1 : RECENT DEVELOPMENTS IN THE WORLD ECONOMY: TRENDS AND PROSPECTS



Economic Growth *Contraction in 2020 but strong recovery expected in 2021*

The COVID-19 pandemic is far from over yet, and many uncertainties remain over its duration and severity despite the measures taken to control the spread of the virus, such as domestic and international travel restrictions, curfews and bans on mass mobility, school and business closures, and stay-at-home campaigns. These containment measures have inevitably resulted in an unprecedented slowdown of economic activities all over the world. Following an already weakening global economic growth –down to 2.8% in 2019 after peaking at 3.8% in 2017– due to challenges predating the pandemic, the world real GDP is now estimated to have contracted by 3.2% in 2020 (IMF, 2021a). Developed economies, which have historically recorded lower growth rates than developing economies, contracted more than developing countries did, -4.6%



Source: IMF, World Economic Outlook Database, April 2021; IMF, World Economic Outlook Update, July 2021.
Note: P= Projection

and -2.1%, respectively (Figure 1.1). This severe collapse has had significant adverse effects on the most vulnerable parts of the world population, such as women, youth, the poor, the informal and unskilled employees, and those who work in sectors where people are in close proximity and at higher risk of exposure to the virus.

The contraction for 2020, however, is smaller than the pessimistic projections made earlier that year, indicating that growth rates improved for many regions in the second half of the year thanks to eased lockdowns and strong policy responses as well as more adaptation to new ways of working. The International Monetary Fund (IMF) estimates that the contraction could have been three times as large if not for extraordinary policy support (IMF, 2021b). According to the IMF, after the contraction in 2020, the global economy is projected to grow at 6% in 2021, moderating to 4.9% in 2022. The World Bank (2021a), describing the projected global growth in 2021 as “its strongest post-recession pace in 80 years”, and the Organisation for Economic Co-operation and Development (OECD, 2021a) have also presented similar projections (Figure 1.2). Additional fiscal supports, the anticipated speeding and widening of vaccination coverage, and the

Figure 1.2: World Real GDP Growth Projections (%)

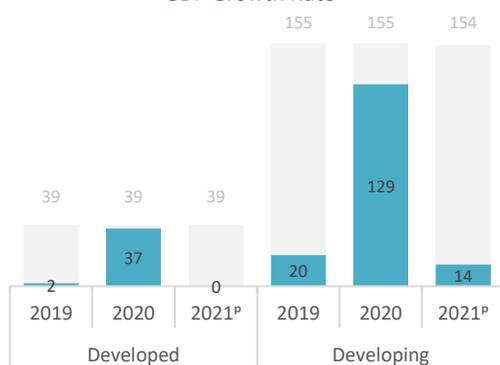


Source: IMF, World Economic Outlook Update, July 2021; World Bank, Global Economic Prospects, June 2021; OECD, OECD Economic Outlook, May 2021.

continued adaptation of all sectors of the economy to pandemic life are expected to contribute to the recovery process. In addition, the strength of the national health systems is another factor that affects the resilience of economies worldwide during the pandemic and a determinant for the recovery period (IMF, 2020a; SESRIC, 2020a).

It should be noted, however, that the projected 2021 high growth rates are, largely, the result of base effect and do not necessarily signal a sustained upturn in economic activity. The severe output contractions recorded by countries around the world in 2020 resulted in a low comparison base and significant statistical carry-over, inflating the year-over-year growth rates in 2021 (UN, 2021). For the very same reason, the relatively slower growth rates projected for 2022 could be partly attributed to the dissipation of the base effect.

Figure 1.3: Number of Countries with a Negative GDP Growth Rate



Source: IMF, World Economic Outlook Database, April 2021.
Note: P= Projection

According to the IMF, in 2019, before the outbreak of the pandemic, only 22 economies around the world recorded a negative GDP growth rate. With the pandemic-induced collapse of the global economy in 2020, 37 out of 39 developed countries and 129 out of 155 developing countries witnessed a negative economic growth rate that year. Given the ongoing economic recovery process that started in late 2020, projections for 2021 indicate that all developed countries will achieve positive growth rates and only 14 developing countries will experience a contraction in their GDP (Figure 1.3).

▪ **Concerns over uneven recovery and divergence**

Although all the three international organizations mentioned above –IMF, World Bank, and OECD– expect a strong recovery after 2020, they share and highlight a common concern that the recovery process is likely to be uneven, with some countries growing much faster than others do. It may take several years for some economies to reach their pre-pandemic GDP values as the pandemic has reduced not only domestic demand and supply but also hit hard the global value chains (GVCs), international trade and capital flows as well as tourism activities (World Bank,

Figure 1.4: Revisions to Cumulative per capita GDP Growth from 2019* (percentage points)



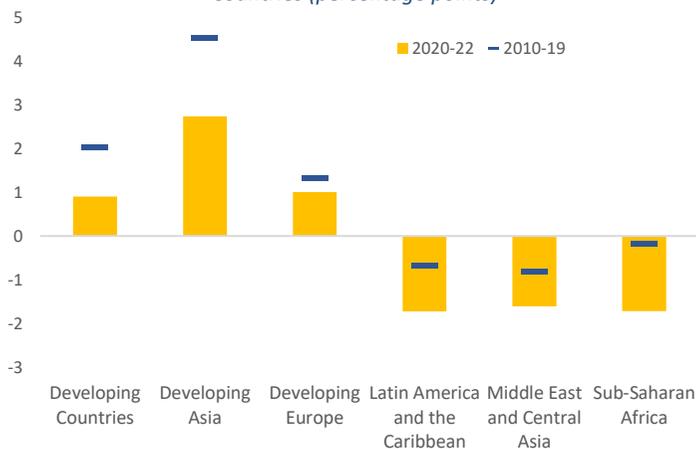
Source: IMF, World Economic Outlook, April 2021.
Note: * Between the January 2020 and April 2021 WEO forecasts.



2020). Accordingly, while the recovery is expected to bring most of the world back to pre-pandemic GDP levels by the end of 2022, the global economy remains below its pre-pandemic growth path and, in many countries, living standards by the end of 2022 will not be back to the level expected before the pandemic (OECD, 2021a).

Divergences in the speed of recovery across countries in all regions and across income groups are mostly linked to wide differences in the pace of vaccination, the extent of economic policy support, and structural factors such as reliance on tourism. In addition, the emergence of more infectious strains of the virus, such as the Delta variant, is threatening the outlook for recovery across the world. In this regard, output losses are expected to be particularly large for countries that rely on tourism and commodity exports and for those with limited policy space to respond. According to the IMF (2021b), the divergent recovery paths are likely to create significantly wider gaps in living standards between developing countries and others, compared to pre-pandemic expectations. Indeed, *Figure 1.4* shows that cumulative per capita income losses over 2020–22, compared to pre-pandemic projections, are more pronounced in developing countries, particularly in the low-income, while in developed countries the losses are expected to be relatively smaller.

*Figure 1.5: Per Capita Income Growth Relative to Developed Countries (percentage points)**



Source: SESRIC staff estimates based on IMF, World Economic Outlook Database, April 2021.
Note: * Annual average difference in GDP per capita growth rate at constant prices between developing country groups and developed countries.

Correspondingly, in many developing countries, the COVID-19 pandemic has deteriorated progress at per capita income catch-up with developed countries. The difference in per capita income growth between developing and developed countries is estimated to decrease by half during 2020-22 compared to the previous decade (*Figure 1.5*), indicating that per capita

income catch-up with developed economies would slow given the projected growth rates. Regional differences are also enormous. Developing countries in Europe and particularly in Asia are expected to face a slowdown in the catch-up process while other developing regions, mainly Sub-Saharan Africa, which have already been diverging from developed countries, are expected to widen the gap.

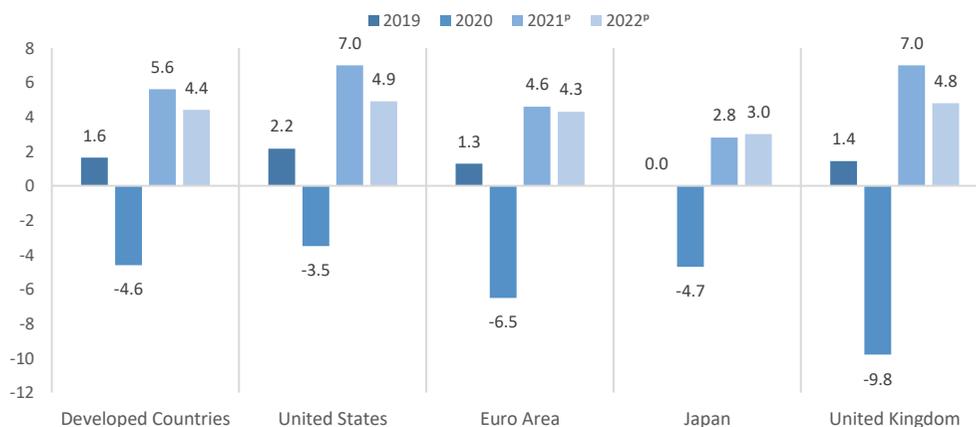
▪ **Developed economies contracted significantly but sharp rebounds are expected**

Growing by 1.6% in 2019, the real GDP of developed countries contracted by 4.6% in 2020 mainly due to the pandemic and the associated disruptions in the global economy. However, with the

global economic recovery expectations, additional US fiscal support, the release of sizable pent-up demand, and gradual increase in economic activities as the population gets vaccinated, growth is projected to be 5.6% in 2021 and 4.4% in 2022 (Figure 1.6). The IMF projections indicate that, among advanced economies, the United States is expected to surpass its pre-COVID GDP level in 2021, while many others in the group will return to their pre-COVID levels only in 2022.

The economy of the United States (US) has left the election pressures behind, which were an important uncertainty factor for the growth prospects. However, with the outbreak of the pandemic, the US output growth rate went down from 2.2% in 2019 to -3.5% in 2020. Recovering more quickly than its peers from the pandemic shock and powered by substantial fiscal support, the US economy is projected to grow by as high as 7.0% in 2021, outperforming most other major developed economies, and 4.9% in 2022 (Figure 1.6). The United States announced sizable fiscal support for 2021 on top of an already unprecedented fiscal response last year. Bringing the cumulative fiscal relief provided since the beginning of the pandemic to over one-quarter of GDP, the Biden administration’s new fiscal package at \$1.9 trillion is expected to deliver a strong boost to growth over 2021-22 and provide sizable positive spillovers to main US trading partners (IMF, 2021b; World Bank, 2021a).

Figure 1.6: Real GDP Growth in Developed Countries (%)



Source: IMF, World Economic Outlook Update, July 2021.
 Note: P= Projection

In the euro area, the economy contracted by 6.5% in 2020 following a moderate growth rate of 1.3% the previous year. Although a slow and inconsistent vaccination and stringent mobility restrictions due to more transmissible coronavirus variants constrained the pace of recovery in the first half of 2021, the euro area is set to experience a strong recovery in the second half of the year, alongside the expected acceleration of vaccinations and relaxation of pandemic restrictions (World Bank, 2021a). Overall, the IMF projections show that economic growth in the euro area will reach 4.6% in 2021 and slightly ease to 4.3% in 2022 (Figure 1.6), indicating that activity is expected to remain below end-of-2019 levels into 2022. A stronger-than-previously expected rebound in global activity and trade and the disbursement of Next Generation EU grants and loans will contribute to the recovery, but differences across countries remain substantial.



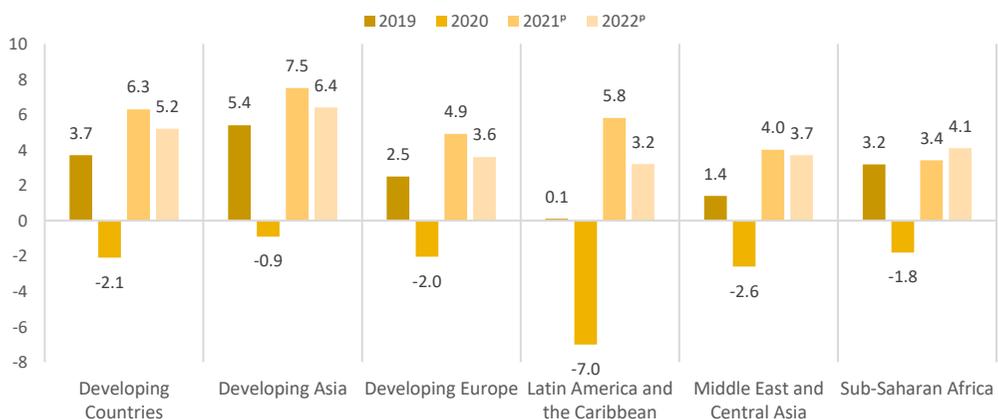
Economic growth in Japan stalled in 2019 (0.0%) after peaking at 1.7% in 2017 as the slowdown in economic growth in the European and US markets limited the growth prospects in the export-oriented economy of Japan. The contraction in the global economy in 2020 because of the pandemic significantly affected the growth in the Japanese economy as well, which was estimated at -4.7% that year (*Figure 1.6*). As in other major economies, Japan has also announced large fiscal support for 2021, and the Japanese economy is projected to return to end-of-2019 activity levels in the second half of the year as sharply reduced COVID-19 caseloads allow for unwinding the lockdown measures and fiscal support strengthens domestic activity. Adding the contributions from rising global demand, the growth rate is projected to hit 2.8% in 2021 and 3.0% in 2022.

The United Kingdom was one of the most affected developed countries by the pandemic, with GDP falling by almost 10% in 2020 after growing by 1.4% in 2019 (*Figure 1.6*). While economic growth in early 2021 was negative due to the ongoing lockdown under renewed pressures from more transmissible new COVID variants, the forecasts for the UK economy indicate a positive growth rate of 7.0% for 2021 and 4.8% for 2022. This strong recovery is attributed to the relatively rapid vaccination programme, relaxation of restrictions, rebound of consumption, and more certainty on the future of EU-UK trading relations due to the new Trade and Cooperation Agreement (European Commission, 2021). Nevertheless, with the projected growth rates, economic activity is expected to barely reach its pre-pandemic level by 2022.

▪ Developing countries face divergent growth prospects

For decades, developing countries, on average, have experienced faster rates of economic growth than developed countries. Nevertheless, their average growth rate was also in decline after 2017, decelerating down to 3.7% in 2019. Furthermore, the real GDP of developing economies is estimated to have contracted by 2.1% in 2020 due to a slowdown in economic activities driven by lockdowns and other containment measures implemented against the pandemic. As the impacts of the pandemic gradually diminish and as countries benefit from rising

Figure 1.7: Real GDP Growth in Developing Countries (%)

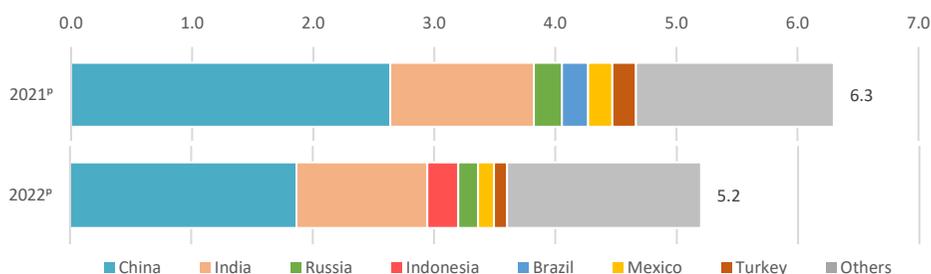


Source: IMF, World Economic Outlook Update, July 2021.

Note: P= Projection

commodity prices and improving external demand, growth is forecast to reach 6.3% in 2021 –the highest rate since 2011– and slightly moderate to 5.2% in 2022 (Figure 1.7). While this means that the pre-pandemic GDP would be achieved in 2021, nevertheless a large share of this rebound is forecast to originate from a few major economies as recoveries in many other countries are expected to be limited due to increasing COVID-19 caseloads, obstacles to vaccine procurement and rollout, and lack of fiscal support. China and India are expected to contribute over half of the growth of developing countries both in 2021 and in 2022. Together with Russia, Brazil, Mexico, and Turkey, these six countries will account for about three-quarters of the growth in 2021. This list of countries remains the same in 2022 except that Indonesia is expected to replace Brazil and become the third largest contributor to the overall growth of developing countries (Figure 1.8).

Figure 1.8: Major Contributors to Economic Growth of Developing Countries (percentage points)



Source: IMF, World Economic Outlook Database, April 2021; IMF, World Economic Outlook Update, July 2021
Note: P= Projection

Economic activity declined in all developing regions in 2020, but the contraction rates differed substantially. The fastest growing region with a growth rate of 5.4% in 2019, Developing Asia was the least affected region, where GDP contracted by only 0.9% (Figure 1.7). This contraction in 2020 is projected to be followed by a sharp recovery with a growth rate of 7.5% in 2021 and 6.4% in 2022, driven mainly by China and India. The region’s growth engine, China recorded a 2.3% growth in 2020 despite the pandemic situation, after 6.0% growth in the previous year. The pace of recovery, facilitated by effective containment measures, public investments, and liquidity support, and reinforced by signals of stronger foreign demand, is expected to lead the Chinese economy to grow by 8.1% in 2021 and then to moderate to 5.7% in 2022 as macroeconomic policy support diminishes. In India, economic activity contracted by 7.3% in 2020 after growth slowed down to 4.0% in 2019. The recovery is hampered by the “largest outbreak of any country since the beginning of the pandemic” (World Bank, 2021a), undermining the rebound in activity and disproportionately affecting India. Nonetheless, despite this enormous outbreak, GDP is expected to expand 9.5% in 2021 and 8.5% in 2022 according to the IMF projections, backed by policy support and a strong recovery in services and manufacturing.

After growing by 2.5% in 2019, output in Developing Europe contracted by 2.0% in 2020 as the pandemic and the consequent slowdown in the EU –the main trade partner of the region due to geographical proximity– affected the region’s trade and output capacities severely. Region’s economy is forecast to expand 4.9% in 2021, partly owing to a recovery in the neighbouring euro area, and to moderate to 3.6% in 2022 (Figure 1.7). Nevertheless, the outlook remains challenging given the continued disruptions from the pandemic, and differences across countries



in the pace of the recovery remain substantial. One of the largest economies in the region, Turkey was the only country in the region to record a positive growth (1.8%) in 2020 and it is projected to further grow by 5.8% in 2021 thanks to expected momentum in international trade and recovery in tourism activities. On the other hand, the Belarusian economy, having already contracted by 0.9% in 2020, is expected to further contract by 0.4% in 2021.

Latin America and the Caribbean (LAC), making almost no headway in 2019, was the most contracted developing region in 2020 (-7.0%) (*Figure 1.7*). The ongoing political tensions in some countries of the region, dysfunctional and ineffective measures to fight the pandemic, and inadequate measures to normalize economies of the region can be listed among the key reasons behind this picture (IMF, 2020a). After this contraction that marked a historically deep recession, the region's economy is expected to rebound by 5.8% growth in 2021 according to the IMF projections. The recovery will be supported by moderate progress in vaccine rollouts, relaxation of mobility restrictions, and improved external economic conditions that include elevated key commodity prices, robust remittance inflows, and positive spillovers from growth in developed countries and fiscal supports in the US (World Bank, 2021a). Growth in 2022 is forecast to slow down to 3.2% as support from these factors diminishes. These projections indicate that regional output may barely reach its 2019 level by 2022. In addition, as tourism remains subdued due to ongoing restrictions on international travel, it is expected that tourism-dependent economies will take longer than commodity-exporting economies to reach 2019 levels of output.

Growing by 1.4% in 2019, the regional economy of the Middle East and Central Asia shrank by 2.6% in 2020, as the dramatic decline in oil prices amidst the pandemic deteriorated growth rates of oil-exporting countries. The most recent IMF projections indicate a recovery by 4.0% growth in 2021, followed by a further 3.7% expansion in 2022 (*Figure 1.7*). The recovery is expected to be mainly driven by growth prospects in oil-exporting countries, strengthened by rising oil prices, partly offsetting the negative impacts of lagging vaccine rollout particularly in fragile and conflict-affected countries. The Saudi economy, the largest in the region, contracted 4.1% in 2020 after a slowdown to 0.3% growth in 2019. In parallel with the increasing energy demand due to the global economic recovery, Saudi Arabia is expected to grow by 2.4% in 2021 and further by 4.8% in 2022, enabling a rebound to the pre-pandemic output level. However, a third of the countries in the region, some of which experienced a double-digit contraction in 2020, are not expected to reach 2019 economic activity levels by the end of 2022.

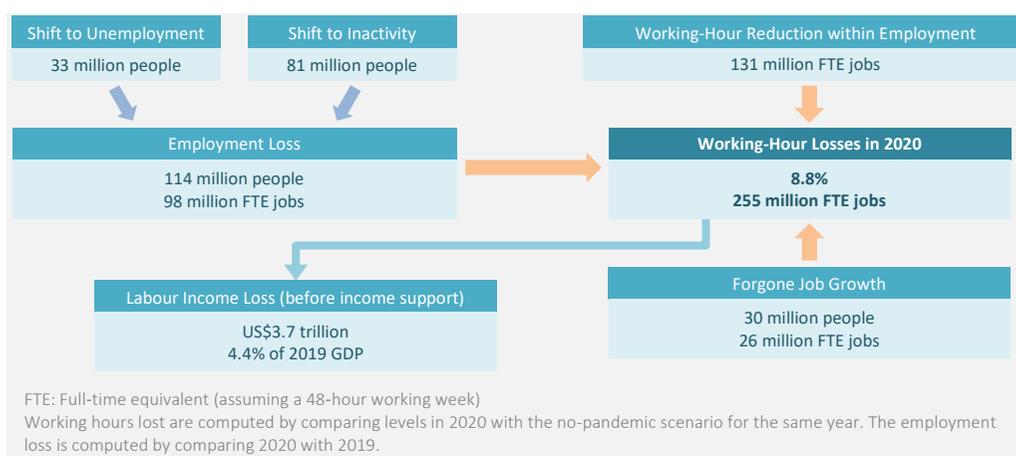
Output in Sub-Saharan Africa grew by 3.2% in 2019, but collapsed by 1.8% in 2020 because of the pandemic (*Figure 1.7*). Given the available data dating back to the early '90s, this was the region's first economic contraction. The regional economy is expected to recover with 3.4% growth in 2021 and further by 4.1% next year, supported by spillovers from strengthening global economic activity including stronger external demand and higher commodity prices. In this regard, agricultural and industrial commodity exporters are expected to recover much earlier than tourism-reliant countries, as international arrivals are likely to remain weak until wide-scale vaccinations allow for the reopening of borders to international travel. In the region, which hosts many least-developed countries, poverty and inequality are the hardest hit areas by the

pandemic and its lingering adverse effects. It is estimated that tens of millions more people in the region have fallen into extreme poverty (World Bank, 2021a).

Unemployment *The pandemic wreaked havoc on labour markets worldwide*

The pandemic, along with workplace closures and other measures implemented to curb the spread of the virus, has resulted in a remarkable slowdown in economic activity worldwide and has wreaked havoc on labour markets. Recent estimates of the International Labour Organization (ILO, 2021a) point out that, relative to the fourth quarter of 2019, 8.8% of total working hours were lost in 2020 –the equivalent of the hours worked in one year by 255 million full-time workers. Around half of the working-hour losses were due to employment losses while the remaining half were due to the reduced hours of those who remained employed (*Figure 1.9*).

Figure 1.9: Estimates of the Working Hours, Employment and Labour Income Lost in 2020



Source: ILO, ILO Monitor: COVID-19 and the world of work. Seventh edition; ILO, *World Employment and Social Outlook: Trends 2021*. Geneva: International Labour Organization.

According to these estimates, relative to 2019, total employment fell by 114 million in 2020 as a result of workers becoming unemployed (33 million) or dropping out of the labour force (81 million). Adding the loss of 30 million potential new jobs that could have been created had there been no pandemic, these losses mean that the global shortfall in employment increased by 144 million people in 2020, corresponding to 124 million full-time equivalent (FTE) jobs. The remaining part of the working-hour loss, corresponding to 131 million FTE jobs, was due to a reduction of working hours among the employed because of either shorter working hours or “zero” working hours under furlough schemes (ILO, 2021b).

The total working-hour losses have translated into a sharp fall in labour income around the world. ILO estimates indicate that global labour income –before taking into account income support measures (government transfers and benefits) – was US\$ 3.7 trillion (8.3%) lower in 2020 than it would have been in the absence of the pandemic. This amount corresponds to 4.4% of the 2019 global GDP.

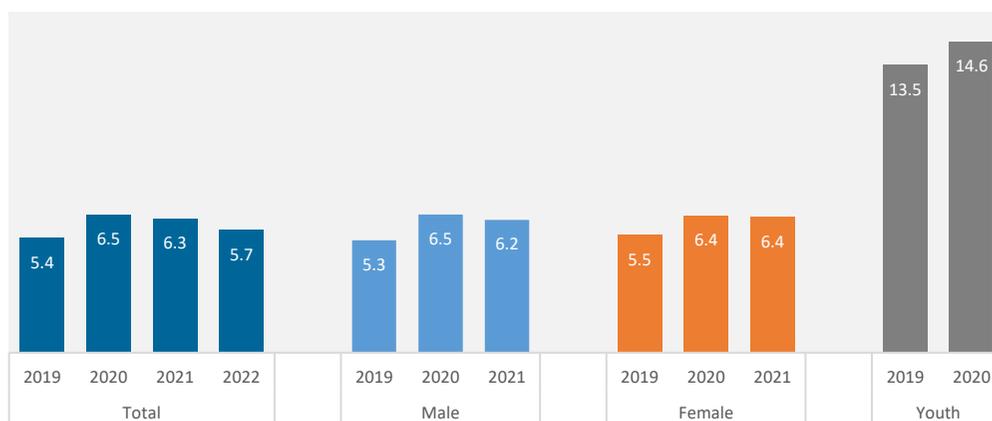
The estimates indicate that employment losses in 2020 translated mainly into rising inactivity rather than unemployment. Accounting for around 29% of employment losses, unemployment



is estimated to have increased by 33 million in 2020, with the unemployment rate rising by 1.1 percentage points to 6.5%, the highest level since 1991, when available data begins. As current forecasts signal for a global economic recovery with a rebound in world output, the global rate of unemployment is also expected to improve, first falling slightly to 6.3% in 2021 and then to 5.7% in 2022 (*Figure 1.10*). Overall, the improvement in unemployment by 2022 will not be sufficient to close the gaps opened by the pandemic, with the unemployment rate remaining above the 2019 level and the number of unemployed surpassing its 2019 level by 18 million.

The severe contraction in the world economy in 2020 has had disproportionate adverse impacts on employment and earnings of certain groups such as youth, women, workers with relatively lower educational attainment, seasonal migrant workers, and the informally employed. Constituting large segments of population particularly in developing countries, these groups have been more vulnerable to negative economic aspects of the pandemic and containment measures and, therefore, have generally been the hardest hit.

Figure 1.10: World Unemployment Rate (%)



Source: ILOSTAT, ILO Modelled Estimates; ILO, *World Employment and Social Outlook: Trends 2021*. Geneva: International Labour Organization.

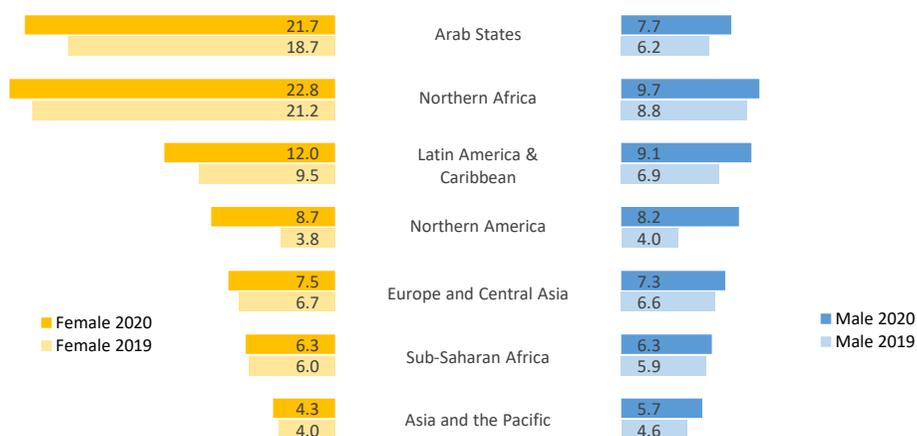
Young people aged 15 to 24 were a particularly vulnerable segment of the global population, with an unemployment rate around three times as high as that of adults. Weak employment opportunities for the youth, which has already been a global challenge, have further deteriorated because of the pandemic-induced economic collapse. Within the pandemic situation in 2020, the youth unemployment rate rose by 1.1 percentage points to a record level of 14.6% in 2020 (*Figure 1.10*). Accordingly, youth unemployment, estimated at 67 million in 2020, accounted for 30% of the total unemployed.

The male unemployment rate is estimated to have increased by 1.2 percentage points to 6.5% in 2020 and to slightly ease to 6.2% in 2021, remaining well above its pre-pandemic level (*Figure 1.10*). Similarly, it is estimated that the female unemployment rate increased by 0.9 percentage points to 6.4% in 2020, adding around 9 million more women to the unemployed population. However, estimates show that the unemployment rate for female will not decline in 2021 and remain at 6.4%, indicating that the female population will suffer in the labour market from

prolonged adverse impacts of the economic slowdown caused by the pandemic. In addition, the labour force participation rate declined for both males and females by 2.2 percentage points in 2020, and the ratio continued to be significantly lower for females (45.2%) than males (72.1%) (ILO, 2021b).

Unemployment rates for both males and females increased in all regions across the world in 2020, particularly in Northern America (*Figure 1.11*). However, the female unemployment rate increased more in all regions except Asia and the Pacific and Sub-Saharan Africa. The most notable increases were recorded in North America (4.9 percentage points), Arab States (3.0 percentage points), and Latin America and the Caribbean (2.5 percentage points). The highest increase in male unemployment was also recorded in Northern America (4.2 percentage points), followed by Latin America and the Caribbean (2.2 percentage points) and Arab States (1.5 percentage points).

Figure 1.11: Unemployment Rate by Region and Gender (%)



Source: ILOSTAT, ILO Modelled Estimates.

Note: Regional classification is based on [ILO country groupings](#). Regions are ordered by the difference between female and male unemployment rate in 2020.

Other than regions with relatively low unemployment rates, such as Asia and the Pacific and Sub-Saharan Africa, developed regions like Northern America have smaller differences in unemployment rates between males and females. However, in some developing regions such as the Arab States and Northern Africa, the unemployment rate for females continues to be more than twice the rate for males, mainly due to some social norms and country specific factors (SESRI, 2021). It is obvious from *Figure 1.11* that, for women, it is harder to get a job in many developing regions of the world.

International Trade

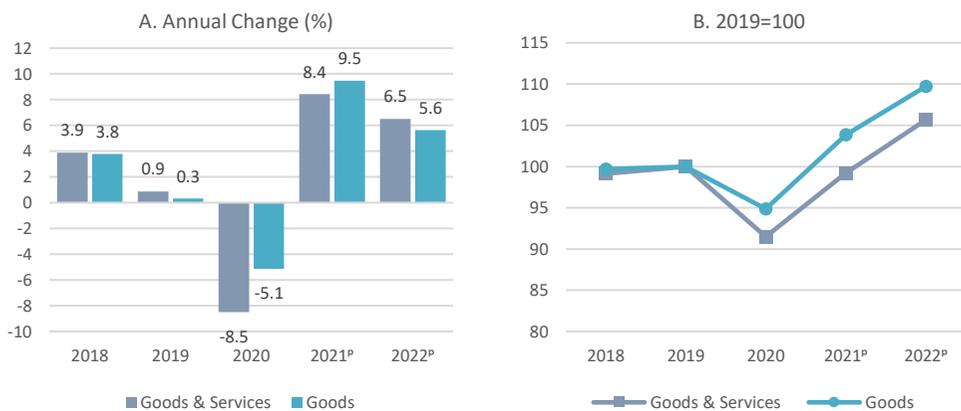
Merchandise trade above pre-pandemic levels but services trade remains subdued

The COVID-19 pandemic has forced countries to reduce international trade relations due to containment measures and disruptions in the GVCs. Before the pandemic, growth in the global trade volume of goods and services had already decelerated to 0.9% in 2019, mainly due to a slowdown in the global economy, Brexit discussions in Europe, and the US-China trade tension.



Under the unprecedented adverse effects of the pandemic, global trade volume is estimated to have decreased by 8.5% in 2020, smaller than earlier estimates due to fast recovery in merchandise trade in the second half of the year. The containment measures and lockdowns aimed to curb the pandemic have affected both demand and supply in a negative way. International transportation and GVCs were also disrupted remarkably during the closures. Projections of the IMF (*Figure 1.12.A*) indicate that the volume of world trade is expected to increase by 8.4% in 2021 and 6.5% in 2022, driven mainly by improved prospects for rapid recovery in merchandise trade. Trade volume in goods is forecast to expand 9.5% in 2021 – surpassing its pre-pandemic level (*Figure 1.12.B*)– and 5.6% next year after having fallen 5.1% in 2020, continuing its rebound from the pandemic-induced collapse in parallel with the gradual reopening of economies.

Figure 1.12: World Trade Volume



Source: IMF, World Economic Outlook Database, April 2021.

Note: P= Projection

Trade in nominal US dollars fell even more sharply than trade in volume in 2020, and all regions recorded a decline in both exports and imports, albeit at different scales (*Table 1.1*). Having grown at an annual average of 3.1% during the period 2010-18, global merchandise export value contracted by 7.5% in 2020 with the impact of the pandemic after falling by 2.7% in the previous year. The largest decline was recorded in the Middle East (-27.9%), mainly due to a one-third drop in oil prices resulting from the slowdown in the global economy. Exports from Asia declined by a modest 1.4% as the region continued to supply the world with consumer goods and medical supplies during the pandemic. Along with the fall in their export revenues, some regions experienced large contractions in their merchandise imports, mainly South and Central America and the Caribbean (-14.4%), Middle East (-13.5%), and Africa (-12.5%).

The contraction in commercial services trade was much larger than in merchandise trade. Commercial services receipts, which grew 5.5% annually during 2010-18, plummeted 19.9% in 2020 after growing by 2.1% the previous year. On the export side, Africa (-35.9%) and South and Central America and the Caribbean (-34.6%) were the hardest hit regions, with commercial service exports falling by a third in 2020 compared to 2019. On the import side, South and Central America and the Caribbean experienced the largest contraction in commercial services imports

(-29.1%), followed by the Middle East (-28.0%) and Africa (-25.8%). Aimed to control the spread of COVID-19, containment measures, especially international travel restrictions, played a central role in the contraction of commercial services trade all over the world. Transport, travel and tourism services have been the most affected areas in this regard.

Table 1.1: Annual Change in Global Trade Values by Selected Region (%)

Exports			Region	Imports		
2010-18	2019	2020		2010-18	2019	2020
MERCHANDISE						
3.1	-2.7	-7.5	World	3.2	-2.8	-7.6
-0.5	-5.5	-20.3	Africa	2.5	-0.5	-12.5
3.9	-1.9	-1.4	Asia	4.2	-3.8	-6.7
2.9	-2.7	-6.6	Europe	2.5	-2.9	-6.6
3.3	-8.8	-27.9	Middle East	2.8	-0.5	-13.5
3.4	-0.6	-12.2	North America	3.6	-1.8	-8.1
0.9	-6.3	-10.0	South and Central America and the Caribbean	1.4	-5.9	-14.4
COMMERCIAL SERVICES						
5.5	2.1	-19.9	World	5.2	2.6	-19.9
2.8	3.8	-35.9	Africa	2.2	3.6	-25.8
6.2	3.5	-21.7	Asia	6.9	-0.7	-22.2
5.2	1.4	-15.9	Europe	5.0	4.9	-14.7
10.2	5.8	-26.9	Middle East	6.0	1.0	-28.0
5.0	1.7	-22.0	North America	3.5	3.6	-23.9
4.4	0.6	-34.6	South and Central America and the Caribbean	3.4	-3.3	-29.1

Source: WTO Data Portal

Growth in global trade is expected to be supported in 2021 by a wide-ranging recovery in global activity, with contribution from the relaxation of restrictions imposed against the pandemic along with rapid and broad vaccination. However, services trade, international travel in particular, is expected to remain more vulnerable to disruptions than merchandise trade and to recover more slowly, given that travel restrictions are eased at a slow pace under the threat of renewed outbreaks of COVID-19 with variant strains of the virus, which also intensify the general fear of traveling. According to the World Trade Organization (WTO), regional disparities as well as continued weakness in services trade and lagging vaccination timetables, particularly in poor countries, threaten the relatively positive short-term outlook for global trade (WTO, 2021). In addition, many pre-pandemic risk factors will continue to be relevant, including tensions between the United States and China and protectionist tendencies amid already-high levels of trade restrictions.

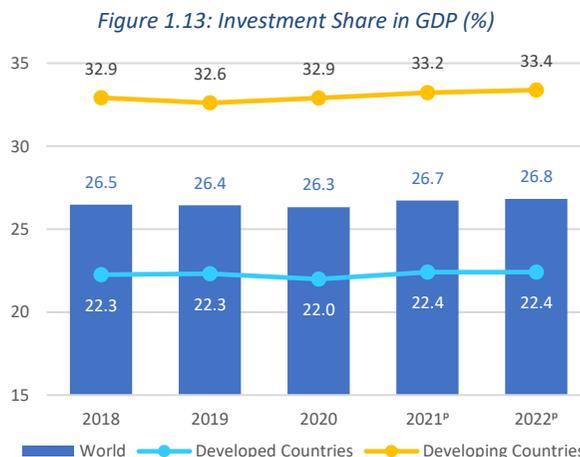
Investments

Uncertainty holds back investments

The COVID-19 pandemic has weakened incentives to invest by not only decreasing demand but also raising uncertainty. Lingering uncertainties around the pandemic outlook have negatively affected investments across the world, as most investors reasonably prefer waiting rather than realizing investments at times of high uncertainty. The IMF warns that weak investment could result in slower physical capital accumulation and affect productivity through slower technology adoption, which could bring about persistent output losses (IMF, 2021b).



Figure 1.13 shows that the share of investments in GDP at the global scale declined gradually in the past few years, down to 26.3% in 2020, and developing countries continue to have a higher ratio than developed countries. Unlike in 2019, the decline in 2020 seems to have stemmed from developed countries, given that the ratio decreased by 0.3 percentage points in developed countries while it increased on the same scale in developing countries. Thus, as of 2020, the investment to GDP ratio



Source: IMF, World Economic Outlook Database, April 2021.
Note: P= Projection

decreased to 22.0% for developed countries and increased to 32.9% for developing countries. Projections for 2021 and 2022 indicate that both developed and developing countries are expected to see an increase in their ratios, with investments providing more stimulus to their economic growth. The improving outlook for demand along with the projected recovery in global economic activity may encourage private investment spending. In particular, large public support and recovery packages provided in developed countries during the pandemic are expected to have immediate impacts on output by generating demand, improving prospects for both private and public investments. Nevertheless, lingering risk aversion attitudes amidst the prolonged uncertainty over the duration of the pandemic and spare capacity in some sectors could delay investment decisions.

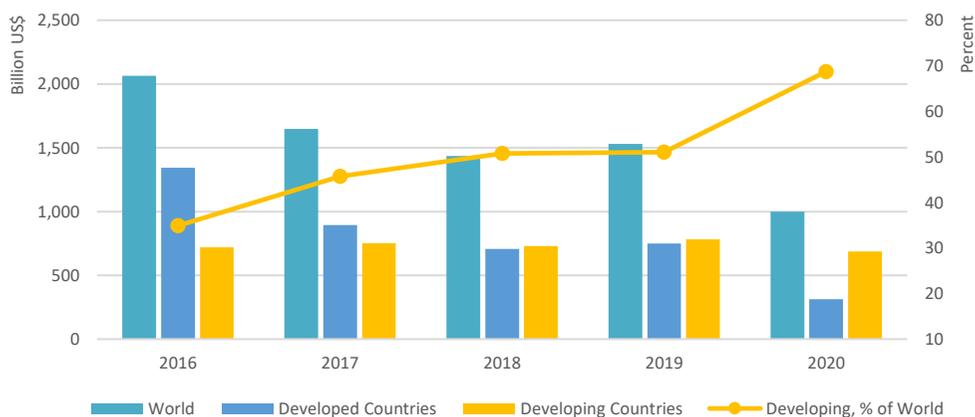
Investment levels varied significantly among regions in 2020. For instance, the share of investments in GDP was measured at as high as 39.0% in developing Asia, remaining unchanged from the previous year. However, in Latin America and the Caribbean and Sub-Saharan Africa, it was as low as 17.6% and 22.1%, respectively, after a drop by 1.4 percentage points in both regions over the previous year.

According to the World Investment Report of the United Nations Conference on Trade and Development (UNCTAD, 2021a), global foreign direct investment (FDI) inflows dramatically fell in 2020, back to the 2005 levels, due to the pandemic. They dropped by 35% to around US\$ 1 trillion from US\$ 1.5 trillion in 2019 mainly due to the decline in flows into developed countries. FDI inflows to developed countries decreased by more than half (58%) to US\$ 312 billion while inflows to developing countries fell only by 12% to US\$ 687 billion mainly due to resilient flows to Asia. Thus, the share of developing countries in global FDI inflows rose sharply to 69% in 2020 from 51% a year earlier (Figure 1.14).

FDI trends under the pandemic conditions differed significantly by region in 2020. On the developing countries side, flows to Asia, the largest FDI recipient, increased 3.8% to US\$ 535.3 billion in 2020 while all other regions witnessed a decrease. Down 15.6% from 2019, FDI flows to

Africa amounted to only US\$ 39.8 billion, a level last seen 15 years ago. Flows to Latin America and the Caribbean almost halved (-45.4%) compared to the previous year, falling to US\$ 87.6 billion. On the developed countries side, FDI flows to Europe fell by 80% to US\$ 72.5 billion, with most of large economies in the region seeing substantial declines. Flows to North America shrank 41.7% to US\$ 180.1 billion, with flows to the United States falling by US\$ 105 billion (40.2%).

Figure 1.14: World FDI Inflows



Source: UNCTAD, *World Investment Report 2021, Annex Tables*.

Note: Developing countries also include transition economies, which are classified separately by UNCTAD.

According to the UNCTAD report, the pandemic crisis has had a huge negative impact on the greenfield investment in industrial and infrastructure projects, which are the most productive types of investment, severely affecting international production, an engine of global economic growth and development. This investment downturn disproportionately affected developing countries, which heavily rely on attracting FDI and increasing participation in GVCs for development and industrialization.

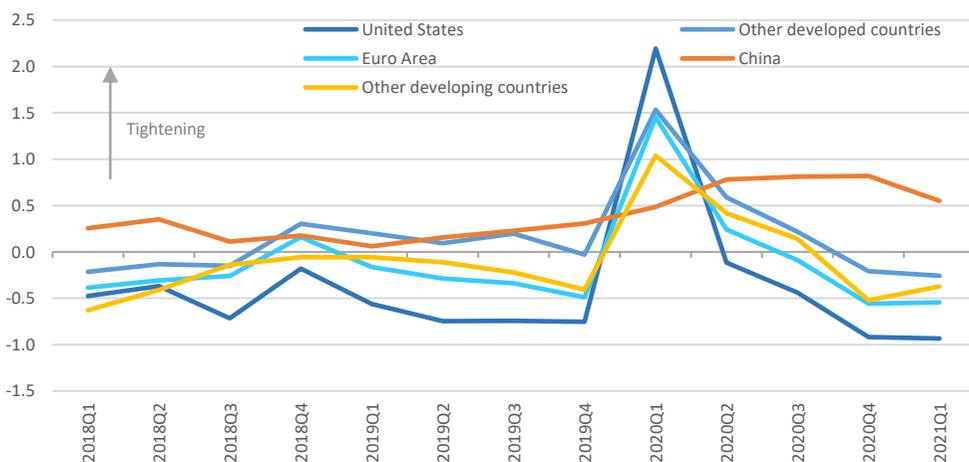
Looking ahead, global FDI flows are expected to increase by 10 to 15% in 2021, still about 25% below the 2019 level. In an optimistic scenario, a further increase in 2022 is considered to enable the 2019 level to be reached. The pace of economic recovery, the possibility of pandemic relapses, the potential impacts of recovery spending packages on FDI, and policy pressures are among the factors considered to shape the outlook. Additionally, the increasing tendency towards localization in sectors such as pharmaceuticals, healthcare, and food, whose importance has increased due to the pandemic, may affect international trade flows, global supply chains, and, consequently, capital flows. In parallel, multinational corporations (MNCs) are likely to undertake geographical repositioning in their foreign operations in the long term to be able to deal better with crises. They may potentially shorten their GVCs to protect themselves from supply-chain disruptions, or alternatively, seek geographic diversification to reduce exposure to location-specific shocks (OECD, 2020a). These relocation arrangements will undoubtedly restructure the global capital flows.



Financial Conditions *Easy and supportive of growth*

Under the stress of the prolonged pandemic situation, the risk of global financial instability remains high. Global financial conditions were relatively stable for global economic activities before the pandemic. Nevertheless, with the outbreak of the pandemic as an unexpected game changer at the beginning of 2020, global financial conditions tightened significantly in the first half of the year (*Figure 1.15*). The containment measures and sudden stop in economic activities not only affected the economic outlook but also deteriorated the expectations and fuelled uncertainty. As COVID-19 spread globally, the prices of risky assets and commodities started to fall at unprecedented speed while the prices of safe-haven assets, such as gold and US Treasuries, gained as investors look for stability rather than profitability during the crises (IMF, 2020b).

Figure 1.15: Financial Conditions Indices (Standard deviations from mean)



Source: IMF, World Economic Outlook Update, April 2021.

Tightened sharply in March 2020 in both developed and developing countries, financial conditions eased significantly in the afterwards –except in China– (*Figure 1.15*) as extraordinary policy measures have supported the economy, helping to contain financial stability risks. However, the IMF draws attention to stretched asset valuations and rising financial vulnerabilities as “unintended consequences” of those actions taken during the pandemic that led to highly accommodative financial conditions. It reports that “a repricing of risk in markets and the associated tightening in financial conditions—for example, due to a rapid and persistent increase in interest rates—may interact with such vulnerabilities, with repercussions for confidence and endangering macro-financial stability” (IMF, 2021c), calling for action to avoid vulnerabilities while avoiding a broad tightening of financial conditions. Moreover, noting the divergent recovery between developed and developing countries, the IMF warns that developing economies, especially those with large external financing needs, may face a risk of tighter financial conditions and large portfolio outflows if developed countries move toward policy normalization and rapidly increase interest rates. In that situation, they would also suffer an increase in currency volatility.

Current Account Balance

Surpluses narrow in developed countries, widen in developing countries

The slowdown in economic activities, disruptions in the GVCs, a sudden halt in tourism activities, and reduced demand in developed countries have shaped the current account balances across the world recently. Aggregated current account surplus of developed countries decreased by half to US\$ 175.8 billion in 2020 compared to the previous year, mainly due to the massive deficit of the United States that rose from US\$ 480.2 billion to US\$ 646.4 billion. The aggregate balance of developing countries, which yielded a surplus for the first time in 2019 after four consecutive years of deficits, improved significantly in 2020 and reached US\$ 196.2 billion, almost quadrupling the previous year's surplus. Widening surpluses of developing Asian countries –from US\$ 130.5 billion in 2019 to US\$ 359 billion in 2020– played a significant role in this improvement (Table 1.2).

Figure 1.16: Current Account Balance (% of GDP)



Source: IMF, World Economic Outlook Database, April 2021.
Note: P= Projection

As a percent of GDP, current account surpluses also weakened in developed countries, down to 0.3% in 2020 from 0.7% the previous year. Developing countries witnessed a sharp improvement, with their tiny surplus of 0.1% in 2019 rising up to 0.6% in 2020. Dramatically changed due to the pandemic, current IMF projections show that surpluses are expected to decline by 0.1 percentage points in both developed and developing countries in 2021, before rising to 0.4% in developed countries and falling to 0.2% in developing countries in 2022 (Figure 1.16).

Table 1.2: Current Account Balance

	Billion US\$					Percent of GDP				
	2018	2019	2020	2021 ^P	2022 ^P	2018	2019	2020	2021 ^P	2022 ^P
World (Global Disparity)	334.5	394.2	371.9	330.7	363.9	0.4	0.5	0.4	0.4	0.4
Developed Countries	389.5	342.1	175.8	124.3	262.6	0.8	0.7	0.3	0.2	0.4
United States	-449.7	-480.2	-646.4	-876.4	-733.8	-2.2	-2.2	-3.1	-3.9	-3.1
Germany	292.4	274.1	269.6	327.0	321.0	7.4	7.1	7.1	7.6	7.0
Japan	176.9	188.1	165.8	195.0	181.0	3.5	3.7	3.3	3.6	3.2
Developing Countries	-55.0	52.2	196.2	206.4	101.3	-0.2	0.1	0.6	0.5	0.2
Asia	-49.9	130.5	359.0	236.0	178.0	-0.3	0.6	1.7	1.0	0.7
China	25.5	141.3	298.8	273.5	238.4	0.2	1.0	2.0	1.6	1.3
Europe	66.9	52.5	1.0	24.2	15.7	1.7	1.3	0.0	0.6	0.4
Latin America & Caribbean	-131.3	-88.8	8.0	-0.5	-22.0	-2.5	-1.7	0.2	0.0	-0.4
Middle East & Central Asia	103.7	21.0	-111.1	12.9	2.2	2.7	0.5	-3.0	0.3	0.1
Sub-Saharan Africa	-44.4	-63.0	-60.7	-66.2	-72.6	-2.6	-3.7	-3.7	-3.7	-3.7

Source: IMF, World Economic Outlook Database, April 2021.
Note: P= Projection

Among developed countries, the United States continues to have a substantial trade deficit that resulted in a current account deficit of 3.1% in 2020, worsening from 2.2% in 2019. It is expected



that this deficit (as a percent of GDP) will worsen further to 3.9% in 2021 and return to its 2020 level in 2022. Germany and Japan generated significant trade surpluses in 2020, which helped them achieve a current account surplus of 7.1% and 3.3%, respectively. These countries are projected to maintain these strong surpluses in the next two years (*Table 1.2*).

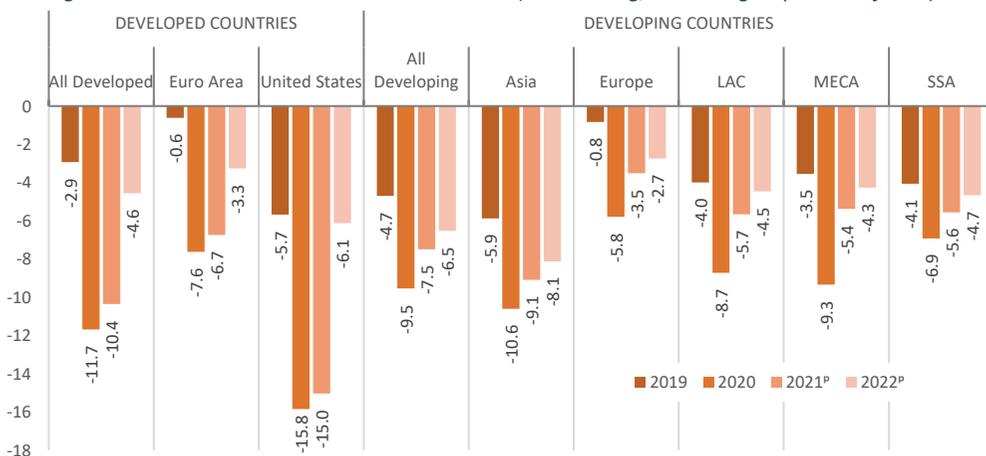
Effects of the pandemic shocks on the current account performance of developing countries differed across regions. On one hand, developing Europe's surpluses that reached 1.3% of GDP in 2019 vanished in 2020 while the Middle East and Central Asia, with a surplus of 0.5% in 2019, recorded a wide deficit of 3.0% in 2020, driven mainly by deteriorating balances of oil exporting countries due to reduced demand for oil and the associated fall in oil prices. On the other hand, in Developing Asia, strong growth in exports pushed up surpluses to 1.7%, tripling the previous year's figure. Having a long-standing external surplus, China contributed to this progress with a surplus that doubled to 2.0% of GDP in 2020. Current account balances in Latin America and the Caribbean also improved, with the 2019 deficit of 1.7% turning to a 0.2% surplus in 2020. Sub-Saharan Africa, with a persistent current account deficit since 2009, maintained its 2019 deficit of 3.7% in 2020 and is expected to run this deficit in the next two years. The 2021 projections for the other regions indicate that surpluses will decline to 1.0% in Developing Asia and disappear in Latin America and the Caribbean, while Developing Europe is expected to record a surplus of 0.6% and Middle East and Central Asia to return to run a surplus (0.3%) (*Table 1.2*).

Fiscal Balance

Government deficits at historically high levels

Governments around the world have responded to the pandemic with their fiscal policies at unprecedented levels. They have used the budget to reinforce health systems and provide emergency support for households and firms, which helped alleviate the contraction in economic activity as well. In an environment of historically low interest rates, countries with stronger buffers and better access to finance have been able to apply greater fiscal support (IMF, 2021d). However, these measures, along with reduced tax revenues due to economic downturn, have led to historically high fiscal deficits. As illustrated in *Figure 1.17*, general government fiscal deficits

Figure 1.17: General Government Fiscal Balance (Net Lending/Borrowing as percent of GDP)

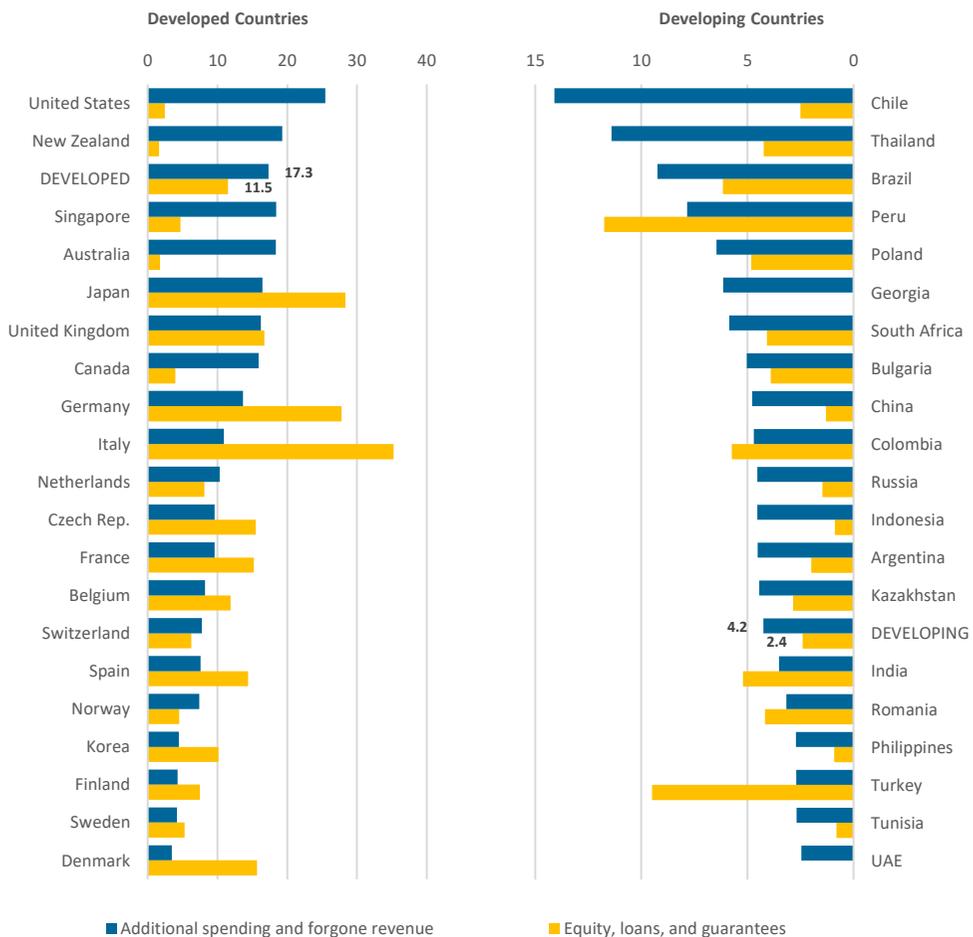


Source: IMF, World Economic Outlook Database, April 2021.

Note: P= Projection; LAC= Latin America and the Caribbean; MECA= Middle East and Central Asia; SSA= Sub-Saharan Africa

as a percent of GDP enlarged from 2.9% in 2019 to 11.7% in 2020 in developed countries and from 4.7% to 9.5%, respectively, in developing countries. Limited improvement is expected in 2021 –somewhat larger in developing countries– due to the prevailing pandemic conditions. Despite the further recovery projected for 2022 as pandemic-related supports run out or loosen up and revenues recover, deficits are not expected to return to pre-pandemic levels by that time.

Figure 1.18: Government Fiscal Support in Response to COVID-19 in Selected Countries (Percent of 2020 GDP)



Source: IMF, Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, July 2021.
 Note: Data refers to the period from January 2020 to June 5, 2021.

Among developed countries, the United States faced a great fiscal deficit that reached 15.8% of GDP in 2020, up from 5.7% the previous year, and is expected to remain at 15.0% in 2021 before falling to 4.6% the next year. Deficits in the Euro area rose sharply as well, from a mere 0.6% in 2019 to 7.6% in 2020. Deficits in developing regions, caused mostly by falling revenues rather than rising expenditures (IMF, 2021d), increased the most in Middle East and Central Asia in 2020, by 5.8 percentage points to reach 9.3%. Sub-Saharan Africa appeared to have been less affected, with deficits rising by 2.9 percentage points to 6.9%, while the other regions witnessed an



expansion in deficits by 4.7-5.0 percentage points. As of 2020, the highest fiscal deficits as a percent of GDP was recorded for Asian developing countries (-10.6%) (*Figure 1.17*).

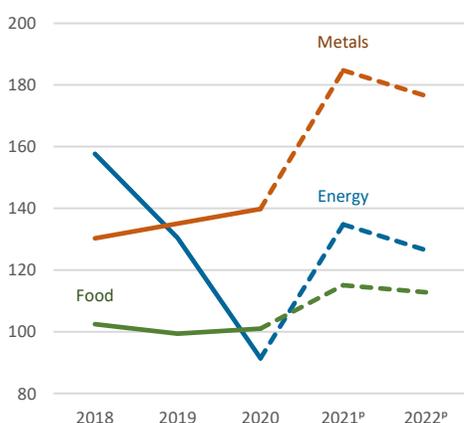
Many countries continue providing fiscal support to mitigate the impact of the coronavirus pandemic and help their recoveries, although the size and composition of the support has varied across countries. According to the IMF, of the US\$ 16.5 trillion in global pandemic-related fiscal actions taken through June 5, 2021, US\$ 10.4 trillion consisted of additional spending and forgone revenue, and US\$ 6.1 trillion of government loans, guarantees, and capital injections (IMF, 2021e). As summarized in *Figure 1.18*, both forms of fiscal support, as a percentage of GDP, were around four times as large in developed countries as in developing countries. Additional spending and foregone revenue was 17.3% of GDP in developed countries and 4.2% of GDP in developing countries. Similarly, support provided in the form of loans, equity, and guarantees to mitigate the impacts of COVID-19 amounted to 11.5% of GDP in developed countries whereas in developing countries this share was 2.4%. At the individual country level, some countries preferred to provide more support in the form of additional spending and foregone revenue, such as the United States, New Zealand, Chile, and Thailand. Some other countries chose to provide more support through government loans, guarantees, and capital injections, such as Italy, Germany, Peru, and Turkey.

Prices & Inflation

Inflation subdued in 2020 but expectations on the rise as developed economies heat up

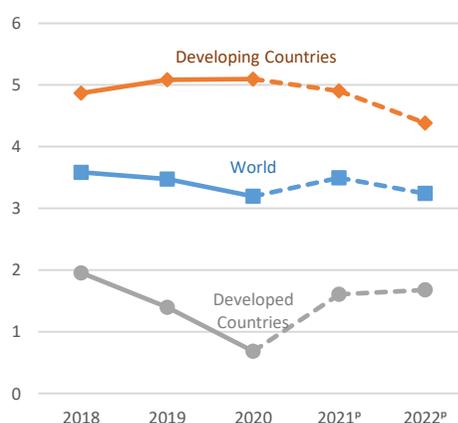
In 2020, commodity markets faced significant disruptions from the pandemic and associated mitigation measures that plummeted global demand for most commodities due to severely curbed consumption, production, and investment. Commodity prices declined sharply as a result of tumbling global demand, with oil prices particularly affected, falling by a third (32.7%) from 2019. Behind this fall in oil prices was a large contraction in travel and transport activities, which accounted for two-thirds of oil consumption, stemming from controls to slow the spread of the pandemic (World Bank, 2020).

Figure 1.19: World Commodity Prices (2016=100)



Source: IMF, World Economic Outlook Database, April 2021.
Note: P= Projection

Figure 1.20: Inflation (%)



Source: IMF, World Economic Outlook Database, April 2021.
Note: Annual average change in consumer prices (CPI);
P= Projection

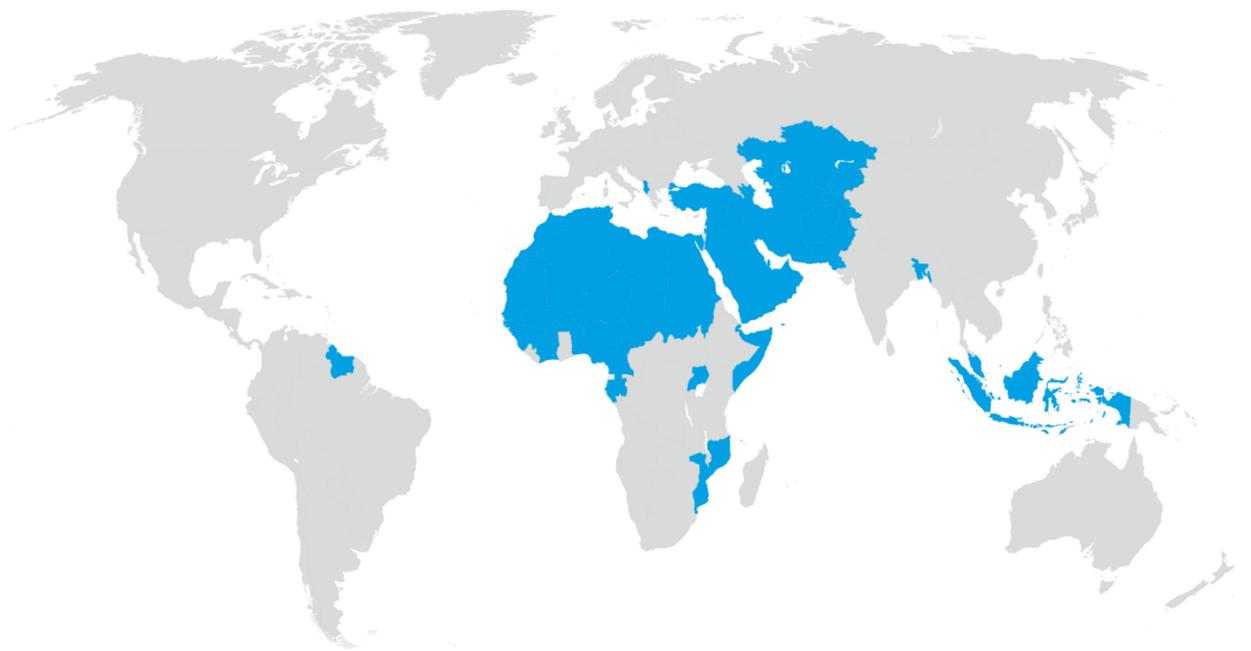
Figure 1.19 shows that energy prices witnessed a sharp drop in 2020 (-29.9%), falling below the 2016 levels, mainly due to reductions in global energy demand. This has undoubtedly brought additional financial challenges to many oil exporting economies. With the projected recovery in global economic activity in 2021, energy prices are expected to rise almost by half (47.5%), returning to pre-pandemic levels of 2019. Demand for metals, which initially fell amidst the pandemic with the shutdown of factories, recovered in the second half of 2020 mainly due to Chinese demand and reviving global industrial activity, and metals prices closed the year with a modest increase of 3.5% over the previous year. Supported by continued strong demand from China as well as recovery in the rest of the world, metals prices are expected to be 32.1% higher in 2021 on average relative to last year, before falling by 4.5% in 2022.

Weakened in 2019 by 3.1%, food prices increased only marginally in 2020 (1.7%) despite the prevalent food security concerns and the recent supply chain disruptions arising mainly from trade-related containment measures and re-emergence of protectionist policies. Nevertheless, international food prices are currently gaining rapid momentum and projections indicate that average food prices will rise by 32.1% in 2021 over the previous year (*Figure 1.19*), aggravating the challenges of food insecurity for millions of people and threatening to increase poverty.

Weak demand and the fall in oil prices pushed down global inflation to 3.2% in 2020 from 3.5% in 2019. This slowdown in global inflation was driven by developed countries, where average inflation fell to 0.7% in 2020 from 1.4% a year earlier, while inflation in developing countries remained stable at 5.1% in both years (*Figure 1.20*). However, the recovery in economic activity underpinned by vast fiscal support and the elevated prices of almost all commodities by the improving outlook with strengthening external demand are expected to contribute to an increase in inflation in developed countries, pushing it up to 1.6% in 2021. Combined with the expected slight fall in inflation in developing countries (to 4.9%), global inflation is forecast to rebound to 3.5% in 2021.



CHAPTER 2 : RECENT ECONOMIC DEVELOPMENTS IN OIC COUNTRIES

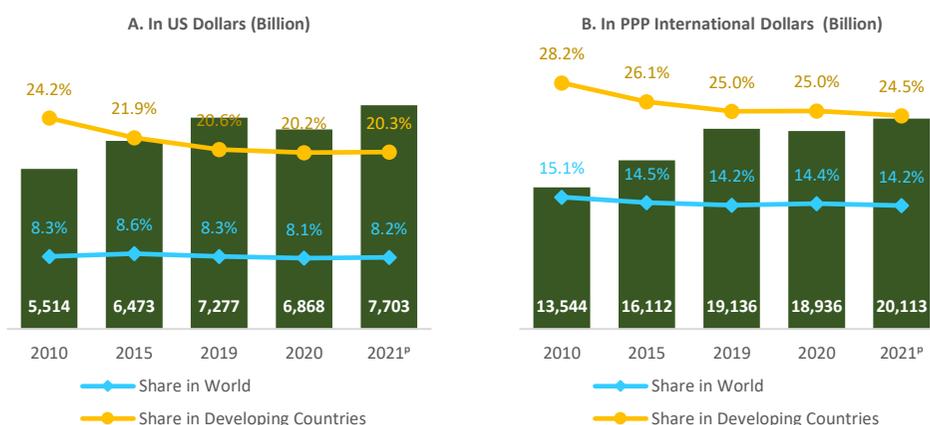


GDP

Output down 5.6% to US\$ 6.9 trillion in 2020

The COVID-19 pandemic has negatively affected the economies of OIC member countries as well, like most economies in the world. At current prices, the total GDP of OIC member countries contracted by 5.6% from US\$ 7.3 trillion in 2019 to US\$ 6.9 trillion in 2020. Given the ongoing gradual recovery, it is estimated to rebound to US\$ 7.7 trillion in 2021, exceeding the 2019 level. With this economic size, OIC member countries accounted for 8.1% of global GDP in 2020, down 0.2 percentage points from the previous year. The share of OIC countries in total GDP of developing countries also fell, from 20.6% in 2019 to 20.2% in 2020, indicating that the economic contraction was deeper in OIC countries relative to the rest of the world (*Figure 2.1.A*).

Figure 2.1: Total GDP and World Shares of OIC Countries (at current prices)



Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2021.

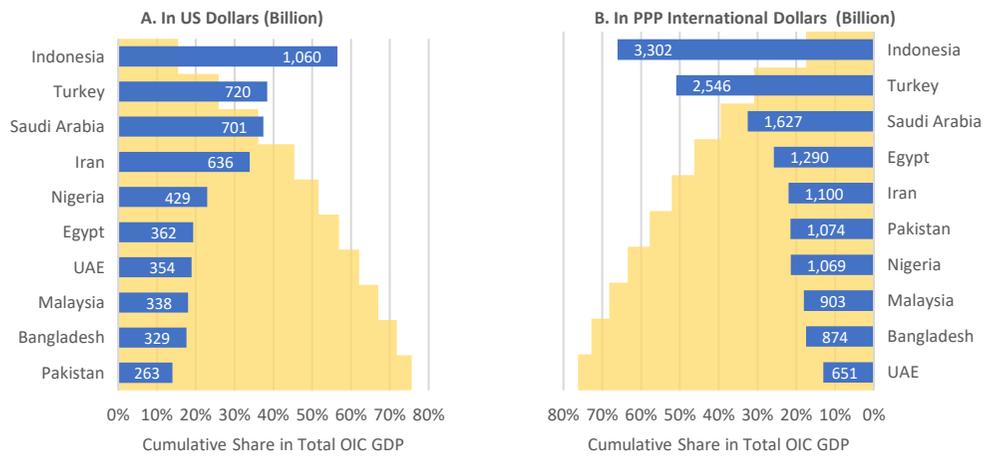
Note: P= Projection; Data coverage: 56 OIC countries, 99 developing countries, 39 developed countries.

In terms of Purchasing Power Parity (PPP) expressed in international dollars, the total GDP of OIC countries at current prices reached 18.9 trillion dollars in 2020, down 1.0% from the previous year. With the recovery in 2021, it is expected to reach \$20 trillion for the first time. With these amounts, OIC countries accounted for 14.4% of global GDP in 2020, up 0.2 percentage points from 2019, though projections show that this share will fall back to its 2019 level in 2021. Their share in the total GDP of developing countries remained at 25.0%, but this is also expected to fall in 2021 to a record low of 24.5%, continuing the long-term downward trend (*Figure 2.1.B*). Considering the estimated share of OIC member countries in the world population (24.4%) and in the population of developing countries (28.4%) in 2020, their share in GDP, whether in US\$ or in PPP international dollars, remains below the desired levels.

Furthermore, it is observed that a significant part of the total GDP of OIC countries is still produced by a few member countries, reflecting wide differences in economic size. In 2020, the largest five OIC countries accounted for over half (51.6%) of the total GDP measured in current US dollars, while this share reached up to 75.6% for the largest ten countries (*Figure 2.2.A*). Indonesia, with a GDP exceeding US\$ 1 trillion, had the highest share in OIC GDP (15.4%), followed by Turkey (10.5%), Saudi Arabia (10.2%), Iran (9.3%), and Nigeria (6.3%).



Figure 2.2: Top 10 OIC Countries by GDP, 2020



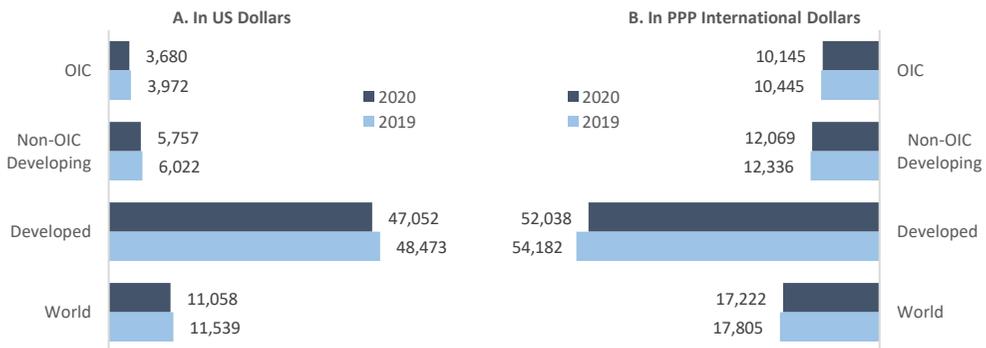
Source: IMF, World Economic Outlook Database, April 2021.

Figure 2.2 shows that the largest ten countries remain unchanged when GDP is expressed in PPP international dollars, though the ranking of some countries changes due to the difference in purchasing power stemming from relative price differentials between countries. Indonesia was again the largest economy, with a PPP equivalent of 3.3 trillion dollars that constituted 17.4% of OIC GDP in 2020. Together with Turkey (13.4%), Saudi Arabia (8.6%), Egypt (6.8%), and Iran (5.8%), these five countries accounted for 52.1% of the total OIC GDP while, for the largest ten countries, this share reached up to 76.2% (Figure 2.2.B).

GDP per Capita OIC countries faced a larger drop

Given the decline in output and the continued increase in population, per capita GDP values at current prices declined worldwide in 2020 compared to the previous year (Figure 2.3). In US dollar terms, the global average fell by 4.2% to US\$ 11,058. The fall in OIC member countries was even larger, with the average GDP per capita dropping by 7.4% to US\$ 3,680. Although non-OIC developing countries also witnessed a decline (-4.4%), GDP per capita continued to be lower in OIC countries, with the gap even getting wider (Figure 2.3.A).

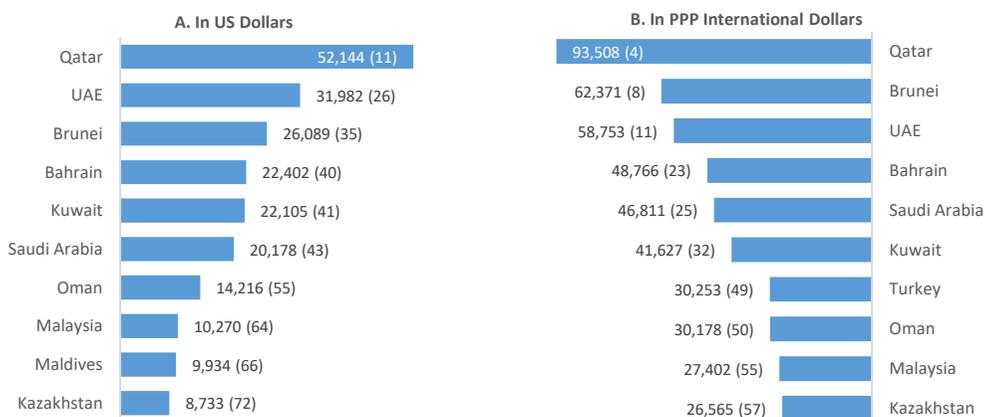
Figure 2.3: Average GDP per Capita (at current prices)



Source: SESRIC staff calculations based on IMF, World Economic Outlook Database, April 2021. Data Coverage: 56 OIC countries, 99 non-OIC developing countries, and 39 developed countries.

On PPP terms, GDP per capita averaged globally at 17,222 dollars in 2020, down 3.3% from a year earlier. In OIC countries, it dropped by 2.9% to 10,145 dollars, remaining below that in non-OIC developing countries, which fell 2.2% to 12,069 dollars (*Figure 2.3.B*).

Figure 2.4: Top 10 OIC Countries by GDP per Capita (at current prices)



Source: IMF, World Economic Outlook Database, April 2021.

Note: The numbers in brackets indicate the global rank of the relevant country among 194 countries.

Among OIC countries, Qatar had the highest GDP per capita in 2020, ranked globally as the 11th with a value exceeding US\$ 52 thousand. This value was 14 times the OIC average and 159 times the lowest GDP per capita recorded by an OIC member, indicating the wide disparity among the member countries. Qatar was followed –in descending order– by United Arab Emirates, Brunei, Bahrain, Kuwait, Saudi Arabia, Oman, Malaysia, Maldives, and Kazakhstan (*Figure 2.4.A*). It is noteworthy that six out of these ten countries are from the fossil-fuel-rich Middle East region. In terms of PPP, this list of countries remained the same except that Turkey replaced the Maldives. The ranking of countries somewhat changed, though Qatar continued to top the list with a GDP per capita value of over 93 thousand dollars that ranked the fourth at global scale (*Figure 2.4.B*).

Economic Growth **Real GDP contracted by 1.6%**

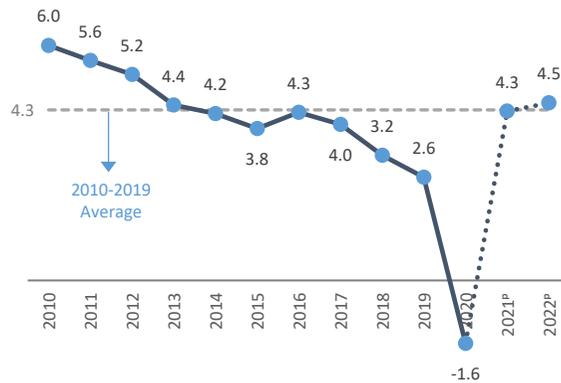
Economic growth in OIC countries followed a decelerating trend in the past decade, from 6.0% in 2010 to 2.6% in 2019, averaging annually at 4.3%. Under the pandemic conditions in 2020, the OIC economy contracted by 1.6%, but it is expected to recover in the next two years with 4.3-4.5% growth –around the past ten-year average (*Figure 2.5*). The contraction in 2020 was moderate as compared to the global averages. As mentioned in the previous chapter, developing economies contracted by 2.1% and the developed ones more severely by 4.6%, with the global economy shrinking by 3.2% (see *Figure 1.1*).

The growth performance of OIC countries differed across income groups (*Figure 2.6*). Although all of the four income groups recorded a negative growth rate in 2020 due to the ramifications of the pandemic, high-income economies –the resource-rich countries– contracted the most (-4.7%), mainly because of the decline in oil demand as well as in oil prices. Averaging at 3.4% during 2010-19, economic growth in this group is expected to recover in the next two years,



though at a slower pace than that in the other income groups. Upper-middle income economies recorded a higher average economic growth (5.4%) during the past ten years prior to the pandemic as compared to the other groups, and contracted by 2.3% in 2020. They are expected to have a strong recovery with a 7.0% growth in 2021. Contraction in the lower-middle income economies was rather limited (-0.3%). Growth in these countries is projected to resume with a rate of 3.6% in 2021 and 4.8% in 2022, above the 2010-19 average of 4.2%. Low-income countries have been growing at a slower rate (2.5% during 2010-19) as compared to the other income groups, implying a widening gap with the richer OIC countries. Furthermore, their contraction (-2.1%) was deeper than that recorded by overall middle-income countries (-1.0%), and their projected growth rates in 2021 and in 2022 are lower than the middle-income countries.

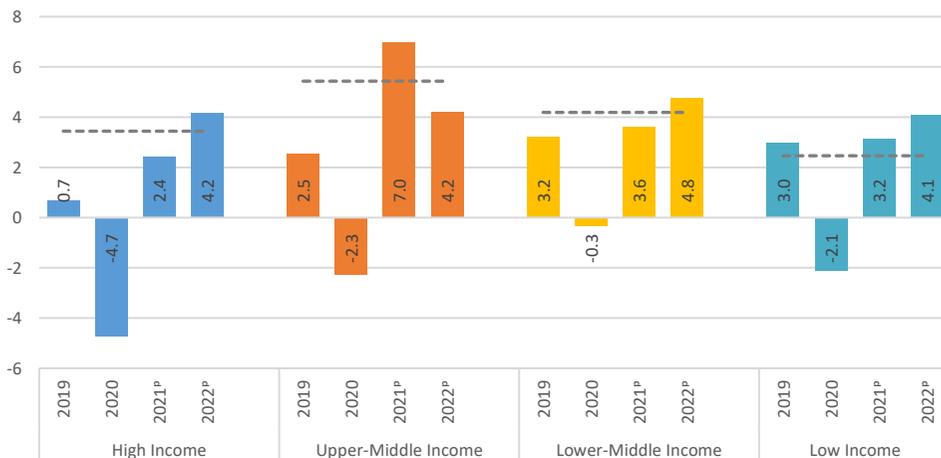
Figure 2.5: Real GDP Growth in OIC Countries



Source: SESRIC staff calculations based on IMF, World Economic Outlook Database, April 2021; IMF, World Economic Outlook Update, July 2021.
 Note: P= Projection; Data coverage: 56 OIC countries.

and 4.8% in 2022, above the 2010-19 average of 4.2%. Low-income countries have been growing at a slower rate (2.5% during 2010-19) as compared to the other income groups, implying a widening gap with the richer OIC countries. Furthermore, their contraction (-2.1%) was deeper than that recorded by overall middle-income countries (-1.0%), and their projected growth rates in 2021 and in 2022 are lower than the middle-income countries.

Figure 2.6: Economic Growth in the OIC by Income Group (%)



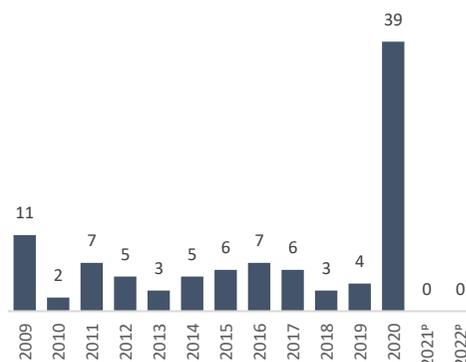
Source: SESRIC staff calculations based on IMF, World Economic Outlook Database, April 2021, and IMF, World Economic Outlook Update, July 2021.
 Note: P= Projection; Dashed lines represent the annual average growth rate during 2010-2019 for the related income group. See Annex B for the income classification of OIC countries.

An important observation here is that all groups except the high-income are projected to reach and actually go over the pre-pandemic real output level in 2021. High-income countries are expected to achieve this in 2022, yet with output merely 1.6% above its 2019 level. The relatively slower growth rates of high-income countries signal for an opportunity for the middle-income

countries to catch up with higher income countries, but income disparity with low-income OIC countries is still set to widen.

At the individual country level, 39 OIC countries recorded a negative growth rate in 2020, though this number was only 11 during the global financial and economic crisis in 2009. In the years in between, the number of OIC countries with a negative economic growth rate fluctuated between two and seven. Current projections indicate that all OIC countries are expected to record a positive growth rate in 2021 and the next year (Figure 2.7).

Figure 2.7: The Number of OIC Countries with a Negative Growth Rate

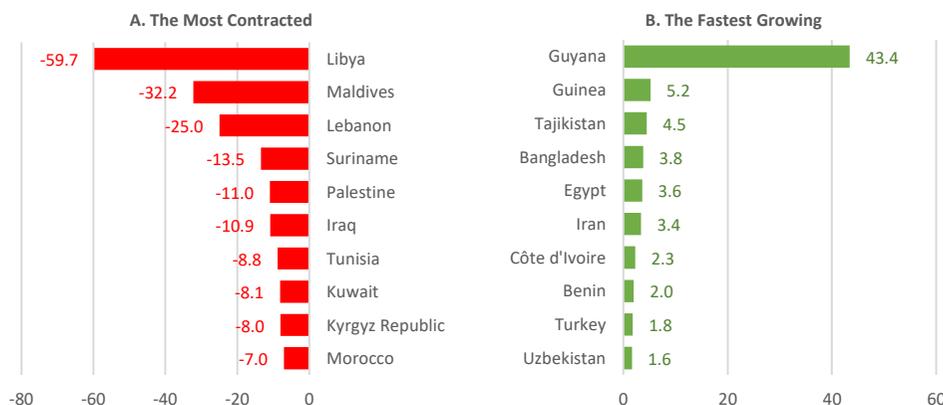


Source: SESRIC staff calculations based on IMF, World Economic Outlook Database, April 2021.

Note: P= Projection; Data coverage: 55 countries for 2011, 2021, and 2022 and 56 countries for the other years.

Libya recorded the largest economic contraction (-59.7%) in 2020, not only in the OIC group but also in the world, due to a combination of factors such as COVID-19, internal conflicts, and the significant drop in oil prices. The economy of Maldives shrank by a third (-32.2%), mainly due to a sharp fall in travel and tourism activities because of the international travel restrictions amidst the pandemic. Among the other OIC countries with a relatively large economic contraction were Lebanon, Suriname, Palestine, Iraq, Tunisia, Kuwait, Kyrgyz Republic, and Morocco (Figure 2.8.A).

Figure 2.8: The Most Contracted vs. the Fastest Growing OIC Economies in 2020 (%)



Source: IMF, World Economic Outlook Database, April 2021; IMF, World Economic Outlook Update, July 2021.

At the other side of the spectrum, Guyana topped the list of OIC countries that managed to record a positive growth in 2020 despite the negative effects of the pandemic. Attributed to the commencement of oil production after the discovery of large offshore oil reserves, the Guyanese economy recorded 43.4% growth in 2020, rendering it the fastest growing economy in the world that year. Guinea registered a growth rate of 5.2%, followed by Tajikistan with 4.5%, Bangladesh



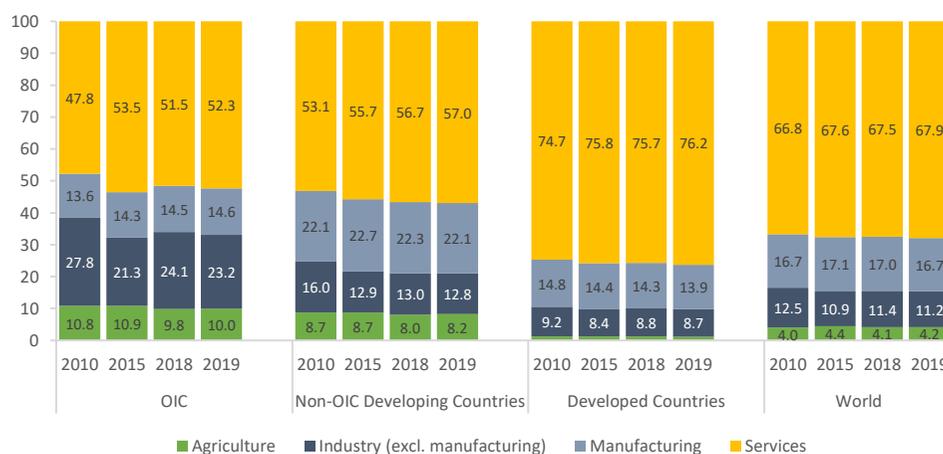
with 3.8%, and Egypt with 3.6%. Iran, Côte d'Ivoire, Benin, Turkey, and Uzbekistan also made it to the top ten list of the fastest growing OIC economies in 2020 (Figure 2.8.B).

Structure of GDP

Services sector makes up at least half of total value added in 34 OIC member countries

The composition of GDP reveals important insights into the structure of economies. The latest available data for 2019 show that, constituting only 1.2% of total value added in developed countries, agricultural activities have a high share of 10.0% in total value added in OIC countries, which is even higher than that in non-OIC developing countries (8.2%) (Figure 2.9). The agriculture sector is particularly important for OIC countries in Sub-Saharan Africa, where its share in value added reaches as high as 60% in Somalia and Sierra Leone, 51% in Guinea-Bissau, and 40% in Niger and Mali. The share of the non-manufacturing industry, which is much higher in OIC countries as compared to the rest of the world, has been falling slowly over the past decade all over the world. For OIC countries, it was measured at 27.8% in 2010 and 23.2% in 2019, reflecting a decline of 4.6 percentage points. The sector continues to account for a significant share of total value added in member countries that are heavily engaged in oil & gas extraction, such as Libya (63%), Iraq (50%), Brunei (48%), Azerbaijan (48%), and Qatar (47%).

Figure 2.9: Value Added by Major Economic Activity (% of total)

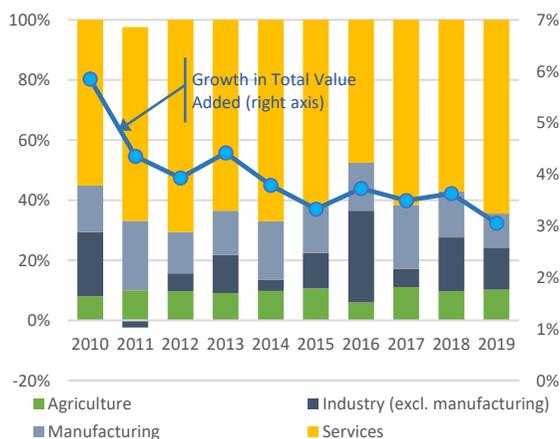


Source: SESRIC staff calculations based on data—at current prices in US dollars—from UNSD, National Accounts Main Aggregates Database.

Note: “Agriculture” comprises agriculture, hunting, forestry, fishing (ISIC A-B), “Industry” comprises mining, manufacturing, utilities, and construction (ISIC C-F), and “Services” comprises services activities (ISIC G-P). Data coverage: 57 OIC countries, 116 non-OIC countries, and 38 developed countries.

The manufacturing sector, which has greater potential to promote productivity and competitiveness, has a share of 14.6% in total value added of OIC countries, which is comparable to that of developed countries (13.9%) but significantly below that of non-OIC developing countries (22.1%). The sector accounts for 47% of the total value added in Turkmenistan and 20–24% in 7 other member countries, namely Tajikistan, Malaysia, Uzbekistan, Indonesia, Turkey, Bangladesh, and Jordan.

Figure 2.10: Sectoral Contribution to Growth in Value Added in OIC Countries



Source: SESRIC staff calculations based on data –at constant 2015 prices in US dollars– from UNSD, National Accounts Main Aggregates Database.

Note: “Agriculture” comprises agriculture, hunting, forestry, fishing (ISIC A-B), “Industry” comprises mining, manufacturing, utilities, and construction (ISIC C-F), and “Services” comprises services activities (ISIC G-P). Data coverage: 57 OIC countries.

dominant contributor to economic growth in OIC countries, usually providing over half of the growth in total value added at constant prices (Figure 2.10). In 2019, two thirds of the growth in total value added (2.0 percentage points of the 3.1% growth) stemmed from the services sector. The other sectors contributed almost equally, at 0.3-0.4 points.

The analysis of the composition of GDP from the expenditures side reveals that final consumption expenditures (by both households and government) continued to have the highest share in GDP over the years in OIC countries as well as in the rest of the world (Figure 2.11). In 2019, household consumption accounted for 55.9% of GDP in OIC countries, higher than that in non-OIC developing countries (50.3%) but lower than that in developed countries (60.0%). This ratio reached up to 105% in Yemen and 100% in Sierra Leone, a clear indication that a significant proportion of the private domestic demand was allocated to imported goods and services. In other four OIC countries, namely Guinea-Bissau, Afghanistan, Palestine, and Comoros, this ratio was over 90% as well, but as low as 11% in Turkmenistan and 20% in Brunei.

The share of general government final consumption expenditures in GDP has been low in OIC countries relative to both developed and developing countries. In 2019, this share averaged at 13.7% for OIC countries, 15.9% for non-OIC developing countries, and 17.4% for developed countries. The highest ratio among OIC countries was recorded in Libya at 37%, followed by Kuwait (26%), Brunei (25%), Oman (25%), and Afghanistan (24%), while it was as low as 6% in Nigeria and Bangladesh.

Gross capital formation (GCF), also called “investment”, is an important indicator for an economy in that it shows the total value of additions to productive assets, which are intended for use in the production of other goods and services. Thus, a high share of GCF in GDP is desirable for long-

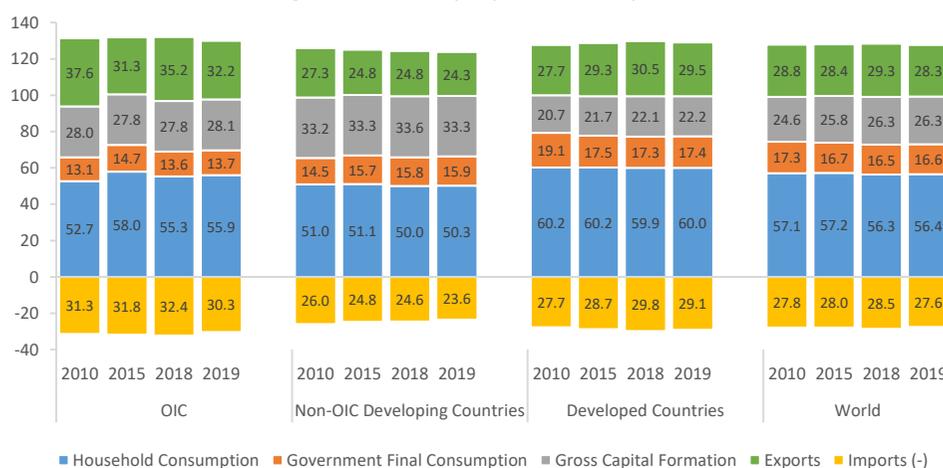
The services sector continues to play a key role in the majority of OIC economies, accounting for an average of 52.3% of the total value added in the OIC. This share is still low though, considering that the sector has a share of three quarters in total value added in developed countries and 57.0% in non-OIC developing countries, averaging at 67.9% worldwide. In OIC countries, this share reaches as high as 87% in Djibouti, 81% in Lebanon and Maldives, 70% in Palestine, and 67% in Jordan, while it is at least 50% in other 29 member countries.

The services sector, growing at an annual average of 4.7% during the 2010-19 period, has also been the



term economic growth as current investment leads to greater future production. *Figure 2.11* shows that this share has been stable over the past decade and averaged at 28.1% in 2019 for OIC countries, lower than the average for non-OIC developing countries (33.3%) but higher than the average for developed countries (22.2%). In Turkmenistan, GCF accounted for half of GDP (50%), the highest in the OIC and the second highest in the world. Maldives (48%), Djibouti (47%), and Mozambique (46%) followed Turkmenistan in the global ranking.

Figure 2.11: GDP by Expenditure (% of total)



Source: SESRIC staff calculations based on data –at current prices in US dollars– from UNSD, National Accounts Main Aggregates Database.

Data coverage: 57 OIC countries, 115 non-OIC countries, and 38 developed countries.

International trade –in goods and services– accounted for a higher share of GDP in OIC countries than in both developed and developing countries in 2019. The share of exports declined by 3 percentage points from the previous year and averaged at 32.2% for OIC countries, while this share was 24.3% for non-OIC developing countries and 29.5% for developed countries. The share of imports also declined, by 2 percentage points, to 30.3% in OIC countries but was still higher than the average of both country groups in comparison (*Figure 2.11*). Among OIC countries, Djibouti was the country with the highest exports share in GDP, ranked fifth on the global scale with 150%. This share reached 92% in the United Arab Emirates, 77% in Bahrain, 74% in Turkmenistan, and 69% in Maldives, while it was also 50% or above in other 8 member countries. As for the imports share in GDP, Djibouti (179%) also had the top rank, yet not only in the OIC but also in the world. This share was as high as 78% in Maldives, 76% in Mozambique, 68% in the United Arab Emirates, 66% in the Kyrgyz Republic, and over 50% in other 8 member countries as well.

Labour Market

Unemployment rate jumped up to 7.1%

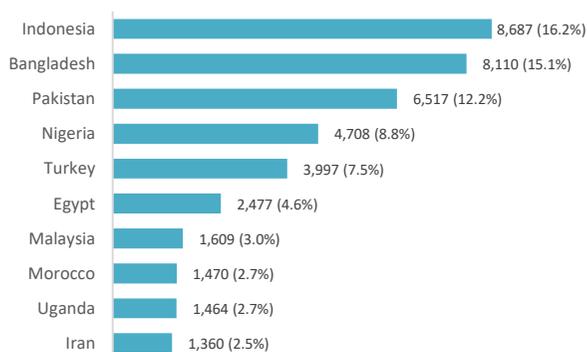
The pandemic has brought unprecedented disruption to labour markets in OIC countries just as in other parts of the world. The challenges induced by the pandemic crisis have exacerbated the lack of employment opportunities that would have existed even without the pandemic. Given the working-hour losses, it is estimated that the pandemic caused a loss of 53.6 million FTE jobs across OIC countries in 2020, accounting for a fifth of the global loss (see *Figure 1.9*). Three

quarters of this loss occurred in ten populous OIC countries, namely Indonesia, Bangladesh, Pakistan, Nigeria, Turkey, Egypt, Malaysia, Morocco, Uganda, and Iran (Figure 2.12).

Employment losses, due to rising unemployment or shift to inactivity, caused the employment-to-population ratio (EPR)¹ to fell to a historically low level of 54.9% globally in 2020, compared with 57.6% in the previous year (Figure 2.13),

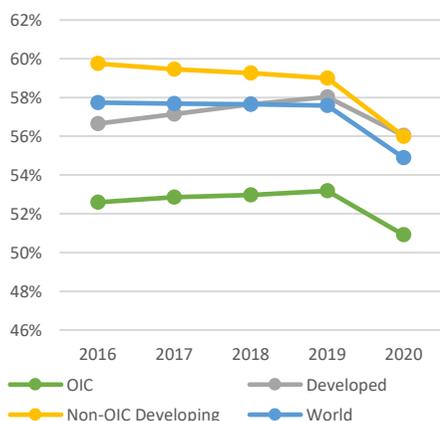
reflecting a wider gap between employment growth and population growth. According to estimates by ILO (2021b), EPR is expected to rise by 1 percentage point to 55.9% in 2021 and further to 56.6% in 2022, yet remaining below its 2019 level. In OIC countries, EPR dropped by 2.3 percentage points to 50.9% in 2020, the lowest level ever seen given the available data dating back to the early '90s, while it had been relatively stable at around 53% for two decades before the pandemic. Although both developed and non-OIC developing countries also witnessed a fall in their EPR, they maintained a higher level than the global average. As a result, EPR continued to be lower in OIC countries than in the rest of the world (Figure 2.13).

Figure 2.12: Number of Jobs Lost Due to COVID-19 Pandemic in 2020 (FTE, thousands)



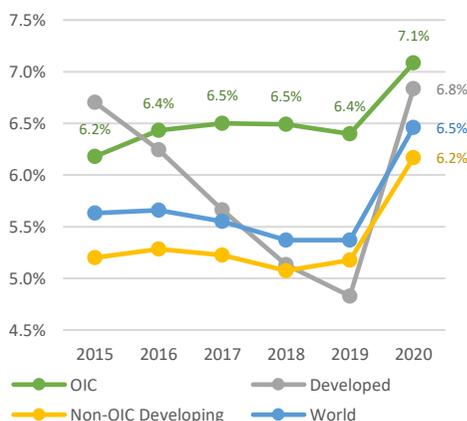
Source: ILOSTAT, ILO Modelled Estimates.
 Note: Working hours lost due to the COVID-19 crisis expressed as FTE jobs, based on 48 hours per week. The numbers in brackets indicate the share of the respective country in OIC total.

Figure 2.13: Employment-to-Population Ratio



Source: SESRIC staff calculation based on ILOSTAT, ILO Modelled Estimates, November 2020.
 Data coverage: 57 OIC countries, 94 non-OIC developing countries, and 38 developed countries.

Figure 2.14: Unemployment Rate



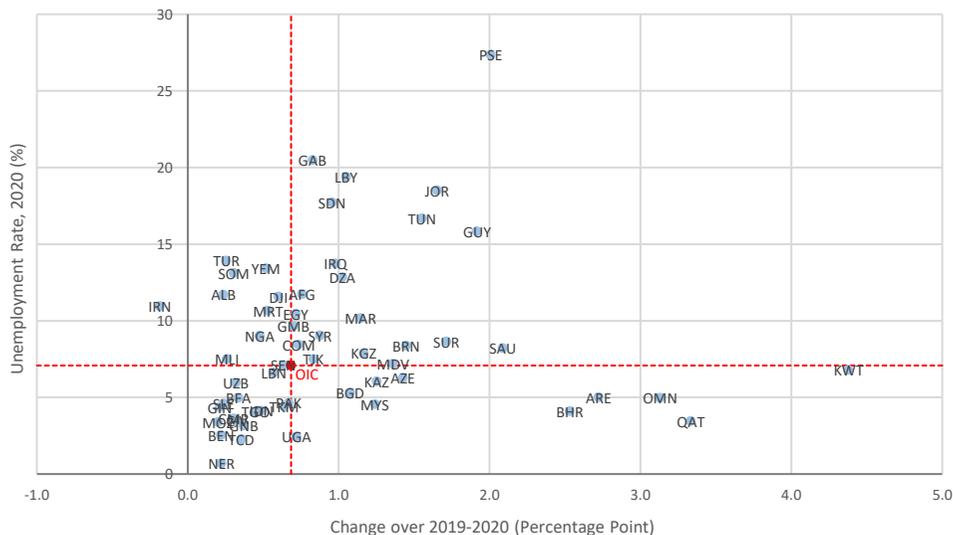
As the pandemic transformed from a public health crisis into an employment crisis, millions of people across the OIC were pushed into unemployment in 2020. According to data from ILO, the

¹ A high employment-to-population ratio means that a large proportion of a country's working age population is employed, while a low ratio means that a large share of the population is not involved directly in market-related activities, because they are either unemployed or out of the labour force altogether.



number of unemployed in OIC countries increased by over 4 million to reach 49.3 million in 2020. Consequently, the unemployment rate bounced to 7.1% in that year, up 0.7 percentage points from 6.4% in 2019. Although the unemployment rate increased to a larger extent in both developed (+2.0 percentage points) and non-OIC developing countries (+1.0 percentage point), it still remained higher in OIC countries (*Figure 2.14*).

Figure 2.15: Unemployment Rate in OIC Countries: 2019 vs. 2020



Source: ILOSTAT, ILO Modelled Estimates, November 2020.

Note: See Annex A for the country codes.

The latest available data show that, in 2020, the unemployment rate increased in all OIC member countries except Iran (*Figure 2.15*). The highest increases were recorded in member countries in the Middle East. Kuwait witnessed an increase by 4.4 percentage points, followed by Qatar (3.3), Oman (3.1), United Arab Emirates (2.7), Bahrain (2.5), and Saudi Arabia (2.1). Nevertheless, despite such high increments, unemployment rate in those countries –except Saudi Arabia– remained below the OIC average. Varied greatly among OIC countries, the unemployment rate was as high as 27.3% in Palestine, followed by Gabon (20.5%), Libya (19.4%), Jordan (18.5%), and Sudan (17.7%). At the other side of the spectrum, it was as low as 0.7% in Niger (the second lowest in the world after Cambodia), 2.3% in Chad, 2.4% in Uganda, 2.5% in Benin, and 3.2% in Guinea Bissau.

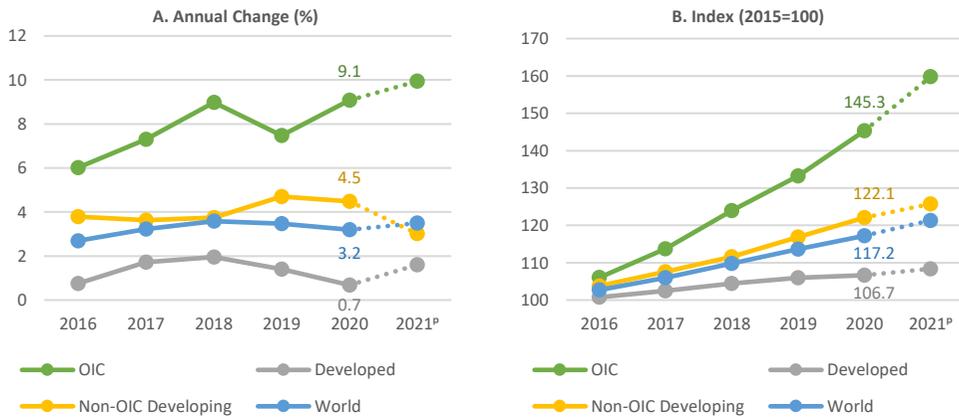
Inflation

Inflation rose to 9.1% while it declined worldwide

With the collapse in economic growth rates due to the pandemic crisis, consumer price inflation – measured by the consumer price index (CPI) – fell in most countries across the world in 2020. Nevertheless, unlike the global inflation rate, which declined 0.3 percentage points to 3.2%, inflation in OIC countries rose sharply to 9.1% in 2020, compared with 7.5% in 2019. Considering that the inflation rate declined down to 0.7% in developed countries and to 4.5% in non-OIC developing countries, OIC countries, on average, continued to have a higher inflation rate in

2020. This trend is expected to continue in 2021 as well, given that inflation is projected to further rise to 9.9% in OIC countries but only to 3.5% in the world (Figure 2.16.A).

Figure 2.16: Inflation Rate (Annual Average Consumer Prices)

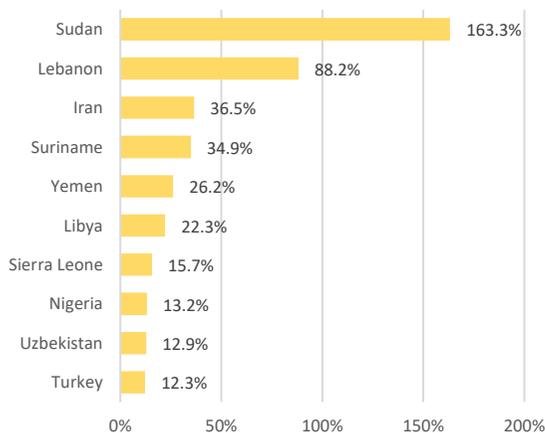


Source: SESRIC staff calculation based on IMF, World Economic Outlook, April 2021.

Note: P= Projection. Group averages are calculated as a weighted average of national price indices, with the weights being each respective country's GDP in current international dollars based on PPP. The group of non-OIC developing countries excludes Venezuela. Data coverage: 56 OIC countries, 91 non-OIC developing countries, and 39 developed countries.

With the inflation rates observed in the 5-year period from 2016 to 2020, average consumer prices in OIC countries were 45.3% higher in 2020 compared to 2015, which was considerably above the world average increase of 17.2%. In the same period, average prices increased by 22.1% in non-OIC developing countries and only by 6.7% in developed countries (Figure 2.16.B).

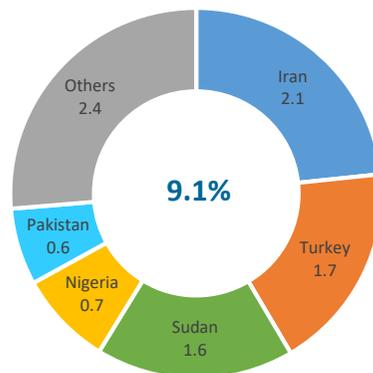
Figure 2.17: Top 10 OIC Countries by Inflation Rate, 2020



Source: IMF, World Economic Outlook, April 2021.

Note: Annual average change in CPI. Data coverage: 55 OIC countries

Figure 2.18: Largest Contributors to Inflation, 2020 (percentage points)

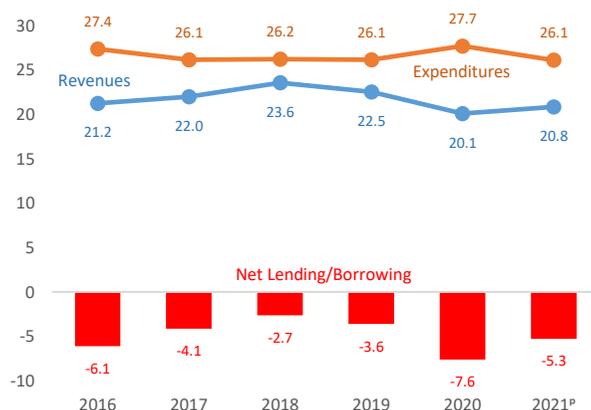


Among OIC countries, Sudan recorded the highest inflation rate of 163.3% in 2020, which was also the third highest in the world after Venezuela and Zimbabwe. Then came Lebanon, Iran, Suriname, and Yemen, all among the top 10 countries with the highest inflation in the world. Libya, Sierra Leone, Nigeria, Uzbekistan, and Turkey completed the top ten list in the OIC (Figure



2.17). In 2020, there were also OIC countries with a negative inflation rate, reporting a decline in annual average consumer prices over the previous year. These countries, mostly Middle Eastern, were Qatar (-2.7%), Bahrain (-2.3%), United Arab Emirates (-2.1%), Maldives (-1.6%), Malaysia (-1.1%), Oman (-0.9%), and Palestine (-0.7%). Overall, Iran, Turkey, Sudan, Nigeria, and Pakistan –given their weight in the OIC economy– were the largest contributors to the average inflation rate in the OIC in 2020 (9.1%), accounting for approximately three quarters of the rate (Figure 2.18).

Figure 2.19: Government Fiscal Balance in the OIC (% of GDP)



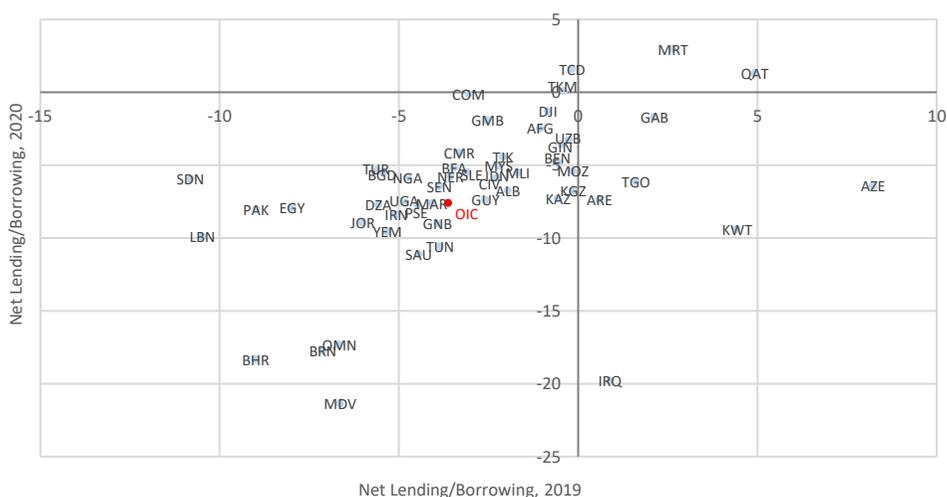
Source: IMF, World Economic Outlook, April 2021.
Data coverage: 55 OIC countries (53 for the 2021 projection)

Fiscal Balance

Only 4 countries with a fiscal surplus in 2020

As mentioned earlier in the previous chapter, the fiscal measures implemented to contain the effects of the pandemic, combined with reduced government revenues due to the economic downturn, have led to historically high government deficits all around the globe (see Figure 1.17 above). Deficits have also expanded in OIC countries, averaging at 7.6% of GDP in 2020, compared with 3.6% in the previous year. This expansion in deficits resulted from the increase in expenditures from 26.1% to 27.7% of GDP and the concurrent decrease in revenues from 22.5% to 20.1% of GDP. Current projections for the year 2021 signal for a decline in expenditures to

Figure 2.20: Government Fiscal Balance in OIC Countries: 2019 vs. 2020 (% of GDP)



Source: IMF, World Economic Outlook, April 2021.

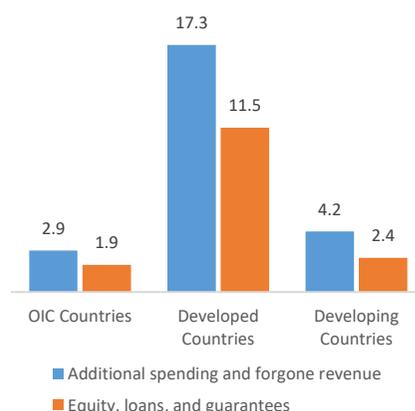
Note: Libya and Suriname could not be shown on the chart due to their large values. Data for 2019 and 2020, respectively, are -24.0% and -103.0% for Libya and -21.2% and -16.9% for Suriname. See Annex A for the country codes.

26.1% of GDP and an increase in revenues to 20.8% of GDP, resulting in a reduction in deficits to 5.3% of GDP, still above the pre-pandemic levels (*Figure 2.19*).

In 2020, of the 55 OIC countries with available data, only eleven² witnessed an improvement in their fiscal balance as percent of GDP as compared to the previous year and only four recorded a surplus, namely Mauritania, Chad, Qatar, and Turkmenistan (*Figure 2.20*). In 2019, the number of OIC countries with a surplus was eight, namely Azerbaijan, Qatar, Kuwait, Mauritania, Gabon, Togo, Iraq, and the United Arab Emirates. For countries with high dependence on commodity and primary goods exports, the deterioration in fiscal balances could be largely attributed to disruptions in commodity markets, where prices declined sharply because of tumbling global demand, with oil prices particularly affected due to a large contraction in travel and transport activities. The countries of which fiscal balance deteriorated the most were Libya, Iraq, Maldives, Azerbaijan, and Kuwait. In 2020, fiscal deficits reached as high as 103.0% of GDP in Libya, followed by Maldives (21.4%), Iraq (19.8%), Bahrain (18.3%), Brunei (17.7%), and Oman (17.3%).

Concerning the fiscal support channelled for mitigating the impact of the pandemic, available data show that OIC countries, on average, provided relatively limited support in proportion to their GDP as compared to both developed and developing countries. Support in the form of additional spending and foregone revenue averaged at 2.9% of GDP in the OIC, as compared to 17.3% in developed countries and 4.2% in developing countries. Similarly, the support provided in the form of loans, equity, and guarantees to mitigate the impacts of COVID-19 amounted to 1.9% of GDP in OIC countries while this ratio reached up to 11.5% in developed countries and 2.4% in developing countries (*Figure 2.21*). At the individual country level, additional spending and foregone revenue was as high as 6.9% of GDP in Maldives, followed by Guinea Bissau (6.7%), Togo (6.2%), Kyrgyz Republic (6.1%), and Chad (5.8%). Top countries that provided loans, equity, and guarantees included Turkey (9.5%), Morocco (4.6%), Malaysia (3.5%), Kazakhstan (2.9%), and Azerbaijan (2.7%).

Figure 2.21: Government Fiscal Support in Response to COVID-19 (Percent of 2020 GDP)



Source: IMF, Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, July 2021. Note: Data refers to the period from January 2020 to June 5, 2021. Data coverage: 52 OIC countries, 92 non-OIC developing countries, and 37 developed countries. Country group averages are weighted by the 2020 GDP in PPP.

Merchandise Trade

Exports and imports further down by 17.0% and 8.3%, respectively

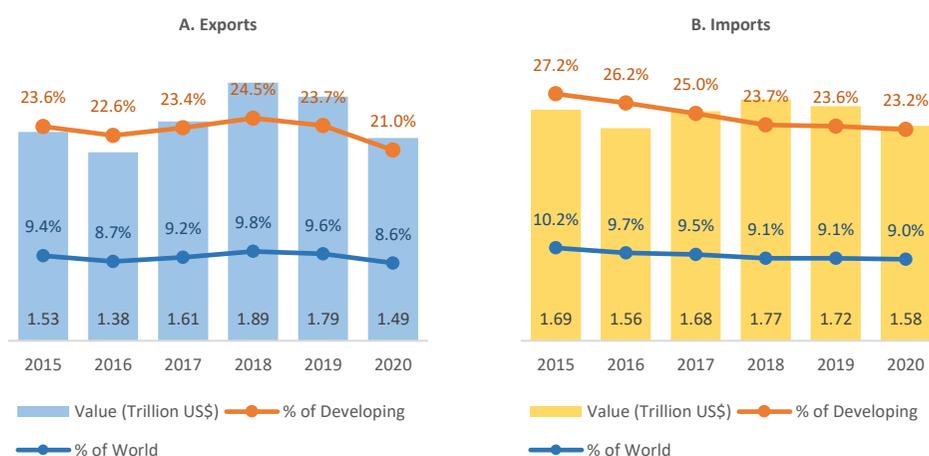
According to the IMF data (Direction of Trade Statistics – DOTS), the annual value of global merchandise trade, after falling by 2.7% in 2019, further declined by 7.3% in 2020 amidst the

² Sudan, Suriname, Comoros, Chad, Pakistan, Gambia, Lebanon, Turkmenistan, Mauritania, Turkey, and Egypt, listed in descending order by the magnitude of improvement.



pandemic. Both exports and imports of OIC countries followed a parallel course, though sharper declines were experienced particularly in exports. Falling already by 5.4% in 2019, merchandise exports of OIC countries further fell by 17.0% in 2020. Merchandise imports declined by 8.3% in 2020 following a drop of 2.8% in the previous year. Consequently, the exports, which declined to US\$ 1.49 trillion in 2020, accounted for a smaller share of the global exports; 8.6% in 2020 compared with 9.6% in 2019. The imports, which declined to US\$ 1.58 trillion, also had a somewhat lower share in global imports, declining from 9.1% in 2019 to 9.0% in 2020. Compared to the performance of developing countries, exports and imports of OIC countries also fell to a larger extent in 2020, given that the share of OIC countries in total exports and in total imports of developing countries also declined, from 23.7% to 21.0% in the former and from 23.6% to 23.2% in the latter (*Figure 2.22*).

Figure 2.22: International Merchandise Trade of OIC Countries



Source: IMF, Direction of Trade Statistics (DOTS).

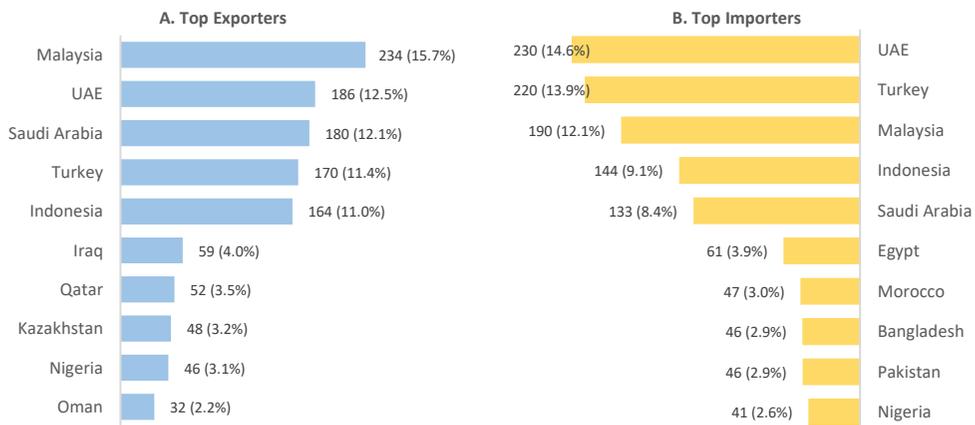
Note: Exports are valued on a free-on-board (FOB) basis while imports are valued on a cost, insurance, and freight (CIF) basis.

Data coverage: 57 OIC countries, 116 non-OIC developing countries, and 37 developed countries.

In terms of the share of individual member countries in total merchandise exports from the OIC group, it is observed that the bulk of total exports continued to be concentrated in a few countries (*Figure 2.23.A*). In 2020, the largest five exporters accounted for 62.8% of total merchandise exports of all member countries while the largest ten accounted for 78.7%. Malaysia, with US\$ 234 billion worth of merchandise exports and a 15.7% share in total OIC exports, became the largest OIC exporter in 2020. It was followed by the United Arab Emirates (US\$ 186 billion, 12.5%), Saudi Arabia (US\$ 180 billion, 12.1%), Turkey (US\$ 170 billion, 11.4%), and Indonesia (US\$ 164 billion, 11.0%). Additionally, Iraq, Qatar, Kazakhstan, Nigeria, and Oman took place in the list of the top 10 exporters in the OIC in 2020.

As in the case of exports, merchandise imports of OIC countries were also heavily concentrated in a few countries in 2020. As depicted in *Figure 2.23.B*, with US\$ 230 billion of imports, the United Arab Emirates took the lead as the top importer, accounting for 14.6% of the total OIC imports. It was followed by Turkey (US\$ 220 billion, 13.9%), Malaysia (US\$ 190 billion, 12.1%), Indonesia (US\$ 144 billion, 9.1%), and Saudi Arabia (US\$ 133 billion, 8.4%). Accordingly, these

Figure 2.23: Major OIC Countries in International Merchandise Trade, 2020 (US\$, billion)



Source: IMF, Direction of Trade Statistics (DOTS).

Note: The numbers in brackets indicate the share of the respective country in OIC total. Data coverage: 57 OIC countries.

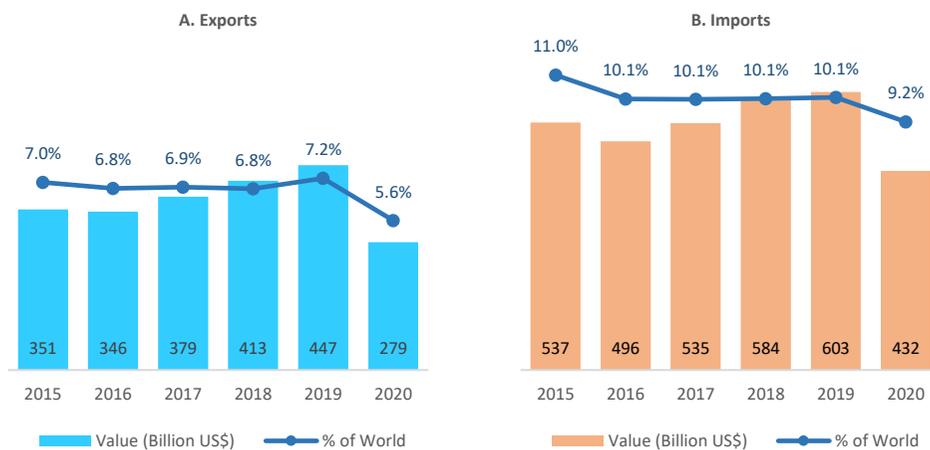
largest five importers accounted for 58.1% of the total OIC merchandise imports, while for the largest ten countries, which additionally included Egypt, Morocco, Bangladesh, Pakistan, and Nigeria, this ratio reached 73.4%.

Services Trade

The pandemic affected OIC countries more severely

The impact of the pandemic on international trade has been more critical in services than in goods. The value of global trade in services shrank by one fifth in 2020 from the previous year, according to the statistics from the World Trade Organization (WTO). OIC countries experienced even a greater fall in services trade. Their services exports plummeted 37.6% and amounted to US\$ 279 billion, such that their share in global services exports dropped down to 5.6% in 2020 compared with 7.2% a year earlier (Figure 2.24.A). Similarly, their services imports fell by 28.4% and amounted to US\$ 432 billion, with their share in global services imports falling to 9.2% in 2020 from a constant share of 10.1% during the previous four years (Figure 2.24.B).

Figure 2.24: International Services Trade of OIC Countries

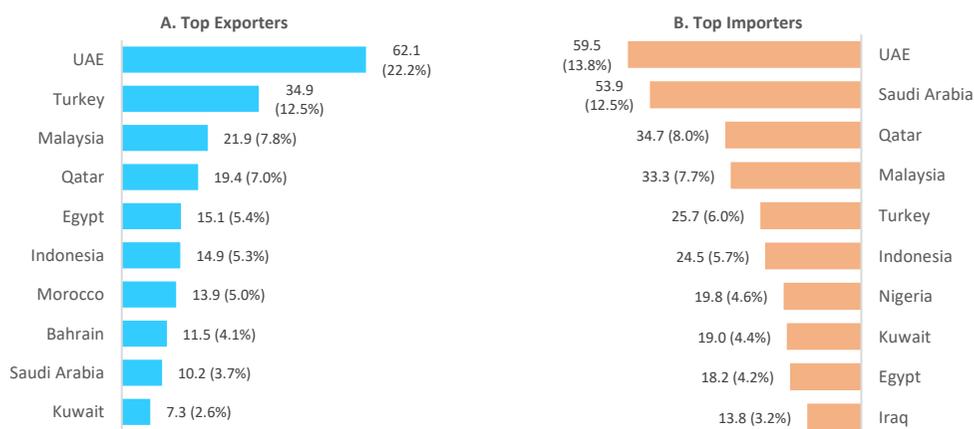


Source: WTO, Data Portal.



As in the case of merchandise trade, services trade of OIC countries was also concentrated in a few countries in 2020. United Arab Emirates, with US\$ 62.1 billion worth of services exports and a 22.2% share in total services exports of the OIC, was the top exporter in services. It was followed by Turkey (US\$ 34.9 billion, 12.5%), Malaysia (US\$ 21.9 billion, 7.8%), Qatar (US\$ 19.4 billion, 7.0%) and Egypt (US\$ 15.1 billion, 5.4%) (*Figure 2.25.A*). Together, these five countries accounted for 54.9% of the total. For the largest ten exporters that also included Indonesia, Morocco,

Figure 2.25: Major OIC Countries in International Trade in Services, 2020 (US\$, billion)



Source: WTO, Data Portal.

Note: The numbers in brackets indicate the share of the respective country in OIC total. Data coverage: 48 OIC countries.

Bahrain, Saudi Arabia, and Kuwait, this ratio increased up to 75.6%. Regarding services imports, United Arab Emirates was the leading importer as well, registering a value of US\$ 59.5 billion that made up 13.8% of the total services imports of the OIC. It was followed by Saudi Arabia (US\$ 53.9 billion, 12.5%), Qatar (US\$ 34.7 billion, 8.0%), Malaysia (US\$ 33.3 billion, 7.7%), and Turkey (US\$ 25.7 billion, 6.0%) (*Figure 2.25.B*). While these largest five importers accounted for 48.0% of the total, this ratio reached up to 70.0% for the largest ten countries that additionally included Indonesia, Nigeria, Kuwait, Egypt, and Iraq.

Trade Balance

OIC countries are net importers in both merchandise and services trade

The above analyses on merchandise trade and services trade indicate that OIC countries are not taking enough role in global trade. With an over-proportional decline in their trade flows observed in 2020, their contribution to the global flow of goods and services remained below their potential. Inadequate levels of capacity in manufacturing and services and high dependence on commodity and primary goods exports make them more vulnerable to global shocks –as in the case of the current pandemic– and less competitive in international markets to become net exporters of both goods and services.

OIC countries, on aggregate terms, became a net importer in merchandise trade in 2020, with a trade deficit amounting to US\$ 90 billion as compared to a surplus of US\$ 70 billion in the previous year (*Figure 2.26*). Individually, Turkey (US\$ 50 billion), United Arab Emirates (US\$ 44 billion), Egypt (US\$ 34 billion), Pakistan (US\$ 24 billion), and Morocco (US\$ 22 billion) recorded

the largest deficits. On the other hand, 19 member countries reported a surplus in 2020, the largest being by Saudi Arabia (US\$ 48 billion), followed by Malaysia (US\$ 44 billion), Qatar (US\$ 26 billion), Iraq (US\$ 23 billion), and Indonesia (US\$ 20 billion).

In services trade, OIC countries remained a net importer of services over the period under consideration. The aggregate deficits of OIC countries in services trade amounted to US\$ 152 billion in 2020, almost the same as in the previous year

(US\$ 155 billion) (Figure 2.26). Of the 48 countries with available data, only eight countries³ did report a positive balance in 2020, compared with 13 countries in 2019. The surpluses reached up to US\$ 9.2 billion in Turkey, followed by Morocco with US\$ 6.8 billion and United Arab Emirates with US\$ 2.6 billion. At the other side of the spectrum, deficits reached as high as US\$ 44 billion in Saudi Arabia, followed by Nigeria with US\$ 16 billion and Qatar with US\$ 15 billion.

Figure 2.26: Aggregate Trade Balance of OIC Countries (US\$, billion)



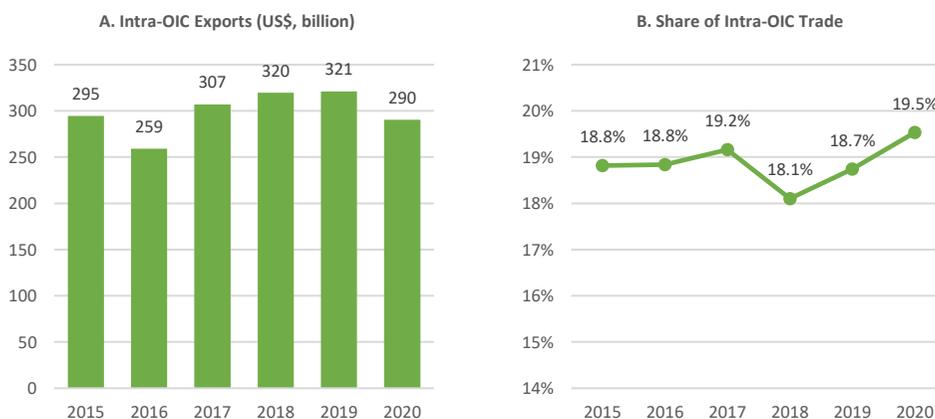
Source: IMF, Direction of Trade Statistics (DOTS); WTO, Data Portal.

Intra-OIC Trade

Share of intra-OIC trade at highest level as trade collapses

The sharp fall in total merchandise exports of OIC countries (17.0%) under the pandemic conditions of 2020 was – in small part – due to a decline in the trade among OIC countries. While their exports to non-OIC countries shrank 18.5%, intra-OIC exports decreased to a lesser extent, by 9.5% to US\$ 290 billion in 2020 (Figure 2.27.A). Similarly, the previous year, intra-OIC exports increased slightly by 0.4% despite the fall in their total exports by 5.4%. These developments translated into an increase in the share of intra-OIC trade in total trade of OIC countries in the

Figure 2.27: Intra-OIC Merchandise Trade



Source: SESRIC staff calculation based on IMF, Direction of Trade Statistics (DOTS).

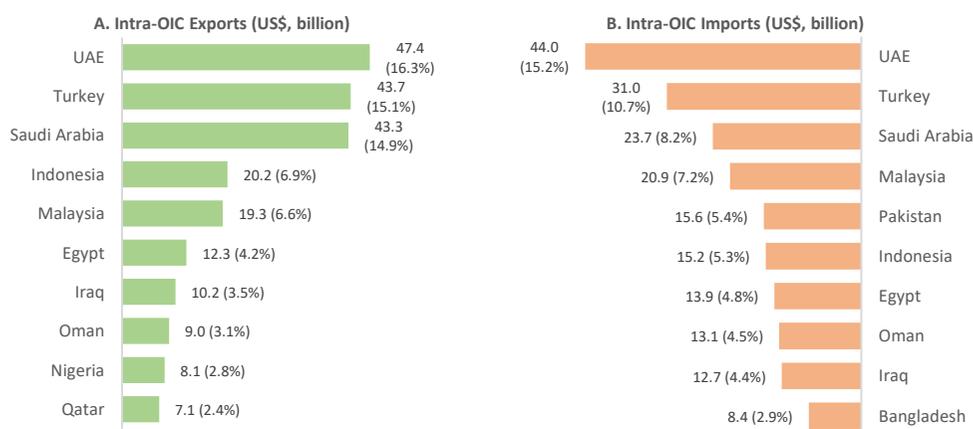
³ Turkey, Morocco, United Arab Emirates, Bahrain, Albania, Maldives, Togo, and Gambia.



last two years, from 18.1% in 2018 to 18.7% in 2019 and 19.5% in 2020, the highest rate achieved in the last decade (*Figure 2.27.B*). However, the sluggish growth in intra-OIC trade flows reduces the prospects for achieving the 25% target set in the OIC Ten-Year Programme of Action (OIC-2025).

Among OIC countries, the United Arab Emirates was the largest exporter to OIC member countries in 2020. The country's total exports to other member countries amounted to US\$ 47.4 billion that accounted for 16.3% of the total intra-OIC exports. It was followed by Turkey (US\$ 43.7 billion, 15.1%), Saudi Arabia (US\$ 43.3 billion, 14.9%), Indonesia (US\$ 20.2 billion, 6.9%), and Malaysia (US\$ 19.3 billion, 6.6%). Only the top four countries together accounted for over half (53.2%) of the total intra-OIC exports, while this ratio reached up to 76.0% for the top 10 countries (*Figure 2.28.A*).

Figure 2.28: Major OIC Countries in Intra-OIC Merchandise Trade, 2020



Source: SESRIC staff calculation based on IMF, Direction of Trade Statistics (DOTS)

Note: The numbers in brackets indicate the share of the respective country in OIC total.

As for intra-OIC imports, the United Arab Emirates was also the largest importer from OIC member countries in 2020. Its total imports from other member countries amounted to US\$ 44.0 billion, accounting for 15.2% of the total intra-OIC imports. It was followed by Turkey (US\$ 31.0 billion, 10.7%), Saudi Arabia (US\$ 23.7 billion, 8.2%), Malaysia (US\$ 20.9 billion, 7.2%), and Pakistan (US\$ 15.6 billion, 5.4%). These largest five importers together accounted for 46.7% of the total intra-OIC imports in 2020 while this ratio reached up to 68.5% for the largest 10 importers (*Figure 2.28.B*).

Current Account Balance

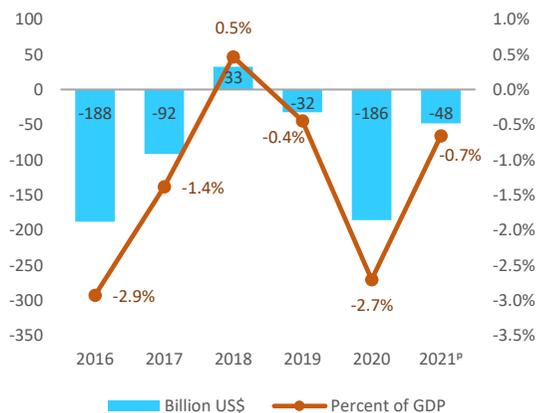
Deficits widened to US\$ 186 billion

OIC countries, on aggregate terms, have recorded current account deficits every year since 2015, with the exception of 2018, when they had a surplus of US\$ 33 billion. In 2020, the deficits increased to US\$ 186 billion, 5.7 times the deficits in the previous year (US\$ 32 billion). Thus, the 2020 deficits were 2.7% of GDP, up from 0.4% in 2019 (*Figure 2.29*). Given that the deficits in services trade actually decreased by US\$ 3 billion in 2020, as illustrated by *Figure 2.26* above, the deterioration in the balance of merchandise trade (from a surplus of US\$ 70 billion in 2019 to a

deficit of US\$ 90 billion in 2020) contributed significantly to the widening current account deficits. Looking ahead, the IMF projections signal for narrowing deficits to US\$ 48 billion or 0.7% of GDP in 2021.

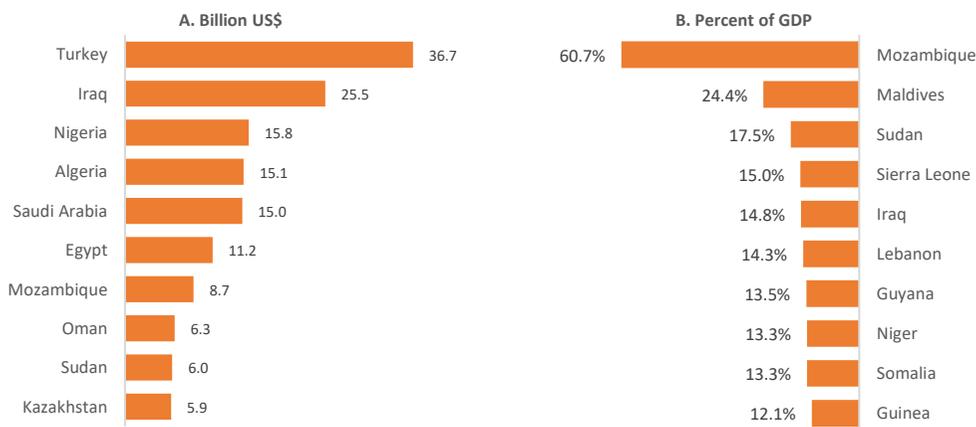
Among OIC countries, Turkey recorded the largest current account deficit in nominal terms in 2020, amounting to US\$ 36.7 billion. It was followed by Iraq (25.5), Nigeria (15.8), Algeria (15.1), Saudi Arabia (15.0), and Egypt (11.2) (Figure 2.30.A). As a percent of GDP, the deficit was as high as 60.7% in Mozambique, 24.4% in Maldives, 17.5% in Sudan, 15.0% in Sierra Leone, 14.8% in Iraq (Figure 2.30.B), while it was also 10% or above in 13 other OIC countries⁴.

Figure 2.29: Aggregate Current Account Balance of OIC Countries



Source: IMF, World Economic Outlook, April 2021.
Data coverage: 56 OIC countries.

Figure 2.30: OIC Countries with the Largest Current Account Deficits, 2020



Source: IMF, World Economic Outlook, April 2021.

Foreign Direct Investment

Share of OIC countries in global FDI inflows reached up to 10%

The dramatic one-third fall (34.7%) in global FDI inflows in 2020 due to the pandemic crisis resulted largely from a 58.3% drop in flows to developed countries, compared to a 12.1% drop in developing countries. Flows to OIC countries followed a similar course as developing countries and fell 12.5%. It is noteworthy that the annual fall in global FDI inflows was less severe during the global financial crisis of 2008/2009, -21.9% in 2008 and -16.8% in 2019 (Figure 2.31). With

⁴ Mauritania, Libya, Senegal, Albania, Algeria, Bahrain, Guinea-Bissau, and Oman in addition to those presented on Figure 2.30.B.



the outbreak of the crisis in developed countries, FDI flows towards them plummeted by 38.9% in 2008 whereas flows towards developing countries and OIC countries increased by 14.2% and 13.3%, respectively. As the crisis spread out to developing countries, however, flows into the developing world contracted more severely in 2009, even at higher rates than in 2020.

Figure 2.31: Annual Change in FDI Inflows during the Crises: 2008/2009 vs. 2020

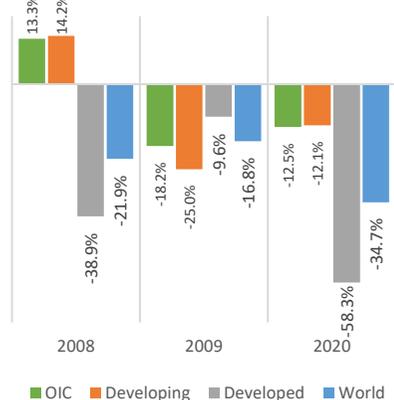


Figure 2.32: FDI Inflows to OIC Countries



Source: SESRIC staff calculation based on data from UNCTAD, *World Investment Report 2021, Annex Tables*.

Data coverage: 55 OIC countries. Developing countries also include transition economies, which are classified separately by UNCTAD.

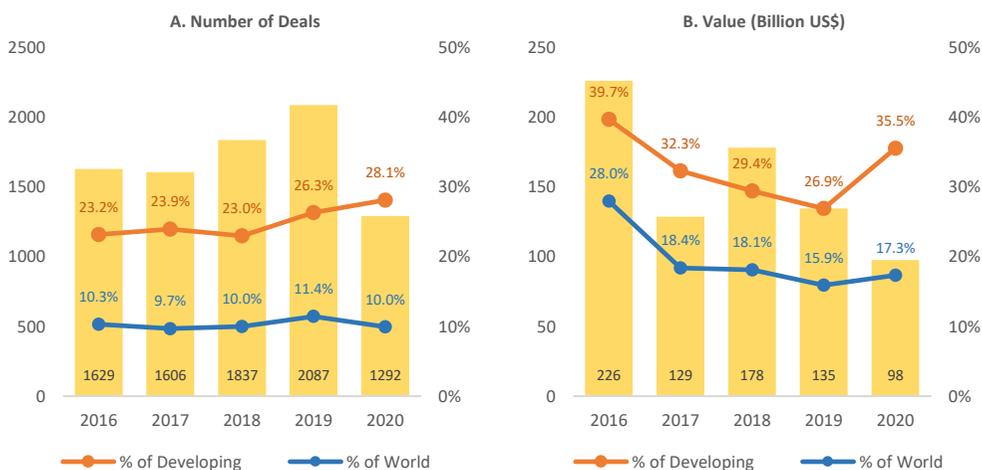
With the moderate fall in 2020, FDI flows towards OIC countries amounted to US\$ 100 billion in 2020 compared to US\$ 114 billion in 2019 (Figure 2.32). The more resilient pattern in flows to OIC countries and to developing countries as a whole resulted in an increase in their share in global FDI inflows in 2020. While the share of developing countries reached as high as 69%, the share of OIC countries rose up to 10.0%, the highest rate in the last decade. The share of OIC countries in flows to developing countries was measured at 14.6% in 2020 and has remained almost unchanged in the last 5-year period due to parallel trends in flows towards the two groups.

Greenfield investments⁵, which are of particular importance to developing countries due to greater growth and employment opportunities they have to offer, dropped by 33.3% globally to a record low level of US\$ 564 billion in 2020. However, compared to the patterns in overall FDI inflows, greenfield investments showed a steeper decline in developing countries (45.1%) than in developed countries (16.4%). In OIC countries, the decline was also substantial, both in value and in the number of announced greenfield FDI projects (Figure 2.33). The number of projects fell by 38.1% to 1292 –the lowest since 2008– while the value of the projects fell by 27.4% to US\$ 98 billion –below US\$ 100 billion for the first time, with available data dating back to 2003. Accordingly, in terms of the number of projects, OIC member countries accounted for 10.0% of the world total in 2020, compared with 11.4% in 2019, while their share in the total for developing countries increased from 26.3% to 28.1%. In terms of the value of

⁵ A form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up instead of buying an existing facility in that country. These investment types are crucial for the development of productive capacity and infrastructure and for the prospects for a sustainable recovery (UNCTAD, 2021a).

projects, their share increased both in the world total and in the total for developing countries, from 15.9% to 17.3% and from 26.9% to 35.5%, respectively.

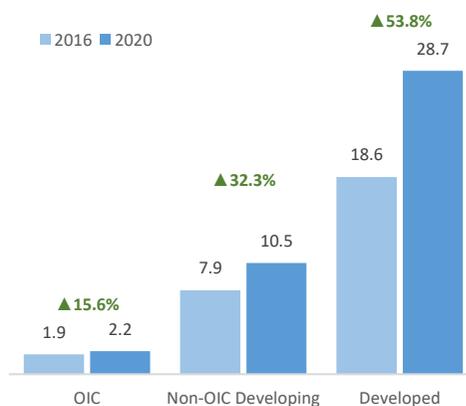
Figure 2.33: Announced Greenfield Investment Projects Destined to OIC Countries



Source: UNCTAD, *World Investment Report 2021, Annex Tables*.

With the developments above, global inward FDI stock reached US\$ 41.4 trillion in 2020, up 45.3% from the level in 2016. In the same 5-year period, FDI stocks increased only by 15.6% to US\$ 2.2 trillion in OIC countries while they increased by a third (32.3%) in non-OIC developing countries and by half (53.8%) in developed countries (Figure 2.34). Thus, OIC countries hosted a smaller share of the global inward FDI stocks in 2020 (5.2%) than in 2016 (6.6%). The bulk of global stocks continued to be hosted by developed countries, which had a share of 69.4% in 2020.

Figure 2.34: Inward FDI Stock (US\$, trillion)



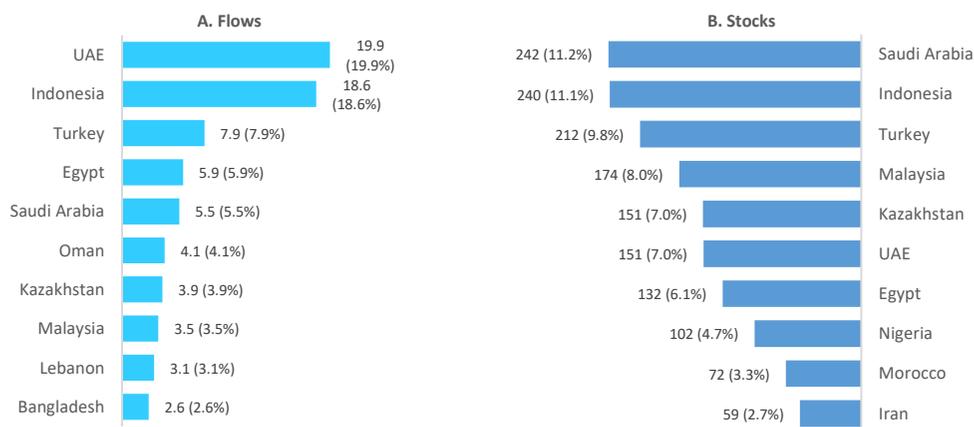
Source: UNCTAD, *World Investment Report 2021, Annex Tables*. Data coverage: 56 OIC countries.

As is the case with other major macroeconomic aggregates, inward FDI flows and stocks, too, exhibited a high level of concentration among OIC countries, with the bulk of the flows persistently directed to only a few of them. Inflows to only the United Arab Emirates (US\$ 19.9 billion) and Indonesia (US\$ 18.6 billion) accounted for 38.5% of total inflows to all OIC countries in 2020. This ratio reached 57.7% for the top 5 countries and up to 74.8% for the top 10 countries (Figure 2.35.A).

In the case of inward FDI stocks, the top five countries, as of 2020, hosted 47.0% of the OIC total while the top ten countries accounted for a share of 70.8% (Figure 2.35.B). With US\$ 242 billion of inward FDI stocks (11.2% of the OIC total), Saudi Arabia ranked first among OIC countries. It was followed by Indonesia (US\$ 240 billion, 11.1%), Turkey (US\$ 212 billion, 9.8%), Malaysia (US\$ 174 billion, 8.0%), and Kazakhstan (US\$ 151 billion, 7.0%).



Figure 2.35: OIC Countries with the Largest Inward FDI, 2020 (US\$, billion)



Source: UNCTAD, *World Investment Report 2021, Annex Tables*.

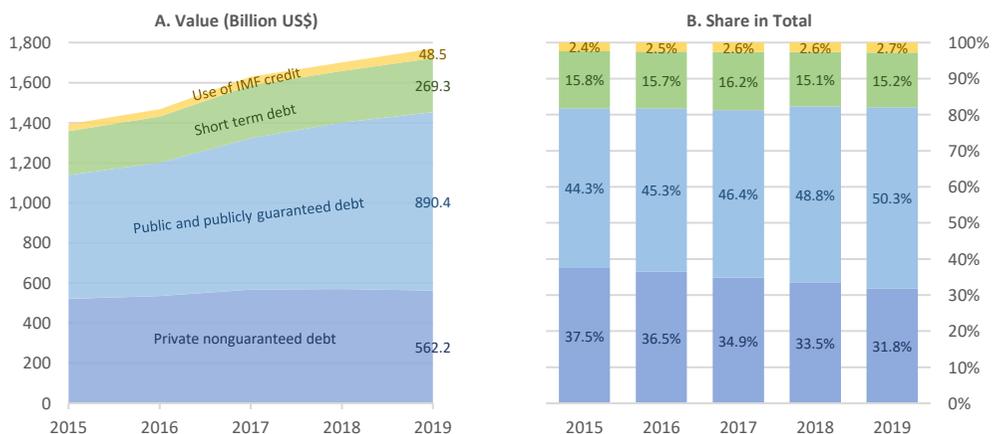
Note: The numbers in brackets indicate the share of the respective country in OIC total.

External Debt

Total external debt stock up 4.1% to US\$ 1.77 trillion in 2019

Total external debt stock of OIC countries increased by US\$ 69 billion or 4.1% to US\$ 1,770 billion in 2019, up from US\$ 1,701 billion in 2018. Public and publicly guaranteed debt, which expanded by US\$ 60.5 billion or 7.3% to US\$ 890.4 billion, contributed the most to this increase and continued to be the largest component of the total external debt stock of OIC countries (*Figure 2.36*). While this type of debt made up about one-third of the total external debt stock in the early 2000s, this ratio entered a downward trend in the following years, and after bottoming out at 42.6% in 2014, it steadily increased and reached 50.3% in 2019.

Figure 2.36: Total External Debt Stock of OIC Countries by Component



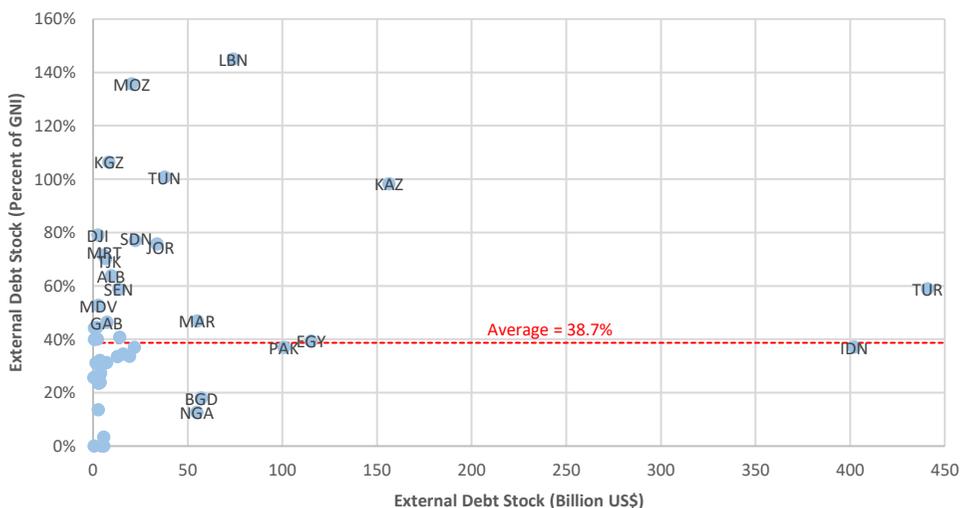
Source: World Bank, World Development Indicators.

Data Coverage: 45 OIC countries.

Private nonguaranteed debt decreased by US\$ 8.1 billion or 1.4% to US\$ 562.2 billion. As the second largest component of total external debt stock, it had a share of 31.8% in 2019, down from 37.5% in 2015. Overall, long-term debt stock, comprising public, publicly guaranteed, and

private nonguaranteed debt, amounted to US\$ 1,453 billion in 2019, up US\$ 52.4 billion or 3.7% from the previous year, and accounted for 82.0% of the total external debt stock. Short-term debt reached US\$ 269.3 billion in 2019, with an increase of US\$ 12.0 billion or 4.7% from the previous year, and maintained its share at around 15%. The smallest component of the total external debt stock, IMF credits were the component that increased proportionally the most. Compared to 2018, they increased by 10.5% or US\$ 4.6 billion to US\$ 48.5 billion in 2019, constituting 2.7% of the total external debt stock.

Figure 2.37: Indebtedness of OIC Countries, 2019



Source: World Bank, World Development Indicators.

Note: See Annex A for the country codes. Data coverage: 45 OIC countries.

Among OIC countries, Indonesia's total external debt stock increased the most in nominal terms (by US\$ 22.5 billion) over 2018/2019. Egypt and Pakistan followed with an increase of US\$ 14.9 billion and US\$ 7.3 billion, respectively. On the other hand, 10 out of the 45 countries with debt data recorded a decrease in their debt stock over the same period, namely Lebanon, Turkey, Iran, Kazakhstan, Azerbaijan, Turkmenistan, Albania, Algeria, Afghanistan, and Guyana. As of 2019, Turkey remained the most indebted OIC member country in nominal terms with a total external debt value of US\$ 441 billion, accounting for 24.9% of the total external debt stock of the OIC countries for which data were available. Turkey was followed by Indonesia (US\$ 402 billion), Kazakhstan (US\$ 156 billion), Egypt (US\$ 115 billion), and Pakistan (US\$ 101 billion) (Figure 2.37). Turkey and Indonesia together accounted for almost half (47.6%) of the total external debts of OIC countries in 2019.

In terms of the debt burden in relation to a country's economic size, however, Lebanon was the most indebted OIC country in 2019, with its external debt stock almost 1.5 times its gross national income (GNI), to be more precise a debt-to-GNI ratio of 144.9%. It was followed by Mozambique (135.7%), Kyrgyz Republic (106.4%), Tunisia (100.8%), and Kazakhstan (98.3%) (Figure 2.37). Debt-to-GNI ratio averaged at 38.7% for OIC countries in 2019, up 0.4 percentage points from the previous year. Sudan recorded the largest increase in the ratio, by 10.7 percentage points, followed by Tunisia (9.3), Guinea Bissau (6.9), Pakistan (6.7), and Mozambique (6.4).



In the face of the COVID-19 pandemic, many OIC countries adopted significant economic stimulus packages to buffer the impacts of the pandemic and protect affected businesses and households. Some of them face considerable constraints in operationalizing effective stimulus packages due to revenue losses and falls in their reserves. Financial turmoil in global financial markets has already triggered capital flights, a reversal of investment flows and currency devaluations. Together with significant revenue losses, debt servicing becomes particularly challenging for governments, with a higher likelihood of bankruptcies and further economic failures. As a result, total external debts are expected to grow in many countries across the world, including the OIC countries due to huge public spending in response to the pandemic.

Reserves

New SDR allocation to boost reserves by US\$ 77 billion

At the outbreak of the COVID-19 crisis, developing countries faced unprecedented capital outflows, driven by sales of portfolio assets by foreign investors (OECD, 2020b), a usual pattern whereby international investors transfer capital back home or invest in safer assets during periods of uncertainty. Policy makers have relied on a variety of policy tools, including making use of international reserves, to cope with the pandemic crisis and the associated financial instabilities. In the face of global dollar liquidity shortages, some central banks in developing countries intervened in the foreign exchange market to support depreciating currencies, and several central banks have established or expanded swap lines to improve their foreign exchange reserves.

The capacity to use international reserves in times of crisis depends on the buffers built up over time, as well as the funding needs. Therefore, the COVID-19 crisis and the associated financial shocks have once again highlighted the need for having sufficient international reserve buffers to help preserving macroeconomic and financial stability in the face of such shocks. In this respect, given the differences in availability of reserves between countries, the shock has not been uniform across countries and they have not entered the crisis in the same way.

World total international reserves⁶ amounted to US\$ 14.5 trillion in 2020, with an increase of US\$ 1.2 trillion or 9.1% from the previous year (*Figure 2.38*). Nearly two-thirds (64%) of this increase originated from developed countries, which increased their reserves by US\$ 772 billion, or 13.6%, to US\$ 6.4 trillion. In developing countries, reserves increased by US\$ 423 billion, or 5.6%, to US\$ 8.0 trillion. Accordingly, developed countries increased their share in global reserves from 42.5% in 2019 to 44.3% in 2020, while developing countries continued to hold the greater part.

In OIC countries, the 2020 data available for 35 member countries indicate a decline in reserves by 3.2%, or US\$ 47 billion, as compared to 2019. Among the 12 countries that recorded a decrease in their reserves in 2020, Saudi Arabia took the lead with a decrease of US\$ 45.9 billion. It was followed by Algeria (US\$ 14.4 billion), Iraq (US\$ 13.6 billion), Turkey (US\$ 12.4 billion), and Lebanon (US\$ 9.8 billion). Among the other 23 countries with increasing reserves in 2020,

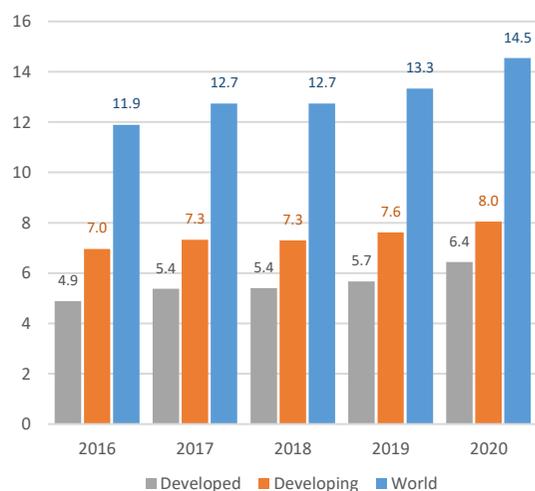
⁶ Total reserves comprise holdings of monetary gold, special drawing rights (SDRs), reserves of IMF members held by the IMF (reserve position in the IMF), and holdings of foreign exchange under the control of monetary authorities.

Bangladesh recorded the largest increase, US\$ 10.5 billion, followed by Morocco (US\$ 9.6 billion), Kuwait (US\$ 8.3 billion), Indonesia (US\$ 6.7 billion), and Kazakhstan (US\$ 6.7 billion). Overall, as of 2020, Saudi Arabia had the largest international reserves that amounted to US\$ 453.6 billion, followed by Indonesia (US\$ 135.9 billion), Malaysia (US\$ 107.6 billion), United Arab Emirates (US\$ 106.7 billion), and Turkey (US\$ 93.2 billion).

Reserves in months of imports⁷ improved in 2020 in all OIC countries for which data are available, except Turkey, Egypt, and Algeria, as shown by *Figure 2.39*. Among the countries with available data, only Turkey recorded an increase in imports in 2020, implying that the fall in imports contributed significantly to the improvement in reserve adequacy of OIC countries, despite a decline in reserves in some cases. Saudi Arabia, for example, improved its reserve adequacy in relation to imports by 2.9 percentage points in spite of a decline in its reserves by 9.2%, as its imports fell by a larger degree (17.9%). The country, with reserves equivalent to 30.3 months of imports, had the highest reserve adequacy in 2020. Uzbekistan followed it with enough reserves to cover 18.6 months of imports. Together with Afghanistan, Algeria, and Kuwait, only five OIC member countries had reserves equivalent to more than a year of imports.

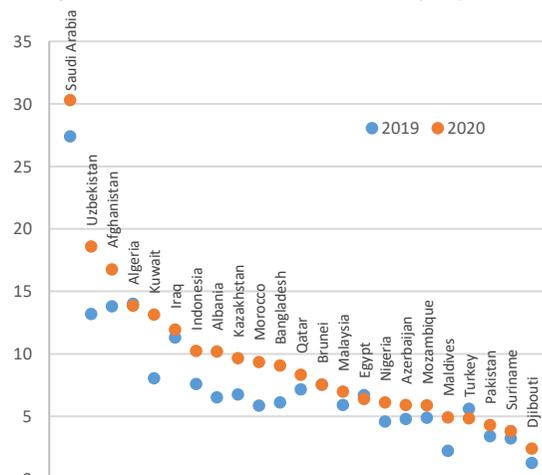
The general allocation of Special Drawing Rights (SDRs) equivalent to US\$ 650 billion⁸ to boost global liquidity and address the long-term global need for reserves (approved by the Board of Governors of the IMF on August 2, 2021) has improved the reserves of the IMF's current 190

Figure 2.38: Total Reserves Including Gold (US\$, trillion)



Source: IMF, International Financial Statistics.

Figure 2.39: Total Reserves in Months of Imports



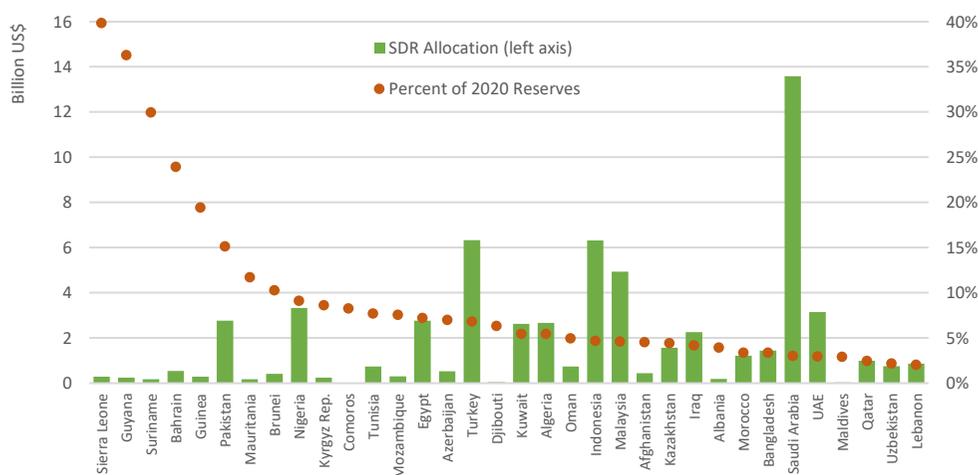
Source: IMF, International Financial Statistics.

⁷ A traditional indicator of reserve adequacy that shows the number of months a country can continue to support its current level of imports if all other inflows and outflows cease.

⁸ About SDR456 billion, given the reference exchange rate of 0.702283 SDR per USD as of July 1, 2021.



Figure 2.40: Contribution of the New SDR Allocation to Reserves of OIC Countries



Source: IMF, [2021 General SDR Allocation](#) (Last Updated: August 23, 2021).

Note: US\$ equivalent of SDRs is based on the exchange rate of 0.700346 SDR per US\$ as of August 23, 2021, the date the new SDRs became effective. The contribution to reserves has been expressed as a percentage of each country's total reserves in 2020, as provided by IMF, International Financial Statistics.

members. The allocation became effective on August 23, 2021, and the newly created SDRs were credited to IMF member countries in proportion to their existing quotas in the Fund. Accordingly, based on their SDR quota in the IMF, developing countries received about US\$ 250 billion of the new allocation while approximately US\$ 400 billion went to developed countries⁹. OIC member countries saw an increase of about US\$ 77 billion in their total international reserves due to this new SDR allocation. Accounting for 82% (US\$ 63 billion) of this amount, the 34 IMF-member OIC countries for which the 2020 reserves data are available have seen an increase in their total reserves at varying rates from 2 to 40% (Figure 2.40).

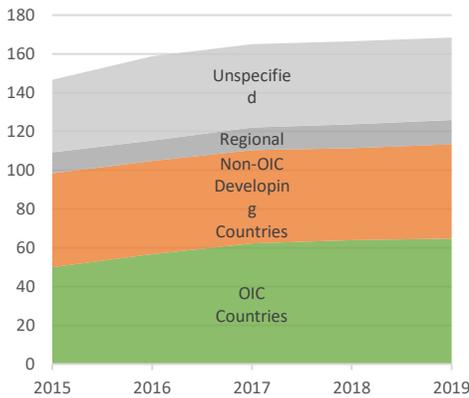
ODA & Remittances **Remittance inflows down 1.7% to US\$ 160 billion**

Provided to promote economic development and welfare in recipient countries and territories, Official Development Assistance (ODA) continues to be an important source of financing for many developing countries, including OIC countries. In 2019, net ODA flows received by the developing world reached US\$ 168.4 billion, with an increase of US\$ 1.9 billion, or 1.1%, from the previous year (Figure 2.41). The flows that were reported at the individual country level increased by US\$ 2.1 billion, or 1.9%, and amounted to US\$ 113.4 billion, accounting for 67% of the total ODA flows. Over one-third (36.7%) of this increase came from a 1.2% growth in flows to OIC countries, which reached US\$ 64.7 billion in 2019 as compared to US\$ 64.0 billion in 2018. Flows to non-OIC developing countries, on the other hand, grew at a larger rate (2.8%) and reached US\$ 48.7 billion in 2019. Accordingly, OIC countries continued to receive over half of the total ODA flows to individual developing countries in 2019, although this share declined slightly to 57.1% that year compared with 57.5% a year earlier.¹⁰

⁹ Developed countries refer to “advanced economies” and developing countries to “emerging and developing economies” as classified in the IMF’s World Economic Outlook Database of April 2021.

¹⁰ The share of OIC countries in world total ODA flows remained at 38.4% in 2019, same as the previous year.

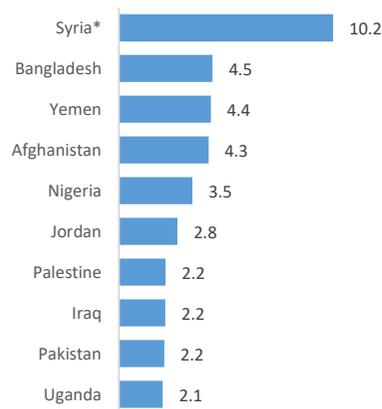
Figure 2.41: Net ODA Received (US\$, billion)



Source: OECD.Stat

Note: Net total ODA received from official donors at current prices. Data coverage: 50 OIC countries, 97 non-OIC developing countries. For the period under consideration, 33% of the annual total ODA value is reported as “unspecified” or “regional”, not at the country level. (*) Membership to the OIC is currently suspended.

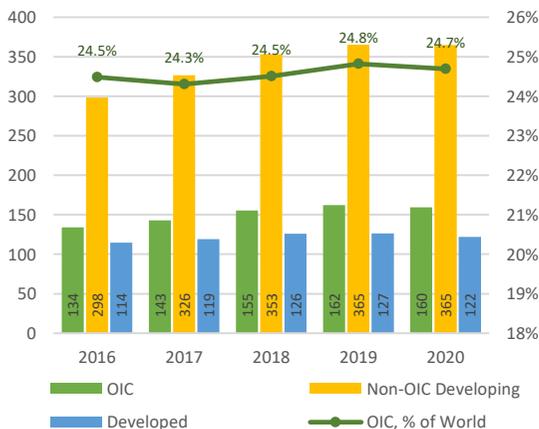
Figure 2.42: Top ODA Recipient OIC Countries, 2019 (US\$, billion)



Regarding the distribution of the ODA flows among OIC countries in 2019, the largest five recipients accounted for 41.6% of total ODA flows to OIC countries, while this ratio reached up to 59.4% for the largest ten recipients. Syria, with total inflows of US\$ 10.2 billion that made up 15.7% of OIC total, ranked first not only among OIC countries but also among all developing countries. It was followed by Bangladesh (US\$ 4.5 billion, 6.9%), Yemen (US\$ 4.4 billion, 6.8%), Afghanistan (US\$ 4.3 billion, 6.6%), and Nigeria (US\$ 3.5 billion, 5.4%) (Figure 2.42). On the other hand, Indonesia was the only OIC country to experience negative flows in 2019, alongside China and Thailand, as their repayments of past ODA loans were higher than their new receipts.

Despite the COVID-19 pandemic, remittance flows remained resilient in 2020 across the world, registering a smaller decline than previously projected. At the global level, officially recorded

Figure 2.43: Personal Remittances Received (US\$, billion)



Source: World Bank, World Development Indicators.

Data coverage: 51 OIC countries, 106 non-OIC developing countries, and 35 developed countries.

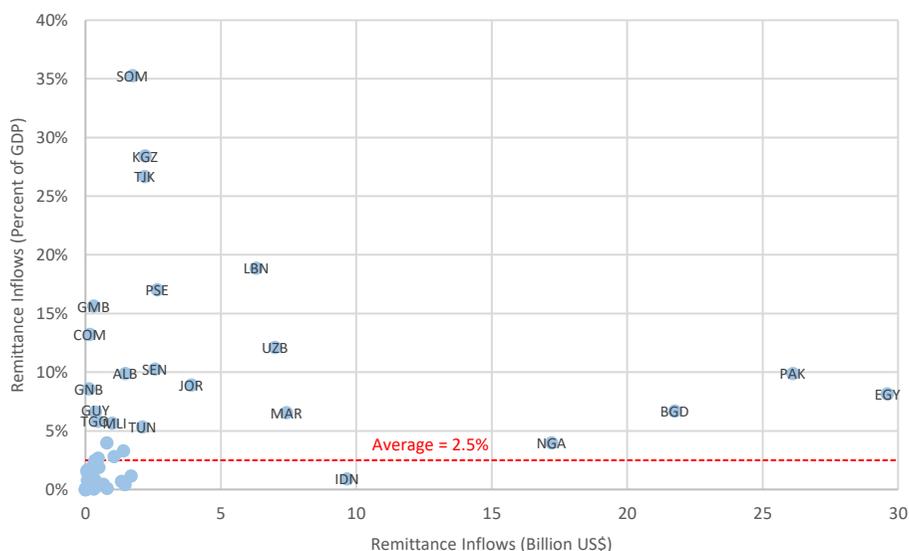
remittance flows reached US\$ 646 billion in 2020, just 1.2% below the 2019 total of US\$ 654 billion. According to the World Bank (2021b), the main drivers for the steady flow included fiscal stimulus that resulted in better-than-expected economic conditions in host countries, a shift in flows from cash to digital and from informal to formal channels, and cyclical movements in oil prices and currency exchange rates.

Most of the decline in global remittance flows in 2020 was due to the fall in flows to developed



countries (-3.6%). Inflows to OIC countries decreased by 1.7% to US\$ 160 billion, while inflows to non-OIC developing countries remained at around US\$ 365 billion with a slight fall of 0.1% (Figure 2.43). Accordingly, the share of OIC countries in world total remittance flows declined by 0.1 percentage points to 24.7% in 2020.

Figure 2.44: Personal Remittance Inflows to OIC Countries, 2020



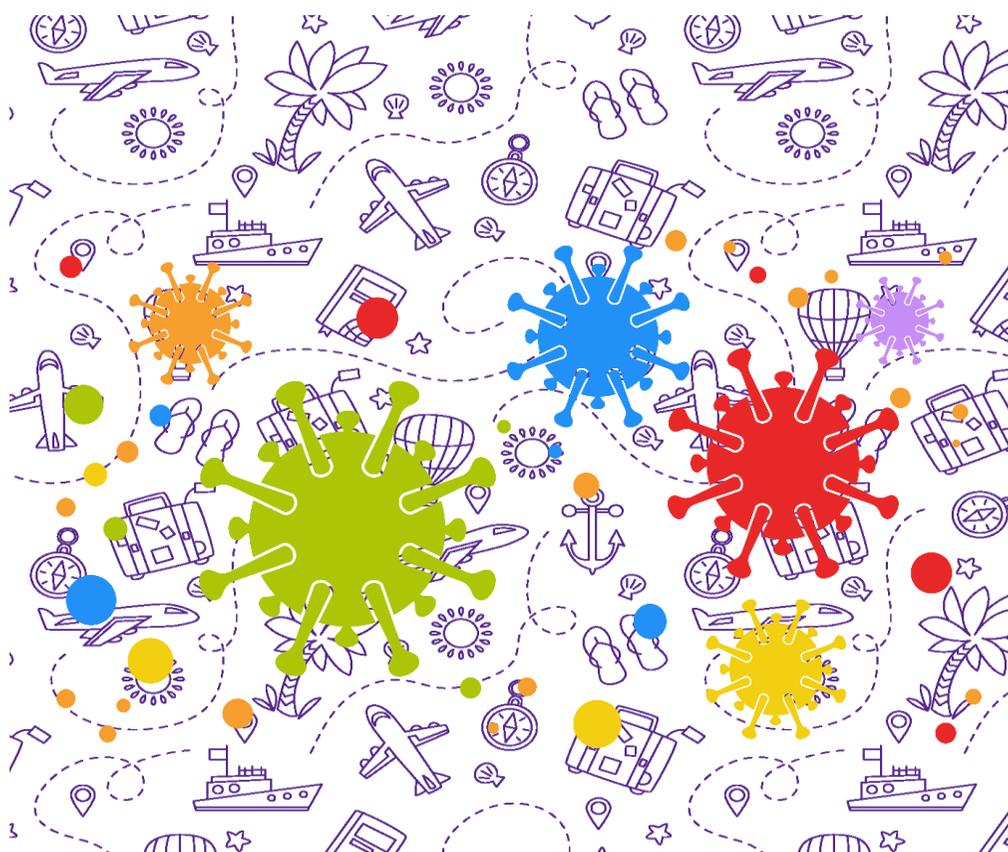
Source: World Bank, World Development Indicators.

Note: See Annex A for the country codes. Data coverage: 51 OIC countries.

In 2020, of the 51 OIC countries for which data are available, 35 experienced a decrease in remittance inflows, 4 recorded no change, and only 12 reported an increase from the previous year. Nigeria (US\$ 6.6 billion), Indonesia (US\$ 2.0 billion), Uzbekistan (US\$ 1.6 billion), Lebanon (US\$ 1.1 billion), and Jordan (US\$ 0.5 billion) experienced the largest decreases while Pakistan (US\$ 3.9 billion), Bangladesh (US\$ 3.4 billion), Egypt (US\$ 2.8 billion), Morocco (US\$ 0.5 billion), and Somalia (US\$ 0.2 billion) reported the largest increases.

As of 2020, a significant portion of remittance flows to OIC countries is still concentrated in a few members. Flows to Egypt increased by 10.5% to a record level of US\$ 29.6 billion, making it the largest recipient among OIC countries. It was followed by Pakistan (US\$ 26.1 billion), Bangladesh (US\$ 21.7 billion), Nigeria (US\$ 17.2 billion), and Indonesia (US\$ 9.7 billion). These five countries together accounted for two-thirds (65.4%) of total remittance inflows to OIC countries in 2020, while this ratio reached up to 82.5% for the largest ten recipients. Nevertheless, in the top five countries, the share of remittance inflows in GDP was less than 10% and much lower than in many other member countries with a smaller amount of inflows. The top recipients in terms of the share of remittances in GDP in 2020 included Somalia (35.3%), Kyrgyz Republic (28.4%), Tajikistan (26.7%), Lebanon (18.9%), and Palestine (17.0%). On average, remittance inflows accounted for 2.5% of GDP in OIC countries in 2020 (Figure 2.44).

CHAPTER 3 : TRADE, TRANSPORT, AND TOURISM AMIDST THE COVID-19 PANDEMIC



3.1. COVID-19 and International Trade

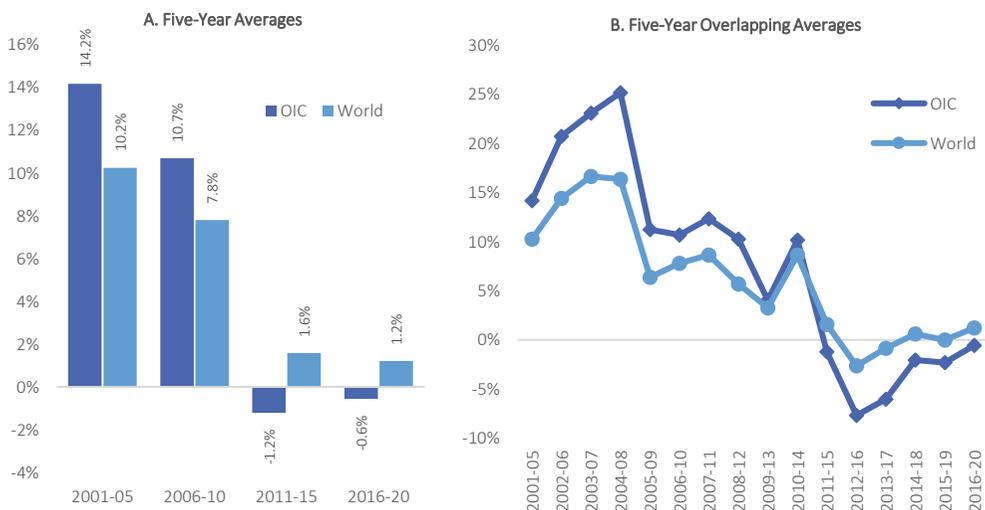
The COVID-19 pandemic has put significant downward pressure on trade flows, which was already facing mounting challenges prior to the pandemic as a result of trade tensions among major economies. The measures taken by governments to protect their citizens from the pandemic have disrupted supply chains and generated serious demand and supply shocks. Major international organizations predicted a dramatic fall in global trade. For example, in the wake of the pandemic, the World Trade Organization (WTO, 2020) projected that the global merchandise exports volume might fall by 13 to 32% in 2020. In the first months of the pandemic, global trade did decline in line with the early predictions, but the subsequent recovery was strong as a result of rising demand for consumer goods.

This chapter provides an assessment of developments in trade flows with particular reference to OIC countries. It focuses on monthly, quarterly, and annual changes in merchandise and services trade, developments in intra-OIC trade and policy measures taken in response to the pandemic.

Merchandise Trade

The five-year average growth rates in merchandise exports indicate that OIC countries showed a better performance than the global average in the first decade of this century, when exports were fostering worldwide. However, in the past decade, which witnessed a significant slowdown in the global trade, OIC countries recorded negative growth rates in their exports (*Figure 3.1.A*). Between 2016 and 2020, aggregate exports from OIC countries decreased with an annual average growth rate of 0.6% as compared to an average increase of 1.2% in the global exports. As stated above, the pandemic affected the exports from OIC countries more severely in 2020, causing a sharp decline by 17% as compared to the global fall of 7.3%. The 5-year overlapping averages also reveal that OIC countries, starting with the period 2011-2015, have been recording negative and weaker growth rates of exports than the world average (*Figure 3.1.B*).

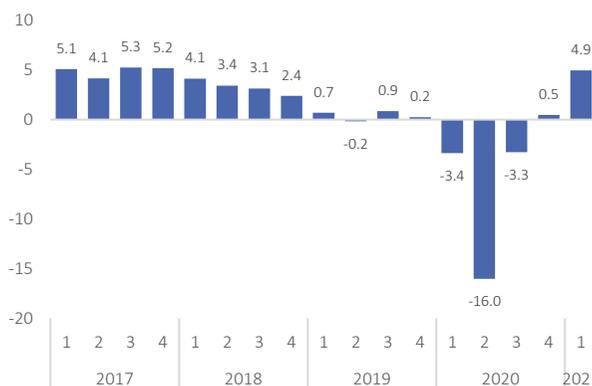
Figure 3.1: Growth in Merchandise Exports Values



Source: WTO Data Portal, July 2021.

Quarterly growth rates in merchandise exports indicate that the growth in global trade volume was already sluggish in 2019, and the pandemic left a severe impact on exports especially in the second quarter of 2020 (-16%), at a time when the most restrictive measures were taken against the spread of the virus all across the world (Figure 3.2). During the fourth quarter of the year, the growth rate turned to positive with an average growth rate of 0.5%, but the real recovery came only in the first quarter of 2021 with an average growth rate of 4.9%.

Figure 3.2: Volume of Global Merchandise Exports, Quarterly (Year-on-year Change, %)

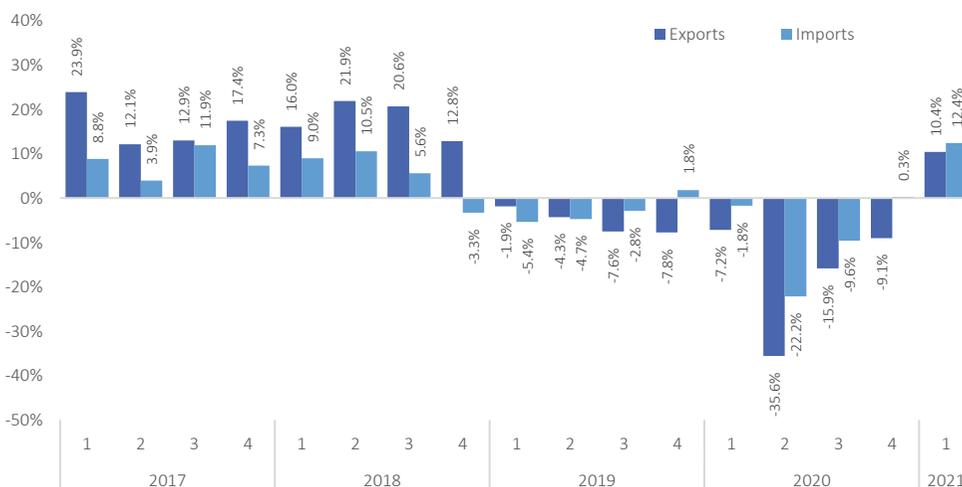


Source: UNCTADstat Database, July 2021.

Merchandise exports of OIC countries were demonstrating a more robust trend during 2017-2018 as compared to imports, as year-on-year growth rates of exports were higher than the growth rates of imports during that period. At a time when global trade linkages dwindled, exports

from OIC countries started to decline at a higher rate than their imports, particularly after the third quarter of 2019. With the outbreak of the COVID-19 pandemic, the fall in exports reached up to 35.6% in the second quarter of 2020. After falling for eight consecutive quarters, the total value of exports from OIC countries increased again during the first quarter of 2021 (Figure 3.3).

Figure 3.3: Total Exports and Imports of Goods by OIC Countries, Quarterly (Year-on-Year Change)



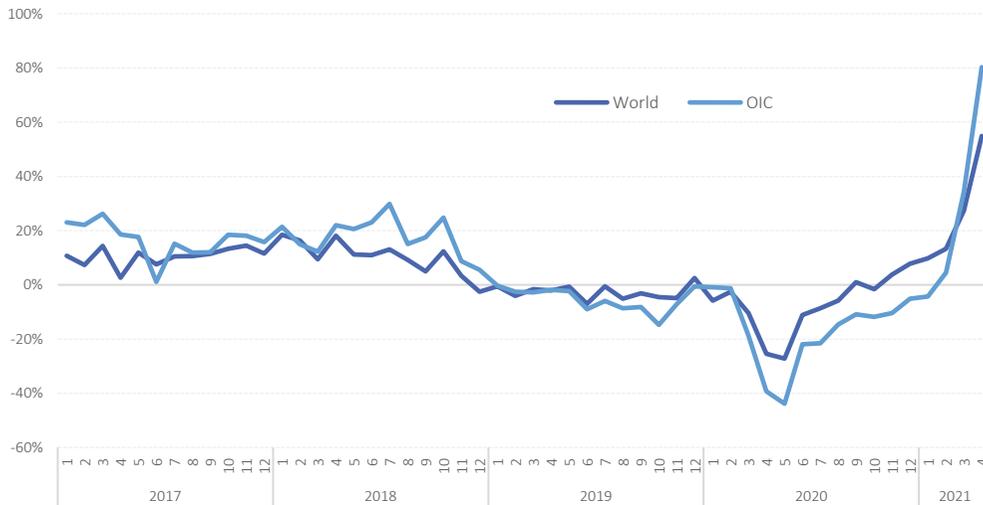
Source: IMF Directions of Trade Statistics (DOTS), 30 July 2021. Data coverage: 56 OIC countries.

Considering the availability of trade statistics at a higher frequency, monthly export data (Figure 3.4) reveal that the rate of decline in global merchandise exports was particularly severe during April and May 2020, exceeding 25%. However, strong growth in global exports in April 2021 (54.9%) as compared to its previous year value reflects a substantial recovery in the flow of goods



across borders. When it comes to OIC countries, although the recovery in global exports started in November 2020, exports from OIC countries started to rebound only in February 2021. However, the growth of exports was significantly high in OIC countries in March (34.4%) and April (80.3%), surpassing the growth rates observed in global exports in both months.

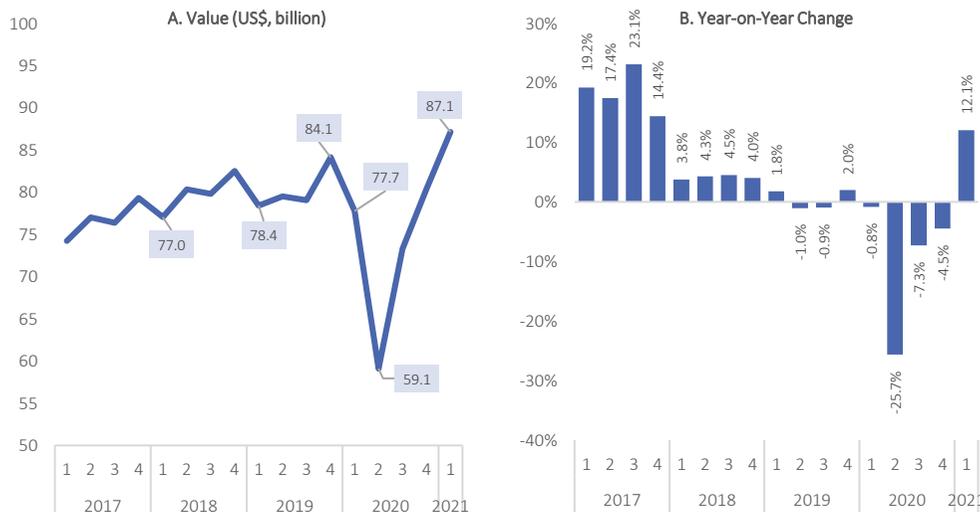
Figure 3.4: Merchandise Exports, Monthly (Year-on-Year Change)



Source: IMF Directions of Trade Statistics (DOTS), 30 July 2021.

In line with these trends, intra-OIC exports also declined sharply by 25.7% in the second quarter of 2020 and the growth rate turned to positive only in the first quarter of 2021 (Figure 3.5). Despite the ongoing challenges and restrictions, the total value of intra-OIC exports exceeded US\$ 87 billion in that period, representing the highest value of quarterly exports since 2015.

Figure 3.5: Intra-OIC Merchandise Exports, Quarterly

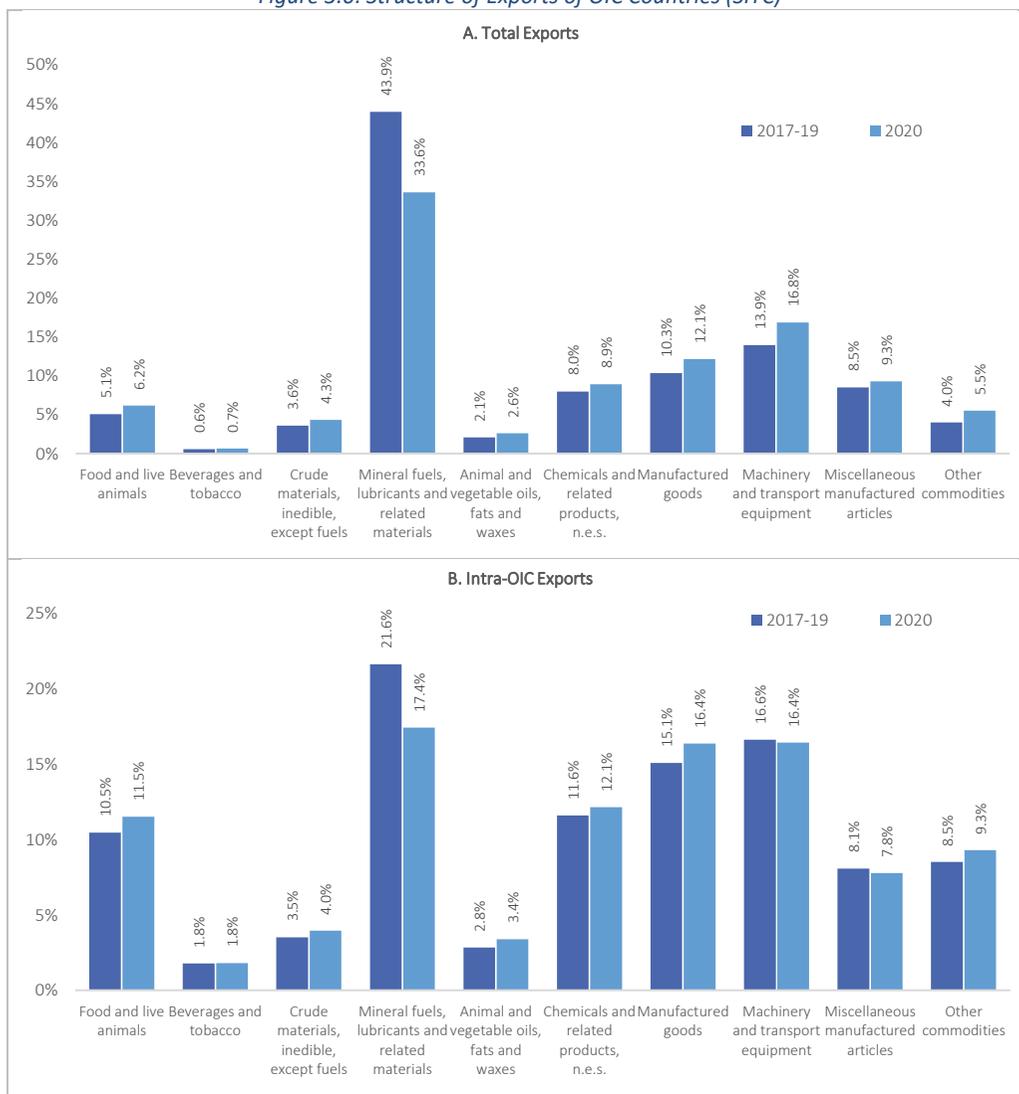


Source: IMF Directions of Trade Statistics (DOTS), 30 July 2021. Data coverage: 56 OIC countries.

At the sectoral level, mineral fuels, including oil and gas, traditionally constituted a significant share of exports made by OIC countries. Its average share during 2017-19 was close to 44%, but

with the declining demand for mineral sources during the pandemic, its share fell to below 34% in 2020 (Figure 3.6.A). Accordingly, the share of all other sectors increased, where the machinery and transport equipment sector experienced the largest increase to reach almost 17%.

Figure 3.6: Structure of Exports of OIC Countries (SITC)

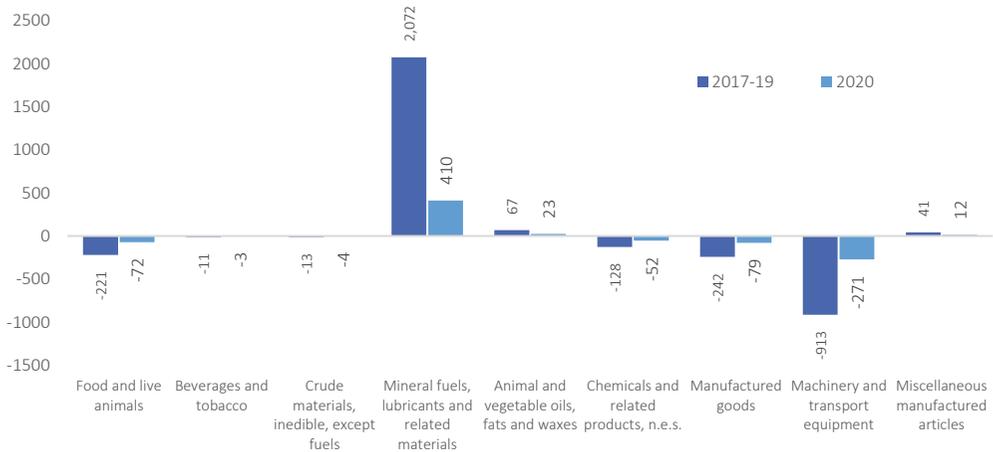


Source: UNCTADstat Database, July 2021.

A similar pattern is observed at the intra-OIC level. While the share of mineral fuels fell around four percentage points in 2020 as compared to its previous three-year average, the share of almost all other sectors increased (Figure 3.6.B). Notably, the share of manufactured goods and food products increased the most. While the share of machinery exports has increased with the rest of the world, it fell slightly in total intra-OIC exports.



Figure 3.7: Merchandise Trade Balance of OIC Countries by Sector (SITC) (US\$, million)



Source: UNCTADstat Database, July 2021.

During the pandemic, a reversal was observed in the trade balance of OIC countries at the sectoral level, depicting a more balanced picture of exports and imports values compared to pre-pandemic years. While the deficits in certain sectors reduced, the surpluses also shrank in traditionally stronger sectors (Figure 3.7). In particular, the trade surplus in mineral fuels declined sharply from its 2017-19 average value of US\$ 2.1 billion to US\$ 410 million in 2020 as a result of falling prices and declining demand. On the other hand, the trade deficit in machinery and transport equipment as well as in food products declined considerably in 2020. Yet, the overall surplus of OIC countries in merchandise trade turned negative in 2020, as discussed earlier in the report (see Figure 2.26).

Another implication of the changes in prices and demand structures following the pandemic can be observed in the export product concentration of OIC countries. A product concentration index provided by UNCTAD shows to which degree exports and imports of OIC countries are concentrated on a few products rather than being distributed in a more homogeneous manner among several products. In 2020, OIC countries, on average, attained the lowest index value for exported goods over the last decade, reflecting the highest diversification level ever achieved by the OIC countries (Figure 3.8). The fall in the total value of mineral exports contributed to the rise in diversification of export products, but the changing demand patterns and the challenges associated with GVCs also helped to increase the export

Figure 3.8: Product Concentration Index for Exports and Imports of OIC Countries



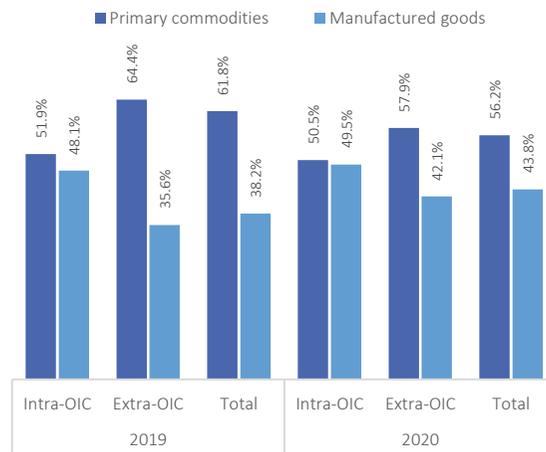
Source: UNCTADstat Database, July 2021.

Note: The lower the index value, the higher the product diversification.

product diversification of OIC countries during the pandemic. On the other hand, no major change is observed in the level of import product concentration level, reflecting the diversity of goods demanded by OIC countries from the rest of the world.

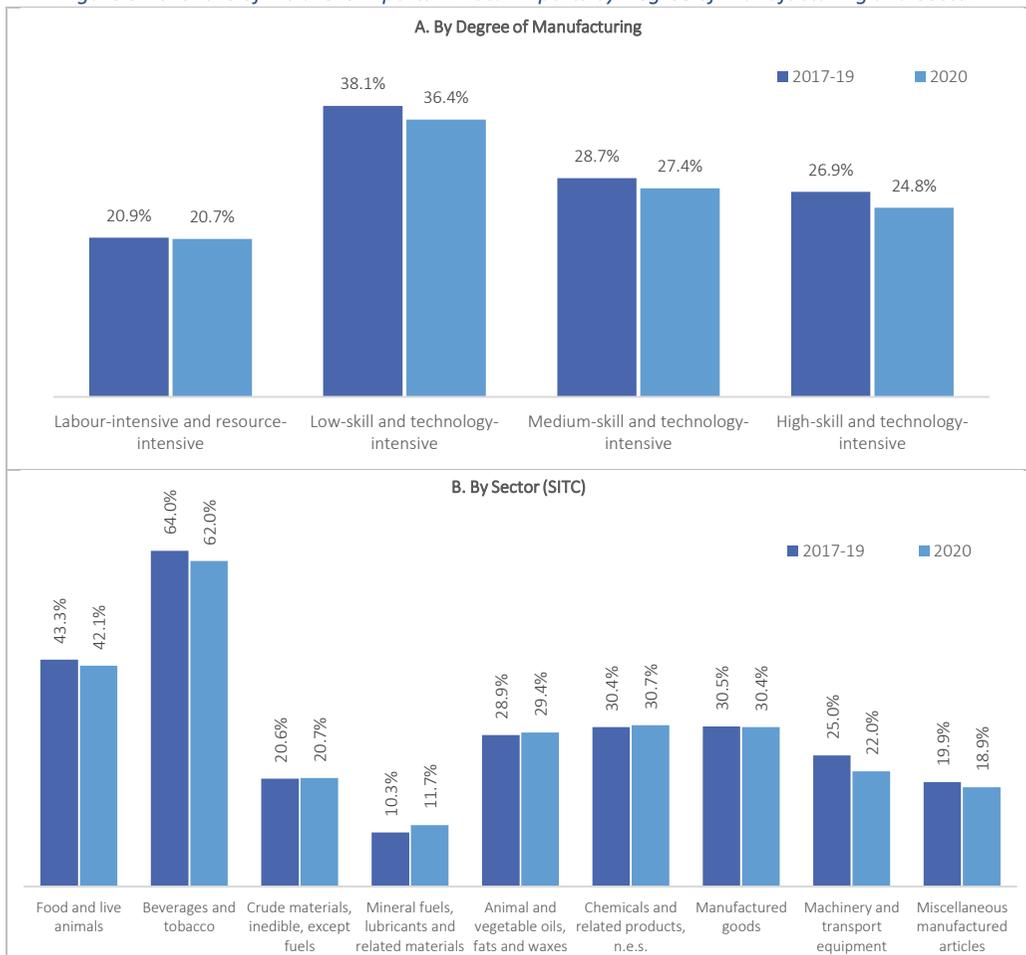
When total exports are disaggregated only into two major product groups, namely primary commodities and manufactured goods, it is

Figure 3.9: Change in the Composition of Exports



Source: UNCTADstat Database, July 2021.

Figure 3.10: Share of Intra-OIC Exports in Total Exports by Degree of Manufacturing and Sector



UNCTADstat Database, July 2021.



observed that 61.8% of exports from OIC countries were classified as primary commodities in 2019 (Figure 3.9). The share of primary commodities is particularly high in their trade with non-OIC countries (64.4%). In 2020, the share of manufactured goods in total exports increased from 38.2% to 43.8%, with a particularly stronger increase in manufacturing exports to non-OIC countries (from 35.6% to 42.1%). It is promising to observe that manufacturing products account for a greater share of exports, as they demonstrate the ability to produce more diverse and sophisticated products.

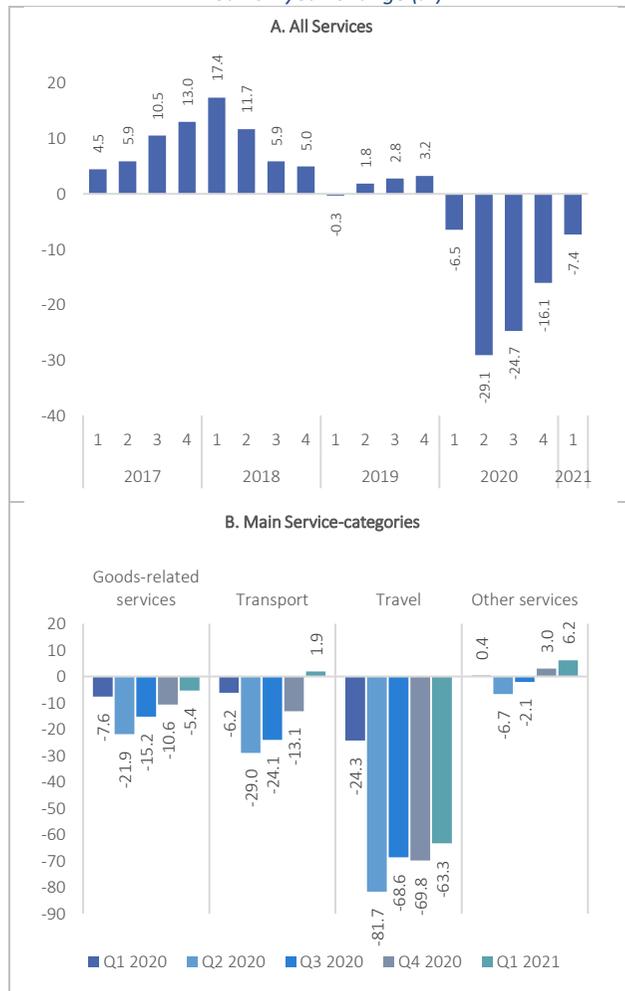
It is evident that a significant contraction and reorientation has been observed in trade flows from OIC countries to the rest of the world. On the other hand, intra-OIC exports benefited from the shifting patterns of trade during the pandemic, and its share in total exports increased in 2020 (see Figure 2.27 above). Regarding skill and technology intensity, the relatively stronger growth of exports of manufactured products to the rest of the world resulted in a lower share of low-skill and technology intensive products exported among OIC countries (36.4%). Similarly, a

greater share of medium- and high-skill and technology intensive manufacturing products was exported to non-OIC countries in 2020 as compared to 2019 (Figure 3.10.A). Exporting a greater share of products to non-OIC countries as their technological intensity rises would indicate greater competitiveness of OIC countries in global markets. Figure 3.10.B shows the share of intra-OIC exports in total exports of OIC countries in different sectors. Affirming the above statement, a significant share of food and beverages are exported to other OIC countries, while a greater share of machinery and transport equipment are exported to non-OIC countries, which further increased to 78% in 2020. On the other hand, only around 12% of the total mineral fuel exports from OIC countries go to other OIC countries.

Services Trade

Trade in services has been affected more severely than trade in goods.

Figure 3.11: Global Services Exports, Quarterly, Year-on-year Change (%)

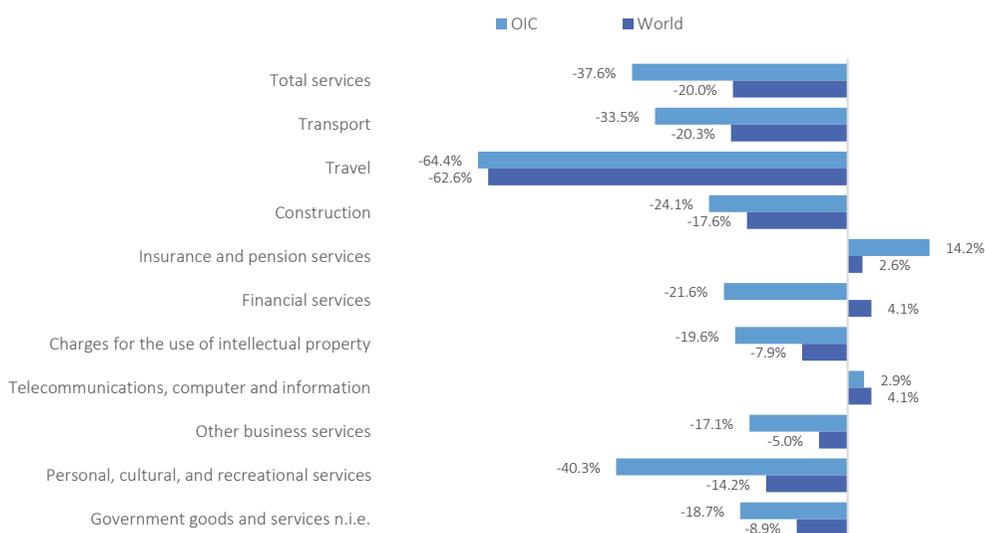


Source: UNCTADstat Database, July 2021.

The value of global services exports shrank by 6.5% in the first quarter of 2020 compared to the same period in 2019. It further deteriorated by 29.1% in the second quarter of 2020 (Figure 3.11.A). As the restrictive measures to curb the spread of the pandemic prevailed throughout 2020, the contraction in services exports has persisted in the following quarters. The first quarter of 2021 also witnessed a contraction by 7.4% as compared to the same period in 2020, demonstrating the long-lasting severe impacts of the COVID-19 on the services trade.

At the sectoral level, the most severe impact was observed in travel services, which has been falling for five consecutive quarters, with no major improvement in sight. Transport services turned positive as of the first quarter of 2021. Services exports other than travel, transport, and goods related services started to recover as early as the last quarter of 2020 (Figure 3.11.B).

Figure 3.12: Services Exports, Annual Change by Sector, 2020



Source: WTO and UNCTADstat Databases, July 2021.

Overall, total contraction in global services exports reached 20% in 2020. However, the impact of the pandemic on OIC countries was more severe, which resulted in a 37.6% fall in services exports (Figure 3.12). Travel services have been hit particularly hard as a result of restrictions on cross-border movement of people. Contracted by 64.4% in OIC countries, travel services exports fell 62.6% globally. Transport sector, the largest sector in services trade of OIC countries, experienced a fall of over 33%, while the global average contraction was 20.3%. Severe contraction in these two most critical services sectors brought a sharp decline in services exports from OIC countries. Table 3.1 provides more detailed statistics on the value of services exports in 2020, percentage change from the previous year, and share of sectors in total exports, with a comparison of the OIC and the world.



Table 3.1: Change in Services Exports by Sector

	OIC			World		
	Exports in 2020 (Mln USD)	Change compared to 2019	Share in Total	Exports in 2020 (Mln USD)	Change compared to 2019	Share in Total
Total services	279,336	-37.6%	100.0%	4,985,329	-20.0%	100.0%
Transport	75,095	-33.5%	26.9%	829,860	-20.3%	16.6%
Travel	67,804	-64.4%	24.3%	548,930	-62.6%	11.0%
Construction	6,192	-24.1%	2.2%	91,394	-17.6%	1.8%
Insurance and pension services	6,197	14.2%	2.2%	143,539	2.6%	2.9%
Financial services	4,156	-21.6%	1.5%	539,568	4.1%	10.8%
Telecommunications, computer, and information services	27,855	2.9%	10.0%	710,513	4.1%	14.3%
Other business services	26,332	-17.1%	9.4%	1,338,169	-5.0%	26.8%
Personal, cultural, and recreational services	1,603	-40.3%	0.6%	77,107	-14.2%	1.5%
Government goods and services n.i.e.	11,076	-18.7%	4.0%	71,523	-8.9%	1.4%

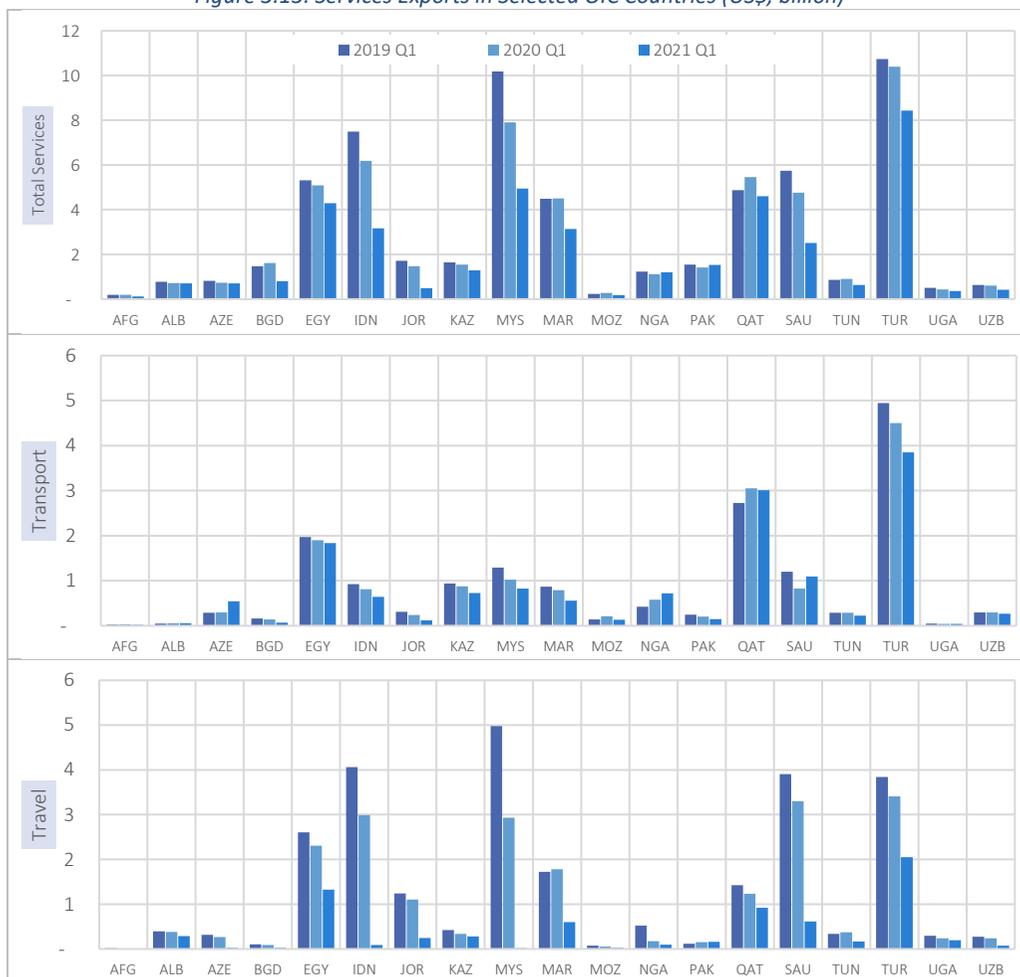
Source: WTO and UNCTAD.

In OIC countries, two sectors took advantage of the changing consumer behaviour during the pandemic. While rising uncertainty and quest for financial security increased the demand for insurance services, the growing need for information and communication technologies raised the demand for digital products and services. Accordingly, exports of insurance and pension services grew by 14.2% in 2020 and exports of telecommunication, computer and information services increased by 2.9% (*Figure 3.12* and *Table 3.1*).

At the individual country level, quarterly statistics on services exports are available for 19 OIC countries. *Figure 3.13* presents the value of exports of total services as well as transport and travel services for the first quarter of the years from 2019 to 2021 for comparison. When the first quarter of 2021 is compared with the same period in earlier years, Malaysia, Indonesia, and Saudi Arabia appear to have experienced the largest fall in total services exports (*Figure 3.13*, top). Two major tourism destinations, Turkey and Egypt, appear to have been affected less severely in spite of strict travel measures. This is mostly related to the fact that the first quarters are not a high season for tourism services. Relative robustness of services exports in these countries and a few other OIC countries imply the existence of more resilient services sectors other than tourism.

As demonstrated in *Figure 3.13* (middle), transport services remained more robust during the period under comparison. Yet, travel services have been affected severely in almost all countries for which data are available (*Figure 3.13*, bottom). The most severely affected countries are Indonesia, Malaysia, and Saudi Arabia.

Figure 3.13: Services Exports in Selected OIC Countries (US\$, billion)



Source: UNCTADstat Database, July 2021.

Trade Policy Measures

Many governments adopted diverse trade policy tools to respond to the various challenges and pressures posed by the COVID-19 pandemic. These included both tariff and non-tariff measures, either for the sake of trade facilitation or trade restriction. Non-tariff measures (NTMs) such as export restrictions have been more frequently used during the pandemic to prevent shortages of supplies of medical products in exporting countries as a reaction to increased domestic demand. They are also implemented to facilitate imports of critical goods and products.

According to the UNCTAD COVID-19 trade measures database published as of March 15, 2021, nearly 300 measures were applied across the world. Around 30% of these measures were implemented by OIC countries. Out of the 89 NTMs implemented by OIC countries, 29 were to facilitate trade and 60 to restrict the flow of certain critical goods (Figure 3.14). Among these measures, 19 facilitating measures and 35 restrictive measures were still active. Similarly, in non-



OIC countries, 28 out of 82 trade-facilitating measures and 79 out of 131 trade-restricting measures were active, as reported by UNCTAD in its latest update in March 2021.

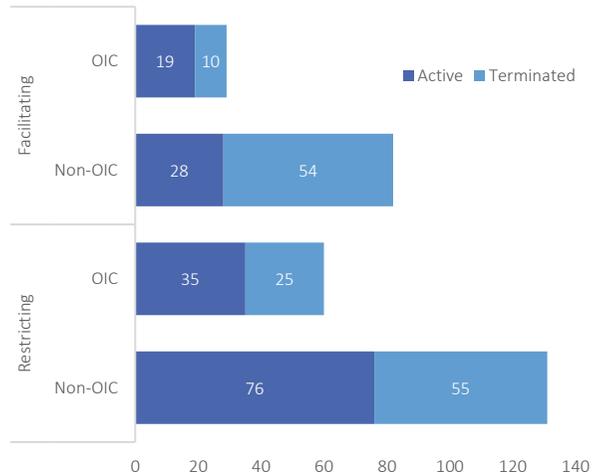
Trade restricting NTMs included export restrictions of various forms to prevent shortages of essential goods, and stricter sanitary and phyto-sanitary (SPS) requirements to ensure product quality and safety. Measures to facilitate trade involved relaxation of authorization and licensing requirements as well as exemption from or deferral of various taxes on imported products. Such measures expedited the trade of such goods, thus ensuring adequate supplies for the country.

During the pandemic, the main objective of NTMs was by far to ensure adequate supplies of essential goods including medical products and food (Figure 3.15). Although such measures improved the access of the countries that put export restrictions, they negatively affected the availability of essential goods in import-

dependent countries, particularly the most vulnerable ones. Eliminating potential disease carriers or limiting transmission and protecting local industry were among the other objectives of NTMs put by both OIC and non-OIC countries. However, as these measures are often imposed without coordination with trading partners, GVCs have been disrupted and hampered the smooth flow of trade in essential goods.

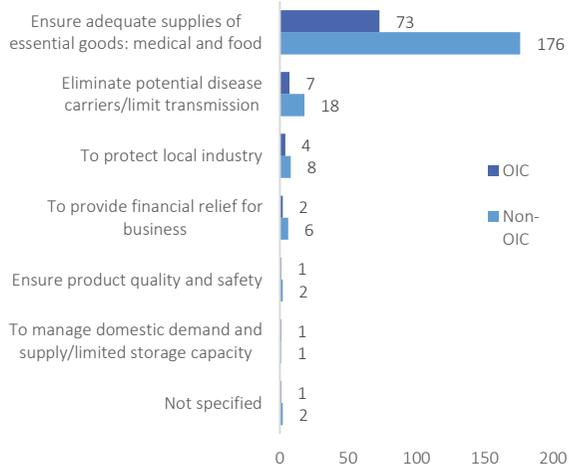
Many governments have also invested in the capacities of their customs authorities to facilitate trade through improving digital infrastructure. They sought the possibility of introducing or expanding a single window system to reduce human interaction. With regard to practices related to customs authorities, WCO (2020) provides information on customs related practices, including more than 30 OIC countries. According to this information, most of the OIC countries for which

Figure 3.14: Non-Tariff Measures in Response to the COVID-19 (Number)



Source: UNCTAD [COVID-19 Non-Tariff Measures Database](#), July 2021.

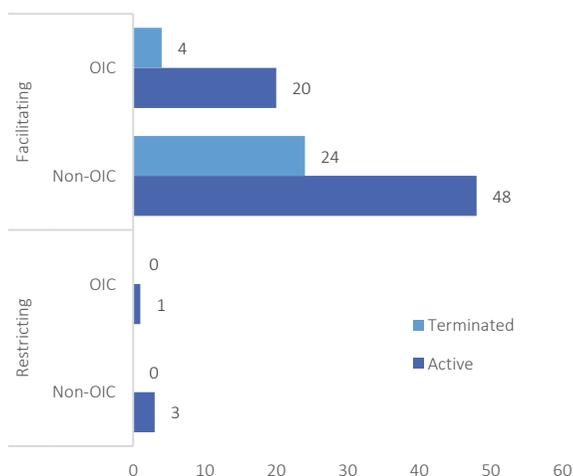
Figure 3.15: Non-Tariff Measures in Response to the COVID-19: Main Objectives (Number)



Source: UNCTAD [COVID-19 Non-Tariff Measures Database](#), July 2021.

data are available provided full or partial exemption on duties and taxes on goods mostly related to supplies, materials and equipment normally used to combat COVID-19. OIC countries also implemented special customs procedures, including fast clearance, immediate release and direct delivery (with deferred payment) in order to facilitate trade. It is also observed that some OIC countries facilitated trade by easing documentary requirements, especially through reducing the number of documents to be submitted or accepting the copies of the original documents.

Figure 3.16: Tariff Measures in Response to the COVID-19 (Number)



Source: UNCTAD [COVID-19 Tariff Measures Database](#), July 2021.

In addition to NTMs, tariff measures were also taken by many countries, but they were mostly directed towards facilitating trade. There is only one tariff measure within the OIC that is restrictive and still active. On the other hand, OIC countries have introduced 24 tariff measures to facilitate trade, 20 of which are still active. In non-OIC countries, 48 of the 72 tariff measures to facilitate trade are still in effect. (Figure 3.16).

Overall, NTMs can be useful tools to achieve legitimate objectives and are highly effective in ensuring high quality of goods and protecting the safety of consumers. However, many countries resorted to the use of trade restrictive measures possibly without considering their possible negative effects. There is a high degree of global economic interconnectedness, and single-sided actions threaten the global supply and value chains and pose threats to public health, food security or livelihoods. This requires effective coordination among countries to minimize the negative impacts of NTMs.

Policy Recommendations

Limited product and market diversification led to a greater reduction in exports from OIC countries as compared to non-OIC countries. Even if indices on product diversification indicate an improvement in the diversification of exported goods, this may be just an illusion caused by falling fuel prices during 2020. OIC countries require longer term strategies to expand the diversity of export products and their technological intensities in order to reduce the vulnerabilities to fluctuations in prices and foreign demand and become more resilient in global markets.

In addition to lack of product diversification, significant tariff and non-tariff barriers constitute a major obstacle in improving trade flows. Relatively high tariff rates and trade-related taxes hit the competitiveness of OIC countries in terms of international trade. During the pandemic, trade



barriers have been re-activated by a number of OIC and non-OIC countries to alleviate the immediate negative effects of the pandemic on domestic economies. However, it is necessary to keep trade flowing, both to ensure the supply of essential products and to send a signal of confidence for the global economy.

While efforts should be made to reduce such barriers in the post-pandemic period, special emphasis should be made on facilitating trade. In many OIC countries, the number of required procedures to complete custom formalities, high-cost of transportation, long-waiting times in customs, and the lack of OIC-wide harmonized or uniform quality standards for goods and services are some of the obstacles limiting efficiency in merchandise trade. If the level of trade cooperation among OIC countries is to reach desired levels, there is a need for quick operationalization of trade facilitation schemes such as the OIC Trade Preferential System, export credit and investment insurance as well as recognition of standards, technical regulation and conformity assessment procedures. Establishment of export processing and free trade zones also could contribute to the development of intra-OIC trade.

Even if the services sector has been affected more severely than the manufacturing sector during the pandemic, it was the fastest growing sector of the global economy and trade in services has grown faster than in goods over the past decade. There is a significant transformation within the services sector. While the shares of traditional service exports, including tourism and transport, are falling, exports of modern and more technology intensive services, particularly those related to ICT services, are increasing. This trend has further accelerated with the outbreak of the COVID-19 pandemic. In this connection, OIC countries need to diversify their export base in services to account for a higher share of global trade in services. Heavy reliance on traditional services sectors led to a greater contraction in services exports from OIC countries during the pandemic as compared to the world average. Developing an efficient and competitive services economy and the trade in services in emerging sectors could significantly contribute to the improvement of the trade performance of OIC economies.

Trade in services plays also an important role in economic transformation and employment creation, enabling countries to diversify and upgrade their economies through mainly integration into GVCs. Landlocked or geographically disadvantaged countries may focus on sectors where distance and physical conditions are less relevant and that have the potential to promote socio-economic development and job creation. This would require building productive capacity and competitiveness in targeted sectors through well-designed national policies and programs.

Various obstacles in doing business (e.g. high level of bureaucracy in customs, time-consuming procedures, and costly transportation arrangements) not only limit the growth of international trade but also make OIC countries, as a group, relatively less attractive for foreign investors. This requires OIC countries to exert more efforts to create a more favourable business environment where businesses can easily complete their cross-border transactions. In order to attract multinational companies and benefit from the potential remaking of the GVCs prompted by the pandemic, OIC countries should develop their physical and digital infrastructure, improve the overall investment climate, and reduce non-tariff and administrative barriers.

Investments in transport and communication infrastructure are critical in achieving an enabling environment for firms seeking alternative value chain networks. In order to improve technological capacities, there is a need for investing in human capital, increasing research and development (R&D) expenditures, and protecting intellectual property rights. Finally, measures should be taken to increase preparedness to supply chain risks and improve resilience to these risks, such as failure of transportation and communication networks, financial market risks, epidemic and pandemic risks, and cyber security risks.

There are also opportunities for regional economic integration. Even though some OIC countries are competing with a similar basket of products in international markets, there are important complementarities among OIC countries, which could be better exploited in the current economic setting. In the presence of a strong political will, the development of regional value chains in certain industries could create important economic benefits in the form of productivity, economies of scale, and competitiveness, which would further strengthen the opportunities arising from the reshoring and diversification of GVCs.

3.2. COVID-19 and the Transport Sector

The containment measures taken to curb the COVID-19 pandemic have brought severe disruptions to nearly every aspect of domestic and international transportation. Passenger transportation within and across borders was hit hardest due to strict quarantine measures, where airline companies experienced unprecedented challenges to remain financially viable due to sharp declines in demand and earnings. On the other hand, cargo transportation and logistics remained more robust during this period, despite experiencing occasional interruptions and obstacles over time. The resilience of marine transportation has been particularly critical in avoiding supply chain interruptions across regions.

With the demand for travel plunging to a modern all-time low, the COVID-19 crisis in the transport sector required governments to develop a strong policy response. Physical spacing requirements and quarantine requirements have drastically reduced available transport capacity both for domestic and international travel. Many governments provided diverse support programs to help the transport industry remains viable during the pandemic. The main focus in domestic transportation was to keep a core transportation system operational for the requirements of essential public transport and local supply chains. As the countries recover from the pandemic, they will also require policies to reconfigure the transport sector to enable mobility of people and goods in a safe, sustainable and resilient way.

In this connection, this section provides an assessment of the impacts of the COVID-19 pandemic on the transportation sector with particular reference to OIC countries. It provides analyses of impacts on different modes of transport, namely on air, maritime, rail and road transportation.

Impact on Air Transport

Air transport industry plays an important economic role with strong inter-industry linkages. Reduced demand for air travel not only affects the revenues of airline companies but also lowers



the demand for new aircrafts and deteriorates operational capacities in airports, affecting employment in all related industries. A well-functioning air transport industry facilitates establishing reliable trade linkages with partner countries, where air cargo enables the smooth operations of global supply chains. Business travel is another important factor in enabling global interconnectedness as a channel of international knowledge transfer. Moreover, the availability of non-stop international and intercontinental flights is an important determinant for the attractiveness of the city and its neighbourhood for international tourism as well as for the decision of multinational firms to locate.

Air transport has two main arms: civil aviation and cargo transportation. Due to border closures and travel restrictions during the pandemic, the civil aviation industry was among the most severely affected sectors globally. Measures taken during the pandemic and dipping appetite for travel have resulted in a dramatic drop in demand for airline services and compromised the financial viability of transport operators and transport systems, including airports.

Civil Aviation

According to the International Civil Aviation Organization (ICAO, 2021), the total number of scheduled passengers declined by 60% in 2020 as compared to 2019 (*Table 3.2*). Despite some improvements in 2021, the total number of passengers is expected to remain 42-48% below the number achieved in 2019. The fall in the total number of international passengers is slightly more than the fall in domestic passengers, but in percentage terms, the fall in international passengers reaches up to 74% from 2019 to 2020 due to closed borders or strict travel regulations to limit the virus spread. While moderate recovery is expected in domestic travel, international travel is expected to rebound marginally as a result of ongoing restrictions to cross-border travel in 2021.

Table 3.2: Estimated Impacts of COVID-19 on Aviation Industry

	Domestic	International	Total
<i>2020 vs 2019 (Estimated Actual Results)</i>			
Seats	-38%	-66%	-50%
Passengers	Reduction of 1,323 million passengers (-50%)	Reduction of 1,376 million passengers (-74%)	Reduction of 2,699 million passengers (-60%)
Revenue	Approx. US\$ 120 billion loss of gross operating revenues of airlines	Approx. US\$ 250 billion loss of gross operating revenues of airlines	Approx. US\$ 371 billion loss of gross operating revenues of airlines
<i>2021 vs 2019 (Preliminary estimates)</i>			
Seats	-18% to -21%	-56% to -63%	-34% to -38%
Passengers	Reduction of 674 to 776 million passengers (-26% to -29%)	Reduction of 1,207 to 1,369 million passengers (-65% to -74%)	Reduction of 1,881 to 2,146 million passengers (-42% to -48%)
Revenue	Approx. US\$ 59 to 69 billion loss of gross operating revenues of airlines	Approx. US\$ 217 to 246 billion loss of gross operating revenues of airlines	Approx. US\$ 276 to 315 billion loss of gross operating revenues of airlines

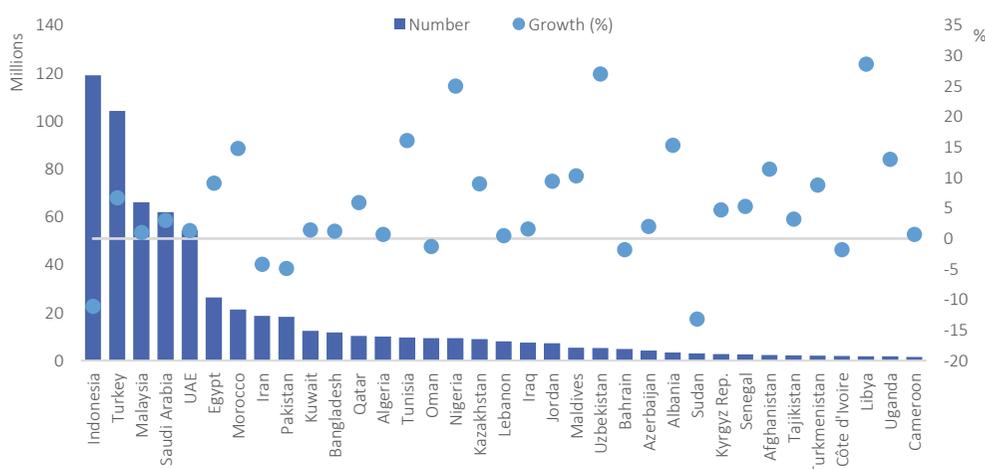
Source: ICAO (2021)

As a result, the global aviation industry experienced a significant fall in revenues, mainly driven by the interruptions in international operations. In 2020, they reported approximately US\$ 371

billion loss of gross operating revenues and the loss of revenue is expected to remain around US\$ 300 billion in 2021 as compared to 2019.

The traffic volume, measured by revenue passenger kilometres (RPKs, both international and domestic) plunged by a dramatic 90% in April 2020 and the cumulative decline in 2020 was 65.9% compared to 2019, according to the statistics from the International Air Transport Association (IATA). This is eight times faster than during the 12 months following the 9/11 attacks – considered as the most severe aviation crisis prior to 2020 (IATA, 2020). In December 2020, international RPKs were still down 85.3% year-on-year – just a 13-percentage-points improvement from the low point of the crisis in April, reflecting the deferral of recovery in air travel (OECD, 2021b).

Figure 3.17: Top Passenger Countries, 2019 (Number of passengers and growth over previous year)



Source: IATA 2020 World Air Transport Statistics.

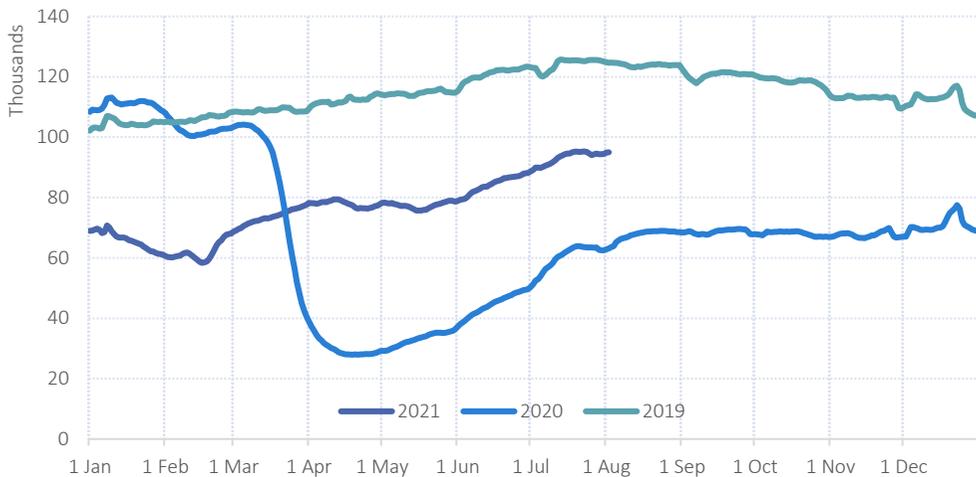
The rankings of top passenger OIC countries presented in *Figure 3.17* covers all scheduled traffic, on all airlines worldwide. The data reflect all passenger counts to, from, or within the respective country. Indonesia, Turkey, Malaysia, Saudi Arabia and United Arab Emirates are the OIC countries with more than 50 million scheduled passengers in 2019.

In April 2020, global international passenger capacity experienced an unprecedented 94% reduction, as reported in ICAO (2021). Among OIC countries, with a fall of 94%, Turkey was one of the most severely affected countries in terms of the percentage change in passenger capacity. Air transportation in other major OIC countries, including United Arab Emirates, Indonesia, Malaysia, and Qatar, also experienced an initial shock that is mostly above 80% (ICAO, 2021). Every region of the world is strongly affected, though to differing degrees that reflect the degree to which their airline sector depends on cross-border traveling. For this reason, the airlines in the Middle East were the worst hit (with a decline in the overall market of 72% in 2020), and the relatively least affected was Asia-Pacific (with a decline of 62%) (OECD, 2021b).

Figure 3.18 shows the global statistics on the number of commercial flights. The initial shock was severe across the globe; partial recovery was achieved only around August 2020 and flights have not improved substantially since then, remaining below the 2019 levels.



Figure 3.18: Number of Commercial Flights per Day (7-day moving average)

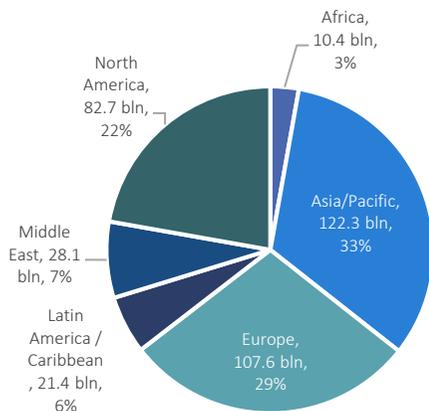


Source: Flightradar24. <https://www.flightradar24.com/data/statistics>

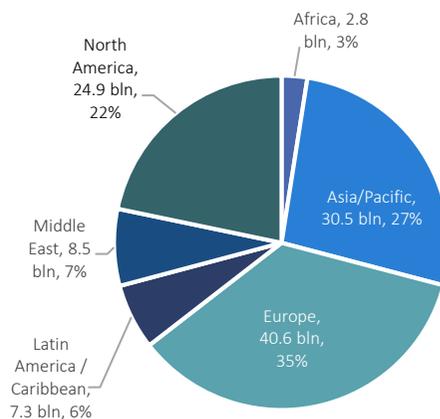
The impact on the air industry persisted throughout the year and possibly all airline companies recorded losses in their revenues. Individual country level data is not publicly available on the economic impacts of the pandemic on the air industry, but the regional aggregation for the year 2020 reveals that most of the losses by carriers were accrued by companies in Europe, Asia/Pacific, and North America. Losses in the Middle East and Africa, where a majority of OIC countries are located, accounted for 10% of total losses (Figure 3.19.A). Similarly, in terms of revenue losses by airport, these two regions accounted for 10% of the global losses (Figure 3.19.B). According to global statistics, there are two major hubs in the OIC region with significant international air transport capacity, namely United Arab Emirates and Turkey. Even though they experienced significant losses in revenues, timely measures taken by relevant authorities prevented larger potential losses.

Figure 3.19: Revenue Losses in the Civil Aviation Sector, 2020 (US\$, billion)

A. Revenue Losses by Carrier Region



B. Revenue Losses by Airport Region



Source: ICAO.

The drop in air traffic has given rise to public policy challenges that go beyond isolated effects on the preservation of flag carriers and priorities air hubs. For instance, it also threatens to trigger a labour market crisis. Globally, around 65 million jobs are dependent on the aviation industry, including 2.7 million airline jobs (OECD, 2021b). The OECD Indicators on Product Market Regulation shows that, in 2018, the public sector was a shareholder of the largest domestic airport in three out of every four OECD countries and of the largest air carrier in one out of three countries (OECD, 2020c). The state has a majority of the shares in major airline companies within the OIC region, including Emirates, Turkish Airlines, Qatar Airways, Saudi Airlines, and Royal Air Maroc. Therefore, the governments were proactive in protecting the flag carriers from the impacts of the pandemic by utilizing various support schemes and providing various incentives.

Air Cargo

Contrary to the air passenger services, air cargo transport demonstrated a strong rebound in the second half of 2020, reflecting mostly the resumption of international trade after the lifting of initial restrictions that had been in place for most of the second quarter. Many airline companies in the world reacted to this by converting passenger aircraft for full freighter operations. This allowed them to offset some losses they incurred from passenger transportation.

As an indicator of air cargo performance, the industry-wide cargo tonne-kilometres (CTKs) fell by 10.6% in 2020 relative to 2019. According to ICAO, this is the fastest rate of annual decline since data collection started in 1990, and slightly worse than what was seen following the world financial crisis in 2009. World freight traffic started to report positive growth rates in 2021 (Figure 3.20). The latest data for April 2021 reported a strong growth of 12% in CTKs compared to the pre-pandemic period (2019). This growth is 7.6 percentage points higher than the growth in the previous month (March 2021). Overall, air cargo demand appears to be strong, supported by the gradual rebound in global economic activity and increase in exports.

Figure 3.20: Freight Traffic, FTK (Change over 2019)



Source: ICAO Air Transport Monthly Monitor, June 2021. FTK: Freight Tonne-Kilometres

According to the IATA's World Air Transport Statistics (WATS) 2020, there are three air cargo companies from the OIC region placed among the world's top 10 carriers. FedEx was the world's busiest cargo airline in 2019, while Qatar moved into second place and Emirates was fourth (Table 3.3). Qatar Airways became the largest pure air cargo carrier and moved into second place overall as it saw its traffic increase by 2.6% year on year to 13 billion CTKs. When domestic cargo is excluded, Qatar Airways becomes the world's largest international cargo carrier, followed by



Emirates. Turkish Cargo has been expanding rapidly over the last few years through the addition of extra freighter and passenger aircraft in line with the opening of the new Istanbul Airport. The airline has the ambition of becoming one of the top five cargo airlines by 2023. Dubai (DBX) and Doha (DOH) airports were also among the top 10 airports in the world in terms of air cargo loading/unloading volume in 2019.

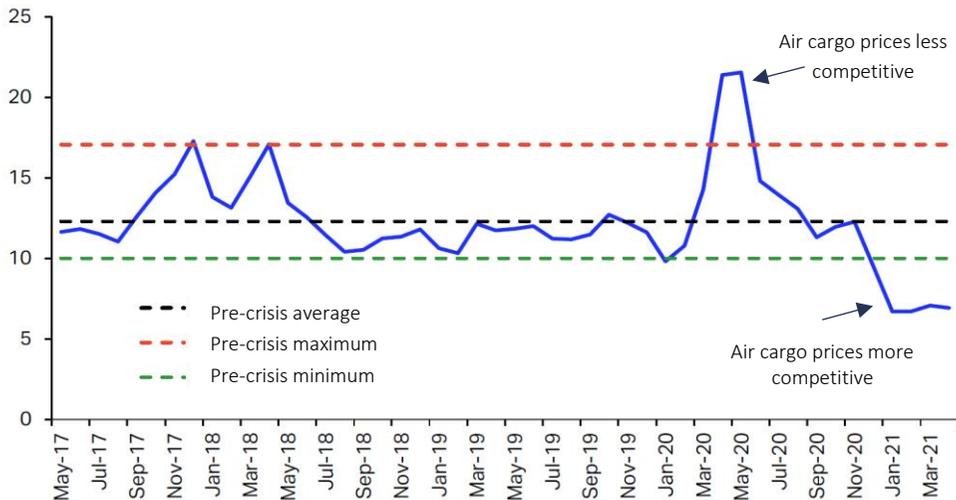
Table 3.3: Top Cargo Carriers – Scheduled CTK (million tonnes)

Rank	Airline	2019		Y-o-Y %	2018	Y-o-Y %	2017	Y-o-Y %
		Total	International					
1 (4)	Federal Express	17,503	8,851	0.0	17,499	3.8	16,851	7.2
2 (1)	Qatar Airways	13,024	13,024	2.6	12,695	15.4	10,999	19.3
3 (9)	United Parcel Service	12,842	6,228	3.1	12,459	4.3	11,940	6.0
4 (2)	Emirates	12,052	12,052	-5.2	12,713	0.0	12,715	3.6
.
9 (8)	Turkish Airlines	7,029	7,000	19.3	5,890	24.6	4,728	29.9

Source: IATA 2020 World Air Transport Statistics. CTK: cargo-tonne kilometre. Ranks in parenthesis are based on international transportation only. <https://www.aircargonews.net/airlines/top-25-cargo-airlines-fedex-retains-the-top-spot-as-qatar-climbs/>

Even though 2020 statistics were not publicly available during the writing of this report, one of the first movers in converting passenger aircraft for full freighter operations and seeking out new markets, Qatar Airways is reported to have risen to be the leading airline in the world for cargo payload, with almost 10% of the total volume in 2020 (CAPA, 2021). Revealing its first loss in over 30 years, Emirates recorded an annual loss of AED22.1 billion (US\$ 6.0 billion) due entirely to the effect of the pandemic which led to the wholesale withdrawal of flights and border closures worldwide. Emirates SkyCargo contributes 60% of the airline’s total transport revenue. On the other hand, Turkish Cargo increased its market share from 3.7% in 2019 to 4.7% in 2020, as the airline utilised 50 of its passenger aircraft and its 25 freighters for cargo operations, according to Air Cargo News.

Figure 3.21: Ratio of Chargeable Weight Rates per kg for Air Cargo and Container



Source: IATA Economics’ Chart of the Week, 28 May 2021.

An important economic impact of the pandemic was the supply chain disruptions. Congestion and lack of capacity have led to large increases in shipping prices. Air cargo allows fast shipping but had been roughly 12 times more expensive than ocean trade in the 2-3 years prior to the crisis. When air cargo and ocean freight rates per kg of chargeable weight are compared, the ratio of prices had been trending in the range of 10 and 17 (Figure 3.21). While air cargo fares remained elevated, container fares have increased strongly since then, and were more than three times higher than pre-crisis levels in April 2021. As a result, the relative price of air cargo vs ocean declined, supportive of air mode of transport. In Q1 2021, air cargo grew 5.6% compared to Q1 2019, while container throughput increased by 6.1% (IATA, 2021). With strong consumer demand and the lack of container capacity expected to continue until late 2021 at the earliest, air cargo is likely to remain a viable alternative to container shipping for some businesses, and firms in OIC countries relying on air cargo are expected to benefit from this trend (see also Figure 3.22).

Impact on Maritime Transport

According to different sources, around 80-90% of global trade is being carried by maritime transport and handled by ports worldwide. During the early periods of the pandemic, global trade was expected to experience a strong contraction, with severe implications on the shipping sector. Following an initial shock, however, changes in consumption and shopping patterns have led to robust demand for imported goods, a large part of which was to be transported in shipping containers. A vast majority of ports were able to stay open to cargo operations, facilitating the cross border movement of goods and essential supplies.

During the second half of 2020, trade and cargo volumes saw a remarkable recovery, but with the changing patterns of consumption and ongoing measures to prevent the spread of the virus, a new challenge emerged for maritime transport, namely the container crisis. Various factors contributed to this crisis, but mainly it was due to the failure of relocating the empty containers in addition to port labour shortages, port congestions and capacity constraints in the truck and other inland transport systems (UNCTAD, 2020). The situation was further exacerbated by the blockade of the Suez Canal by a grounded container ship.

Like many others, carriers, ports, and shippers were all taken by surprise by the pandemic. The disruptions resulting from the pandemic and trade imbalances led to shifts in the geography of container trade. Empty boxes were left in places where they were not needed, and

Figure 3.22: China & Shanghai Containerized Freight Index



Source: Shanghai Shipping Exchange & MacroMicro. CCFI: China Containerized Freight Index; SCFI: Shanghai Containerized Freight Index



relocation had not been planned for (UNCTAD, 2021b). The increase in demand was stronger than expected and not met with a sufficient supply of shipping capacity.

Figure 3.23: Number of Port Calls in OIC Countries, Semi-annually



Source: UNCTADStat, UNCTAD.

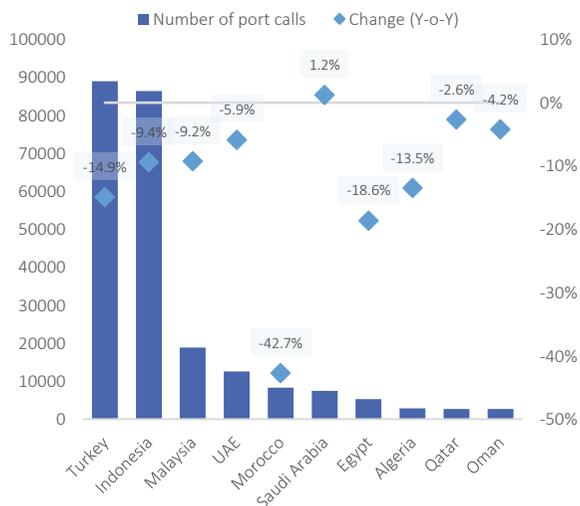
This led to a surge in freight rates reaching historical highs by the end-2020 and early in 2021. Freight rates from China to South America increased more than four times higher than the median for that route, while the lowest increase was recorded on the Asia–East Coast North America route with a 63% increase (UNCTAD, 2021b). According to the most recent composite index published by Shanghai Shipping Exchange, the China Containerized Freight Index (CCFI) more than tripled between January 2020 and July 2021. The rise in the Shanghai Containerized

Freight Index (SCFI) was even higher, increasing approximately four times during the same period (Figure 3.22).

Rising costs, prevailing disease containment measures, worker shortages at ports and changing demand patterns affected the ability of ports and terminal operators to timely complete vessel-related operations, with further implications on the number of port calls. A port call is a port where a vessel loads/unloads cargo or embarks/disembarks passengers. Reduced port calls led to interrupted cargo movements in and out of ports, inducing port congestion, causing additional costs for shippers and container shortages. Figure 3.23 shows the number of port calls in OIC countries for semi-annual periods. The first half of

f 2020 witnessed a 7.7% fall in port calls compared to the first half of 2019. The fall observed in the second half of 2020 was 12.2% when compared to the

Figure 3.24: Major OIC Countries by Port Calls, Second Half of 2020



Source: UNCTADStat, UNCTAD.

same period in the previous year. Despite the fall in port calls, OIC countries did not experience a decrease in their global share, but a slight improvement was observed from 13.2% in 2019 to 13.3% in 2020.

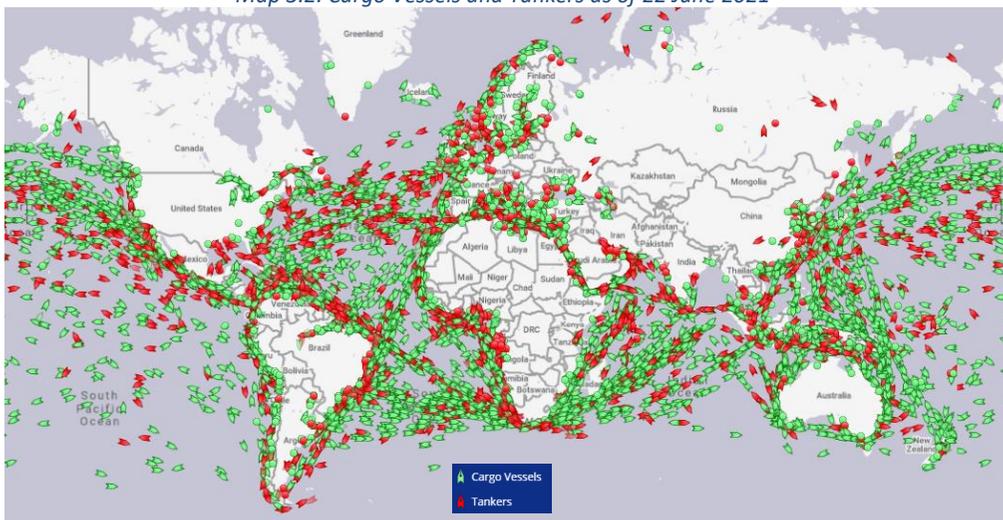
Yet, only two OIC countries, namely Turkey and Indonesia, accounted for more than 65% of total port calls in the OIC region in the second half of 2020, reflecting a high concentration of maritime shipments in few countries, according to the UNCTAD statistics (*Figure 3.24*). Among the OIC countries with a higher number of port calls, only Saudi Arabia was able to increase the total number of ship calls during the second half of 2020 as compared to the corresponding period of the previous year.

Map 3.1: Passenger Ship Traffic as of 22 June 2021



Source: MarineTraffic.com.

Map 3.2: Cargo Vessels and Tankers as of 22 June 2021



Source: MarineTraffic.com.



As a result, the liner shipping connectivity index (LSCI) has increased in many OIC countries despite the containment measures during the pandemic (*Figure 3.25*). The rise was particularly visible in countries with already higher LSCI values. On the other hand, the OIC countries with lower LSCI values have mostly experienced a deterioration in their index values during the first quarter of 2021 as compared to the first quarter of 2020.

Impact on Road and Rail Transport

In response to the pandemic, governments have placed restrictions on domestic transit and/or closed border crossings for road freight transport services, which significantly affected not only the passenger traffic but also the freight transport services within and across borders. Restrictions on services and people's movement, combined with authorities' advice to not travel, have led to a decrease in passenger volumes of approximately 80% for all national rail services during lockdowns. Overall, as compared to maritime transport, road and rail transport, especially road transport, were more vulnerable to the restrictive measures taken by the authorities and hence experienced more significant impacts.

The road and rail transport is also an important complement for hinterland transport from ports. Abrupt changes in freight volumes on several big trade routes and disruptions in hinterland transport connectivity in some ports have been testing the capacity limits of some ports/terminals and their inland transport systems during the pandemic. According to the IAPH (2021), after witnessing delays in more than 40% in April 2020, none of the ports surveyed were reporting delays (6-24 hours) or heavy delays (> 24 hours) in cross-border road transportation in October. This figure bounced up to 16.3% in November (week 45) and increased further to 20% in February 2021. While this percentage is far below the initial figures, it shows that fewer ports are experiencing normal cross-border trucking operations.

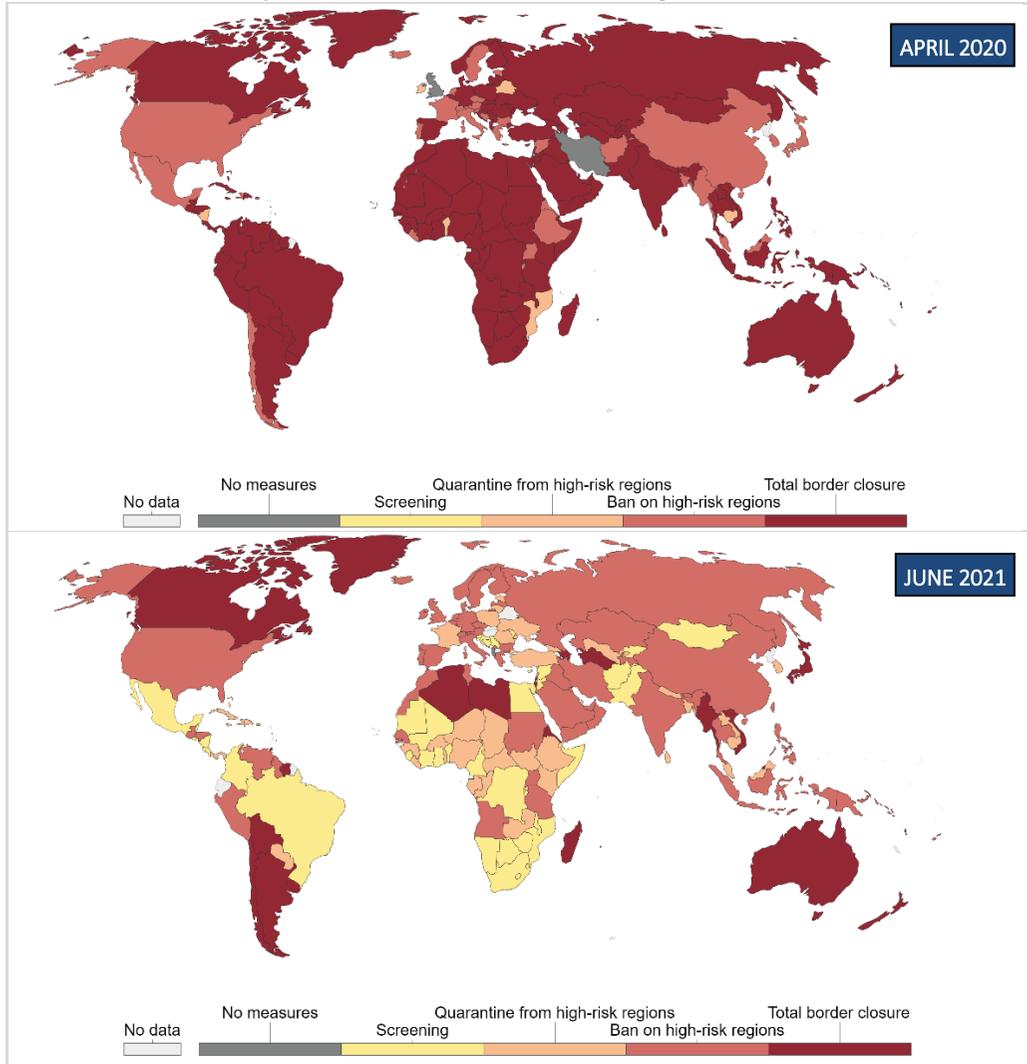
Moreover, even if trucking availability remains unaffected, some 18.6% of ports face disruptions in rail services in February 2021, up from the record low figure of 4.9% in October and 11.1% in December 2020. This percentage has further increased reaching 25% in April 2021, mostly due to some difficulties reported in North America. This is close to the level of disruptions reported in the early days of the pandemic, where almost 30% of ports reported that rail traffic had fallen. The situation in other parts of the world has only slightly deteriorated, as reported by the IAPH.

An efficient and well-functioning road transport sector is essential for socio-economic development. During the pandemic, it played a critical role in moving essential goods and products, including food and medical supplies within and across borders. Border closures, on the other hand, constituted serious challenges for landlocked countries in accessing essential goods from abroad.

Our World in Data portal represents data and research on how the pandemic has changed the movement of people around the world. *Map 3.3* illustrates the extent of restrictions imposed by the governments on international travel. In April 2020, nearly all borders around the world were closed. After more than a year, despite relaxations, significant restrictions remain in many countries for cross border mobility. The continuation of such restrictions has a particular impact on the tourism industry and on countries that heavily rely on international tourism.



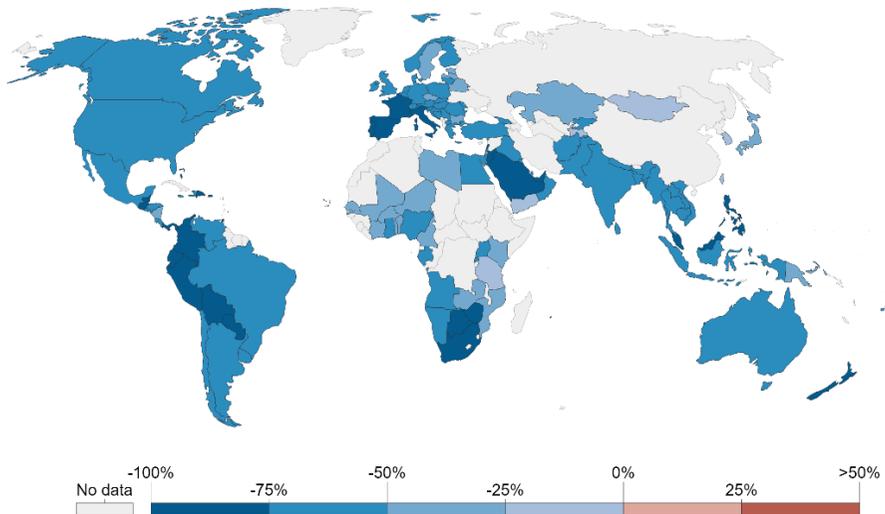
Map 3.3: International Travel Controls during the Pandemic



Source: "Our World in Data" based on Hale et al (2021).

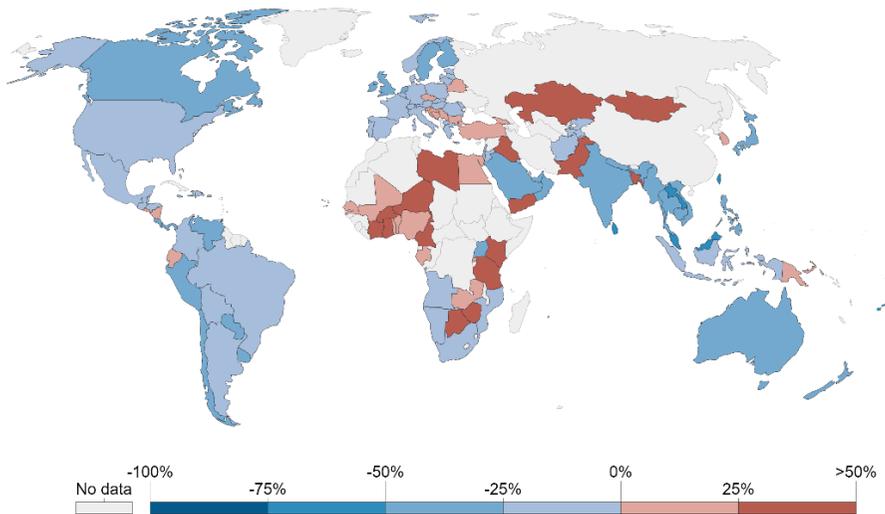
Inland transportation has also been severely affected during the pandemic. The data provided by the Our World in Data portal reveals that the number of visitors to transit stations has declined dramatically relative to the period before the pandemic (*Map 3.4*). Transit stations include public transport hubs such as subway, bus, and train stations. According to the International Union of Railways (UIC), travel restrictions and precautionary measures have led to a decrease of approximately 80% in passenger volumes for all national rail services during lockdowns (UIC, 2020). For international rail passenger services, the passenger volumes have fallen by almost 100% for all operators, in line with international passenger border closures. Based on different model assumptions, the UIC estimated that passenger and freight revenues could lose between US\$ 78 to US\$ 125 billion for both 2020 and 2021 as a result of the pandemic. In June 2021, the situation somewhat improved, where passenger traffic remained below the pre-pandemic period in many countries, but it increased in a number of OIC countries (*Map 3.5*).

Map 3.4: Change in the Number of Visitors in Transit Stations (April 2020)



Source: "Our World in Data" based on Google COVID-19 Community Mobility Trends.

Map 3.5: Change in the Number of Visitors in Transit Stations (June 2021)



Source: "Our World in Data" based on Google COVID-19 Community Mobility Trends.

Policy Issues for Strengthening the Resilience in Transport Sector

Disruptive events, whether it is predictable or unpredictable, have widespread impacts on normal life. The pandemic has highlighted the importance of resilient supply chains and logistics networks. The transportation sector was one of the most severely affected sectors due to the restrictive measures taken to curb the pandemic. Stakeholders in the sector were all taken by surprise by the pandemic. Measures taken to prevent the spread of the virus were necessary, but reduced staff and restrictions on physical contacts and travel left an unprecedented impact on the sector. Countries with a greater level of digital infrastructure in managing logistics as well as



with greater flexibility in utilizing alternative intermodal transport options were able to avoid some of the potential damages.

When the transport network is disrupted, the consequences can be widespread, including halting the production and distribution, increasing the cost of goods, and preventing people from accessing critical services. The sector plays a particularly critical role in facilitating trade across borders and supporting international tourism. While experiences regarding the disruption may vary depending on pre-existing conditions and levels of preparedness, disruptions in transport links for an extended period of time affect communities and a country's economic health. For this reason, reducing vulnerability and achieving greater resilience to future shocks is critical for the sustainability of not only the sectoral activities but also overall economic activities. Even though governments are taking measures to protect the economic sectors from diverse economic and financial difficulties, the longer term measures require a wider perspective.

It is important to recognize the critical importance of digitalization and automation in transport services for achieving greater efficiency and sustainability. It has the potential to reduce human contacts at various transport services from clearance processes to ticketing. With regard to the inland transport systems, specific measures can be developed to immediately react to future pandemics, such as emergency plans showing which transport networks and border crossings should be kept operational. Uncoordinated border closures and restrictions posed serious challenges worldwide. For example, of 54 African countries, 38 introduced different types of border closures, causing cross-border trade to slow down significantly, while limited comprehension and inconsistent application of COVID-19 measures led to confusion among both truck drivers and border authorities (UNECE, 2021). This requires OIC countries to intensify coordination in increasing the predictability and efficient deployment of border measures in emergency situations.

In terms of road transportation, it is encouraged to develop Intelligent Travel Systems (ITS) to promote safety and resilience in road transport. ITS solutions include real-time travel information services, new-generation systems for infrastructure charging and sophisticated management models across all transport modes. Intelligent and automated transport systems tend to reduce the frequency and duration of human-to-human contact (social distancing) while in transport and thus reduce the likeliness of contagion of communicable diseases. ITS solutions utilise advanced information technologies related to driver assistance, traffic management and vehicle control, which are constantly improving the quality of interaction between highway systems and vehicles (UNECE, 2012).

Governments have responded to the crisis by designating ports, shipping, and trucking services as essential, and exempted them from related restrictions. Although many airports were closed to passenger flights, most remained open to cargo, reflecting the particular importance, resilience and strength of air cargo. It is imperative to develop an advanced air cargo system and capacity for a speedy response to future shocks. Investments in the rail sector can also be prioritized as a critical transport modality in sustaining the mobility of goods and people within and across borders. The rail freight can be key in supporting a sustainable logistic value chain, but

also for passenger activity at a time when travel conditions and expectations are changing considerably.

It is also recommended to develop regional and international strategic mechanisms to regulate the transportation systems to ensure resilient supply chains, transport and trade to avoid any disruptive effects of future pandemics or similar shocks. Maritime transport is particularly critical for the sustainability of global trade and value chains. The recent shortage in containers and maritime equipment raised concerns about the efficiency of existing mechanisms. Monitoring of port calls and liner schedules, along with better tracing and port call optimization, are among the challenges that need to be addressed in the near future. It is also important to ensure that national competition authorities can monitor freight rates to prevent abusive behaviours.

3.3. COVID-19 and the Tourism Sector

International tourism is one of the main economic activities and an important source of foreign exchange earnings, economic growth, and employment in many developed and developing countries including OIC countries. Before the outbreak of the COVID-19 pandemic, the tourism sector generated around 10.4% of the world's GDP (US\$ 9.2 trillion) and 10.6% of all jobs (334 million) in the year 2019 (WTTC, 2021a). The sector created one in every four new jobs across the globe before the pandemic. As the tourism sector has direct and indirect linkages with 185-supply side activities in the economy, a shock such as a pandemic could have the potential to affect a chain of economic activities from transportation to hoteliers (OECD, 2020d). For instance, UNCTAD (2021c) estimated that, due to linkages with upstream sectors like agriculture, a drop in tourist sales leads to a 2.5-fold loss in real GDP, on average, in absence of any stimulus packages.

According to the United Nations World Tourism Organization (UNWTO, 2020a), globally around 80% of all tourism businesses are small-and-medium-sized enterprises (SMEs) that have limited sources to survive in case of an economic shock like the current one caused by the COVID-19 outbreak. The tourism sector not only creates millions of jobs but also provides opportunities for some vulnerable groups like women, youth, and rural communities in many developing and developed countries (UNWTO, 2020b; UN, 2020). In this regard, a recession or a crisis in the sector could translate into a loss of millions of jobs due to COVID-19. Consequently, a disruption in the activities of the sector could hit all wide-range tourism stakeholders and, thus, trigger the jobless and poverty rates (UN, 2020).

Against this background, this sub-section, first, provides an assessment regarding the impacts of the COVID-19 pandemic on the tourism sector of OIC countries. Second, it reviews a selected number of OIC countries' policies and measures that are aimed at mitigating the impacts of the pandemic. Lastly, the sub-section concludes with a number of policy recommendations.

Assessing the Impacts of the COVID-19 Pandemic on International Tourism in OIC Countries

The declaration of the pandemic of COVID-19 on 11 March 2020 by the World Health Organization (WHO) triggered a wave of travel restrictions in different forms and intensities that



put the tourism sector into a difficult position. According to UNWTO (2020c), on 28 April 2020, of 217 destinations worldwide:

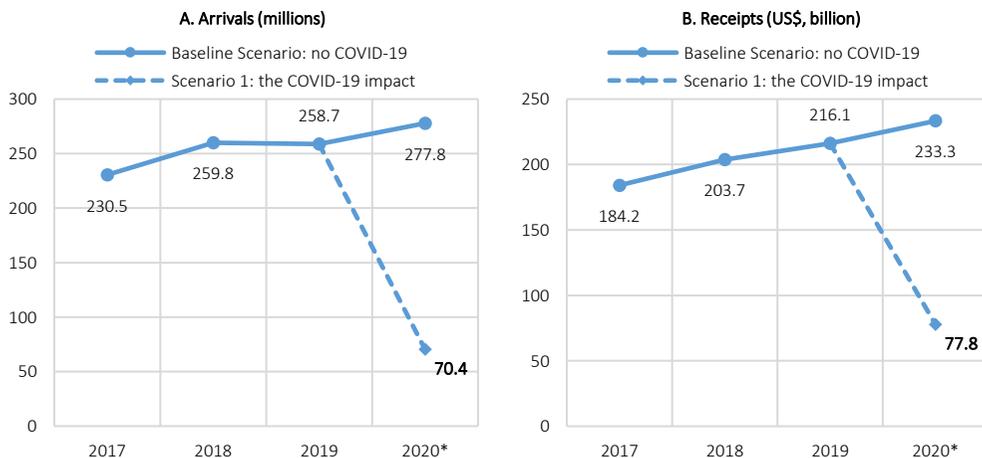
- 45% have totally or partially closed their borders for tourists - “Passengers are not allowed to enter”;
- 30% have suspended international flights totally or partially - “all flights are suspended”;
- 18% are banning the entry for passengers from specific countries of origin or passengers who have transited through specific destinations; and
- 7% are applying different measures, such as quarantine or self-isolation for 14 days and visa measures.

Those restrictions and measures have continued in both 2020 and 2021 at varying intensities and scope, as the spread of the virus could not be fully stopped yet. As a result, the biggest crisis in the history of the tourism industry since World War II started in 2020. The worldwide tourist arrivals declined by 72.8% in 2020 as compared to 2019, which resulted in an estimated loss of US\$ 1.3 trillion in export revenues. Tourism receipts declined by 64% in 2020 (UNWTO, 2021a). UNWTO (2020a) reported that, due to the COVID-19 pandemic, the global tourism sector lost between five- and seven-years’ worth of growth, and it will take several years to reach the pre-pandemic levels.

Quantifying the Impacts of the Pandemic

The tourism sector in OIC countries was also severely hit by the pandemic. The devastating impacts of the pandemic, which have eroded confidence in international travel, and the strict containment measures put in place (e.g. curfews, lockdowns, border-closures, cancellation of international flights) resulted in significant losses in terms of both tourist arrivals and tourism receipts.

Figure 3.27: International Tourist Arrivals and Tourism Receipts in OIC Countries

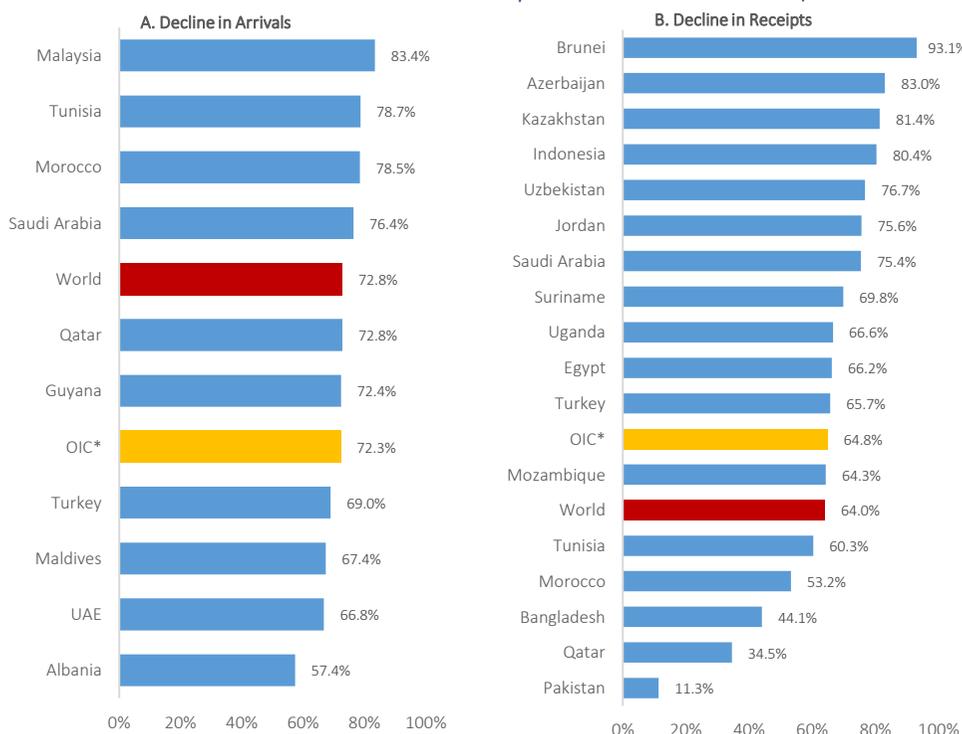


Source: SESRIC staff calculations based on UNWTO data (Barometer May 2021) covering 45 OIC countries.

Note: The baseline scenario uses the trend values over the period 2017-2019 to estimate 2020. Estimation in Scenario 1 uses the UNWTO world averages of 72.8% decline in arrivals and 64% decline in receipts.

To put it into perspective, *Figure 3.27* presents projections on international tourist arrivals and tourism receipts in OIC countries based on two scenarios. The baseline scenario assumes that there is no COVID-19 outbreak, such that, in 2020, OIC countries followed the positive pattern seen over the period 2017-2019 in terms of both tourist arrivals and tourism receipts. The other scenario, Scenario 1, assumes that the COVID-19 hit the OIC countries' tourism sector to the same extent as it did in the world. Accordingly, OIC countries are estimated to host 70.4 million international tourists instead of a baseline projection of 277.8 million in 2020. This translates into a potential loss of US\$ 155.5 billion in tourism receipts in the OIC group. In other words, the pandemic prevented OIC countries to generate potential US\$ 233.3 billion tourism receipts, and the prevailing conditions only allowed them to collect tourism revenues of US\$ 77.8 billion in 2020.

Figure 3.28: Decline in Tourist Arrivals and Tourism Receipts in Selected OIC Countries (2020 versus 2019)



Source: UNWTO, Provisional Data Reported in the World Tourism Barometer, May 2021

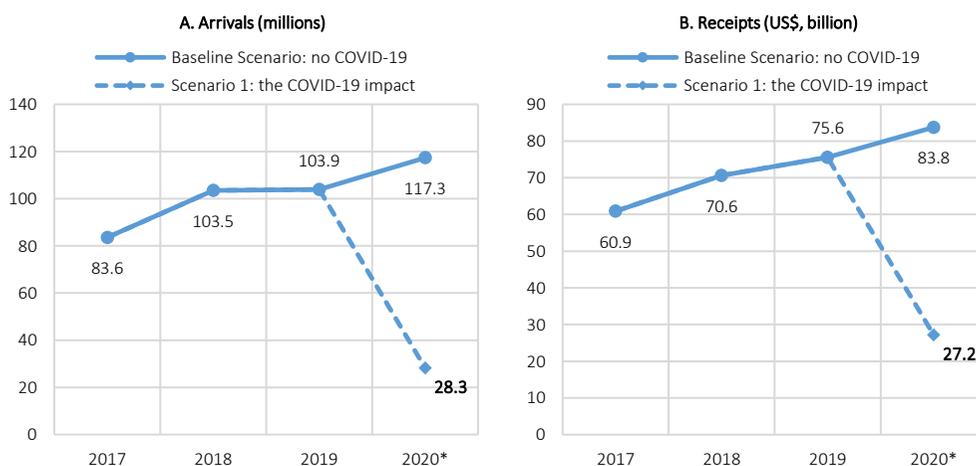
(*) The OIC average represents only the member countries listed on the chart.

As compared to 2019, OIC countries, as a group, were estimated to host 72.8% fewer international tourists and to earn 64% less tourism receipts, according to Scenario 1 (*Figure 3.27*). Those figures seem to be realistic. The provisional data reported by UNWTO (2021a) for a number of OIC countries revealed that tourist arrivals, on average, declined by 72.3% and receipts went down, on average, by 64.8% in 2020 as compared to 2019 (*Figure 3.28*). Nevertheless, wide disparities exist at the individual country level. In terms of arrivals, the magnitude of decline exceeded 75% in Malaysia, Tunisia, Morocco, and Saudi Arabia. The drop in tourism receipts was more than 80% in Brunei Darussalam, Azerbaijan, Kazakhstan, and Indonesia.



A similar gloomy picture exists in intra-OIC tourism activities in 2020 due to the outbreak of the pandemic. *Figure 3.29* presents projections on intra-OIC tourist arrivals and tourism receipts for the year 2020. The baseline scenario reflects the usual growth trajectory of the tourism sector in OIC countries based on their performance during the period 2017-2019 with the assumption that there is no COVID-19 outbreak in 2020. Scenario 1 considers the impact of the pandemic. Accordingly, intra-OIC tourist arrivals are projected to be recorded at 117.3 million in the baseline scenario and 28.3 million in Scenario 1 (*Figure 3.29.A*). In a similar vein, intra-OIC tourism receipts were expected to increase from US\$ 75.6 billion in 2019 to US\$ 83.8 billion in 2020 in the baseline scenario. Yet, in Scenario 1, intra-OIC tourism activities only generated US\$ 27.2 billion intra-OIC tourism receipts that indicate a potential loss of US\$ 56.6 billion in 2020 in comparison with the baseline scenario (*Figure 3.29.B*).

Figure 3.29: Intra-OIC Tourist Arrivals and Tourism Receipts



Source: SESRIC staff calculations based on UNWTO data (Barometer May 2021) covering 39 OIC countries.

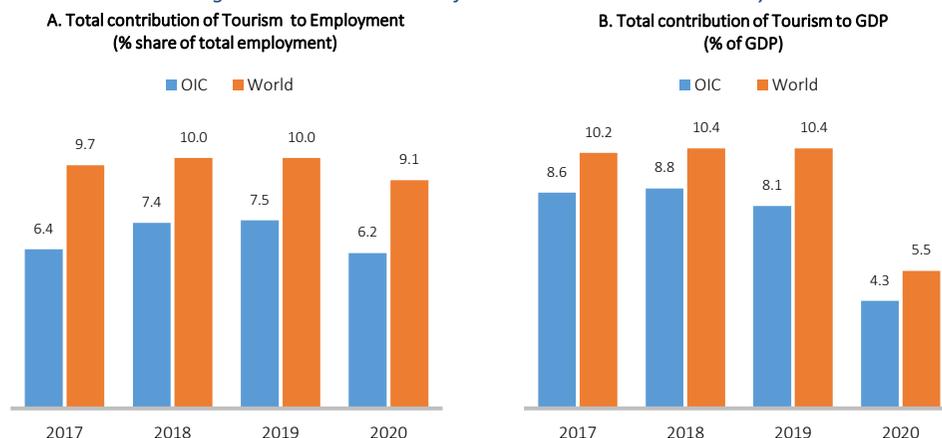
Note: The baseline scenario uses the trend values over the period 2017-2019 to estimate 2020. Estimation in Scenario 1 uses the UNWTO world averages of 72.8% decline in arrivals and 64% decline in receipts.

Data reported by the World Travel and Tourism Council (WTTTC, 2021b) bring additional insights in quantifying the impacts of the pandemic on employment and GDP by taking both direct and indirect linkages of the tourism sector with the overall economy in OIC countries. The total contribution of international tourism to employment in OIC countries, on average, increased from 6.4% in 2017 to 7.5% in 2019 (*Figure 3.30.A*). Globally, it also went up from 9.7% to 10.0% over the same period. The total contribution of tourism to GDP in OIC countries, on average, climbed up from 8.6% in 2017 to 8.8% in 2018. In 2019, the average of OIC countries witnessed a slight decrease and was recorded at 8.1%. The world average saw an increase from 10.2% in 2017 to 10.4% in 2019. In other words, the contributions of the tourism sector to employment and GDP remained sub-potential in the OIC group as compared to the world average even before the pandemic.

In 2020, with the outbreak of the pandemic, due to a significant reduction in tourist arrivals and tourism receipts, the average contribution of tourism to employment in OIC countries declined from 7.5% in 2019 to 6.2% in 2020, corresponding to an estimated loss of 8.6 million jobs. In a

similar vein, the contribution of travel and tourism activities to GDP in the OIC group decreased from 8.1% in 2019 to 4.3% in 2020 (Figure 3.30.B). The estimated size of the loss in OIC GDP generated by the travel and tourism industry was measured at US\$ 292.6 billion in 2020, mainly stemming from a variety of measures taken to contain the spread of the virus.

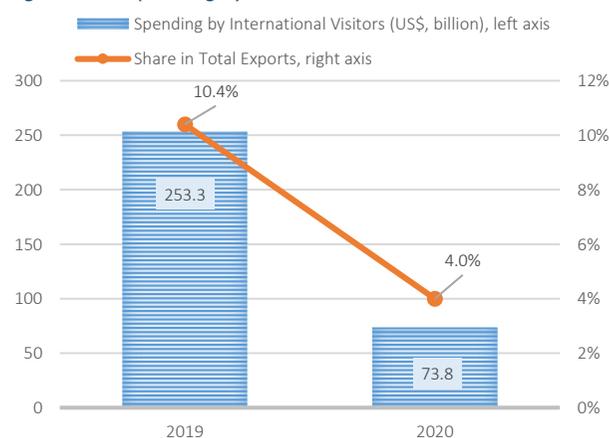
Figure 3.30: Contribution of Tourism Sector to the Economy



Source: World Travel and Tourism Council (WTTC)

The decline in international tourist arrivals is associated with a significant reduction in tourism spending in OIC countries. The estimated spending made by international visitors in OIC countries went down from US\$ 253.3 billion in 2019 to US\$ 73.8 billion in 2020 (Figure 3.31). As a result, the foreign exchange earnings of OIC countries from those visitors eroded and could only make up 4% of total exports of the OIC group in 2020, down from 10.4% in 2019.

Figure 3.31: Spending by International Visitors in OIC Countries



Source: World Travel and Tourism Council (WTTC)

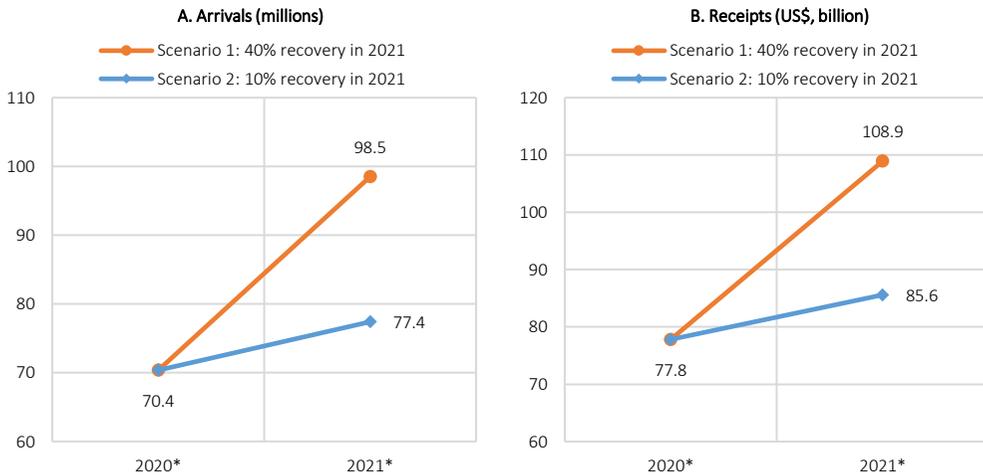
Outlook for 2021 and Beyond

Despite the ongoing vaccination rollout in many OIC countries, as of August 2021, the spread of the pandemic could not be fully stopped and new variants of the virus like Delta or Delta Plus have deteriorated the quick recovery expectations in 2021. Under those conditions, UNWTO (2021a) released two scenarios for 2021 in terms of tourist arrivals and tourism receipts. Both scenarios foresee some recovery in 2021 but at varying speeds (40% vs 10%). By using those two scenarios of the UNWTO, Figure 3.32 provides projections for OIC countries for 2021. Accordingly, in OIC countries, international tourist arrivals are expected to see a surge in 2021 as compared to 2020 and are projected to range between 77.4 million and 98.5 million. This will translate into international tourism receipts



between US\$ 85.6 billion and US\$ 108.9 billion. Despite presenting a better outlook for 2021, those figures are too far away from their 2019 levels, which implies that the full recovery and reaching pre-pandemic levels will take a few years.

Figure 3.32: International Tourism Outlook for 2021 in OIC Countries



Source: SESRIC staff calculations based on UNWTO May 2021 Barometer data covering 45 OIC countries. * Forecasted figures.

The evidence from a survey reported in UNWTO (2021a) supports that the majority of international experts (48% of the respondents) expect international tourism to reach pre-pandemic 2019 levels by 2024 or later in their respective countries. Around 37% of the experts expect that this can be achieved by 2023 (Figure 3.33). In fact, a number of factors are expected to influence the pace of recovery in the tourism sector worldwide. The UNWTO (2021a) survey provides detailed information on the role of those factors. Accordingly, 85% of the respondent international experts indicated the prevailing travel restrictions as the leading impediment factor that hinders the take-off of the tourism sector (Figure 3.34). The slow pace of virus containment

Figure 3.33: Expected Year of Return to Pre-Pandemic 2019 Levels in Tourism (% of Respondents)

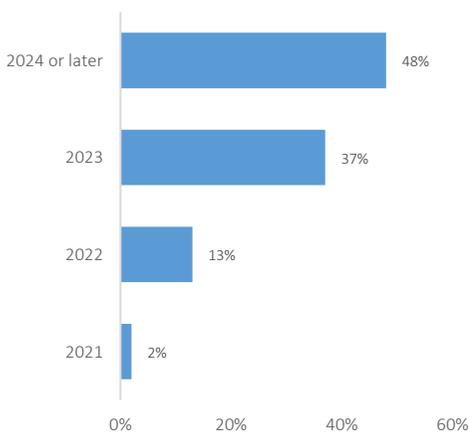
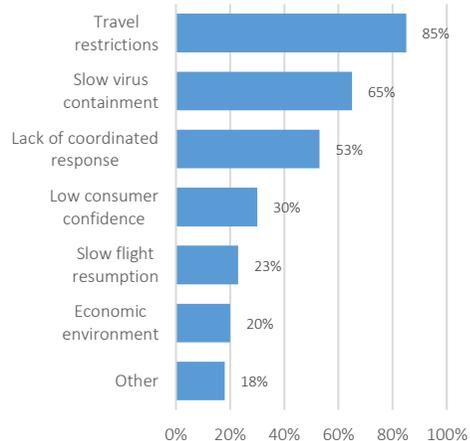


Figure 3.34: Factors that Affect the Recovery of International Tourism (% of Respondents)

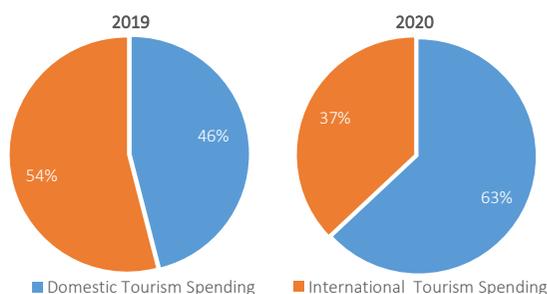


Source: UNWTO, World Tourism Barometer, May 2021 based on UNWTO Panel of Tourism Experts.

is the second important factor mentioned by 65% of the respondents. Lack of coordinated response (53%) and low consumer confidence (30%) were among the leading factors that affect the recovery. In this picture, OIC countries are recommended to pay more attention to those factors to mitigate the negative impacts of the pandemic during the recovery phase.

During the pandemic, in the existence of international travel restrictions, many countries around the globe paid special attention to domestic tourism activities as an alternative way to sustain and revive the tourism industry (UNCTAD, 2021c). Many OIC countries such as Uganda, Malaysia, and Jordan have also followed suit and organized several campaigns to boost domestic tourism to support the tourism industry and economic growth in general. As a result, the average share of domestic tourism in total tourism spending in OIC countries jumped from 46% in 2019 to 63% in 2020 while the share of international tourism regressed from 54% to 37% (Figure 3.35). In this regard, in the recovery efforts of OIC countries, the positive role and the potential contribution of the domestic tourism activities should not be underestimated and additional measures need to be developed to unleash its full potential.

Figure 3.35: Domestic vs International Tourism Spending in OIC Countries (share in total tourism spending)



Source: World Travel and Tourism Council (WTTTC).

Selected Policy Responses of OIC Countries to Mitigate the Negative Effects of the COVID-19 Pandemic on Tourism

Many OIC countries have developed and implemented a wide range of policies to mitigate the negative impacts of the pandemic on the tourism sector, support tourism stakeholders, and restart tourism activities. Those policies can be grouped under seven broad headings: setting up an internal crisis management mechanism, virus containment measures and health protocols, fiscal and monetary policy measures, supporting employment, restarting tourism, reviving domestic tourism, and developing travel bubbles. Those measures from the selected OIC countries would be illuminating and provide an idea about the availability of a wide range of tourism policy experiences and practices that could help to enhance intra-OIC cooperation through experience sharing and knowledge transfer on building up capacities on policy-making.¹¹

- **Setting up an internal crisis management mechanism:** Since the outbreak of the pandemic is considered as one of the biggest crises in the tourism sector, several OIC countries like Algeria, Saudi Arabia, and Bangladesh have established an internal crisis mechanism/team at the level of the Ministry of Tourism with an objective to manage the negative impacts of COVID-19 on the sector. The Bahrain Tourism and Exhibition Authority has started developing a ‘crisis management action plan’ with a view to

¹¹ The information summarized in this sub-section were collected from various international and national sources including the portals and websites of Ministries of Tourism of OIC countries, UN (2020), UNWTO (2021a) and IMF (2021f).



developing a communication strategy and effective media engagement. In this way, the Authority aims to better manage communication with the tourism stakeholders. Some OIC countries also worked out crisis management teams responsible for reviving the tourism sector in their respective countries. For instance, the Ministry of Tourism & Antiquities of Palestine has established the “Palestine Tourism Recovery Taskforce” which includes members from the Ministry and the private sector associations with a number of objectives on addressing the crisis.

- ***Virus containment measures and health protocols:*** As the COVID-19 pandemic is a health-related crisis in essence, the measures related to virus containment and health protocols have a vital role in mitigating the negative impacts and restoring confidence in tourism in OIC countries and elsewhere. In this context, several OIC countries like Turkey, Algeria, and Bangladesh developed and put in practice some specific measures targeting the tourism sector. For instance, the Ministry of Tourism, Handicrafts and Family Work in Algeria has developed and released “COVID 19 health protocols” to guide safe reopening of the sector. The health protocol requires hoteliers to set up monitoring and crisis cells in order to contain urgent situations and to mobilize medical staff for the daily care of tourists and employees. The Protocol also sets out measures concerning the operation of swimming pools and beaches, the reception and registration of guests. In a similar direction, in August 2020, the Ministry of Tourism in Saudi Arabia prepared a document on “Preventative Protocols for Tourism Accommodation Facilities” to reduce the spread of the virus and ensure a healthy environment for visitors and workers. Turkey has started the “Safe Tourism Certification Program” that defines and advises an extensive series of measures to be taken for tourism establishments. Palestine has developed and launched the “COVID-19 Tourism Operation Manual for Palestine”, the first of its kind in Palestine and one of the most comprehensive globally. The manual was approved by the Government as the official guide for all establishments and tourism service providers in Palestine. Qatar started the “Qatar Clean Program” to certify hotels, restaurants, and other tourism-relevant businesses for adherence to health and safety protocols.
- ***Fiscal and monetary policy measures:*** In order to mitigate the economic impacts of the COVID-19 pandemic on the tourism stakeholders, several OIC countries like Malaysia, Turkey, Palestine, Jordan, Uzbekistan, Egypt, and Bahrain developed comprehensive support and stimulus packages, which included both fiscal and monetary policy measures such as tax breaks or deferrals, subsidies, coverage of the social security contributions of workers in the industry, and provision of lending lines with no interest or low-interest to support establishments (SESRIC, 2020b). For instance, Palestine decided to provide an exemption of tourism establishments from licensing fees for the year 2020 and refund to all tourism establishments 50% of their Value Added Tax (VAT) dues in the Ministry of Finance. In particular, in a number of OIC countries like Turkey, Malaysia, and Kuwait such measures targeted especially SMEs that represent more than 80% of establishments with limited capabilities to confront such a devastating crisis.

- **Supporting employment:** Providing support for employment is a critical component to ensure that businesses continue their operations as usual in the tourism sector as well as to protect vulnerable workers. To this end, many OIC countries have offered stimulus packages to assist business entities that create jobs and minimize job losses in the sector. For instance, Saudi Arabia decided to pay 60% of the salary for private-sector workers affected by COVID-19. A social safety net package of US\$ 4.5 billion was also announced to support employment in the country. In Malaysia, monthly financial assistance of US\$ 137 was offered to workers forced to take unpaid leave for up to 6 months.
- **Restarting tourism:** One of the key elements of mitigating the negative impacts of the pandemic crisis is to restart tourism activities. It helps governments, businesses, and workers to start operations and generate revenues as well as to restore confidence in the sector. To this end, several OIC countries have developed policies to restart tourism activities. In particular, some subsidies were designed to encourage tourism stakeholders to bring in new international visitors under strict health protocols. For instance, Uzbekistan has started to offer bonus subsidies to tour operators and travel agents. The companies receive US\$ 15 for each foreign tourist brought. Some OIC countries have developed alternative strategies related to vaccination in order to restart tourism activities such as the administration of vaccination upon arrival. The Maldives developed the 3V Strategy (standing for “Visit, Vaccinate, and Vacation”) to enable the Maldives to restart international tourism, attract more international visitors, and provide the opportunity to get vaccinated during their stay in the Maldives. A few OIC countries like Turkey and Maldives listed workers in the tourism industry in the national priority lists for getting the vaccination in order to facilitate the restart of tourism activities. In several OIC countries, airlines like Etihad and Emirates of the United Arab Emirates have collaborated with international institutions like the International Air Transport Association (IATA) in order to ease the travel restrictions (e.g. removal of quarantine measures upon arrival) from designated countries and follow international developments such as the “IATA Travel Pass app” that is considered as the COVID-19 digital passport.
- **Reviving domestic tourism:** In the existence of strict measures during the pandemic that restrict international travel, many OIC countries have started to pay more attention to domestic tourism activities in order to mitigate the negative impacts and support the tourism stakeholders. For instance, Malaysia started to promote the “Cuti-Cuti Malaysia” campaign which is set to boost the desire of Malaysians for domestic tourism. Uganda Tourism Board has launched a domestic tourism campaign dubbed “Take on the Pearl” to enhance domestic tourism in the country. Jordan extended financial support to the domestic tourism sector of 6.5 million Jordanian Dinar and allocated a specific budget for the marketing of domestic tourism destinations.
- **Developing travel bubbles:** A travel bubble is an agreement between two or more countries to open up their borders for travel without strict quarantine measures. Some



OIC countries have started to implement such an agreement to commence international tourism activities. For instance, Malaysia and Singapore reached an agreement on the reopening of their borders in August under the Reciprocal Green Lane and Periodic Commuting Arrangement. Brunei Darussalam and Singapore also made a similar agreement. Several other OIC countries have started talks for similar agreements, especially in the Gulf Region to come up with some regional travel bubbles.

Concluding Remarks and Policy Recommendations

The COVID-19 outbreak has been affecting international tourism in OIC countries severely since March 2020 and is likely to continue hitting the outlook in 2021 and beyond. The quantified impacts of the COVID-19 outbreak on the tourism industry of OIC countries are devastating (SESRIC, 2020a). The biggest crisis in the history of the tourism sector since World War II, the pandemic has got back the gains made over the past decade in the OIC group in terms of international tourist arrivals and tourism receipts, intra-OIC tourism activities, job creation, and contribution to the GDP. Consequently, with the outbreak of the pandemic in 2020, OIC countries, as a group, are estimated to have hosted 207.4 million fewer international tourists that led to a potential loss of US\$ 155.5 billion in tourism receipts (foreign exchange earnings). With direct and indirect linkages of the sector, the pandemic resulted in a potential collapse of US\$ 292.6 billion in the 2020 GDP and 8.6 million job losses in OIC countries (*Figure 3.36*). In terms of intra-OIC tourism receipts, an estimated US\$ 56.6 billion was lost due to a potential drop of 89 million in intra-OIC tourist arrivals in 2020 (in comparison with the baseline scenario).

Figure 3.36: A Summary: Impacts of the Pandemic on Tourism in OIC Countries in 2020

	207.4 Million	Fewer International Tourists Arrived
	US\$ 155.5 Billion	Less International Tourism Receipts Earned
	8.6 Million	Jobs Lost in the Tourism Sector
	US\$ 292.6 Billion	Less GDP was generated in the Tourism Sector (considering linkages with other sectors)

Source: SESRIC Staff Analysis based on UNWTO and WTTC datasets.

The available datasets, as of August 2021, do not allow us to undertake a reliable and rigorous regional/individual country analysis on OIC countries. Nevertheless, the available information and some provisional datasets reveal that all OIC geographical regions and member countries have not been affected to the same extent from the outbreak of the pandemic. Regional disparities do exist and individual country performances vary depending on a number of factors like the overall level of development of the tourism sector, the intensity and duration of containment measures, and the presence of stimulus and recovery packages.

Major tourist destinations in the OIC from various geographic regions like Malaysia, Saudi Arabia, Turkey, and Indonesia seem to be more affected in terms of the aggregate size of the economic impact of the pandemic, such as the potential losses in tourism receipts. Yet, those OIC countries have enough diversity in their economies and alternative ways of generating foreign exchanges rather than tourism, such as through exporting manufactured or agricultural products. Nevertheless, the limited diversification of exports and heavy reliance on tourism activities limit the manoeuvre area of some OIC countries such as the Gambia, Maldives, and Albania, where the share of international tourism receipts in total exports usually exceed 50% (SESRIC, 2020b). Not surprisingly, such OIC countries could be affected to a higher extent by a significant reduction in their foreign exchange earnings (Oguz et al., 2020). Therefore, investing into diversification of tourism products by focusing on some niche markets such as Islamic tourism, ecotourism, and medical tourism, and speeding up the vaccination rollout could help them to compensate for their losses rapidly once the containment measures and restrictions are fully lifted. Some OIC countries have taken steps in this direction. For instance, Jordan has recently identified medical tourism and filming tourism as niche markets to be developed (UNWTO, 2021b).

In the end, it is a combination of various factors such as the availability of efficient public mechanisms, financial resources, and crisis-response preparedness that determines how and to which extent each OIC member country can successfully respond and recover from the unprecedented crisis that hit the tourism stakeholders. Restoring confidence and trust in the sector remains crucial and convincing people to start travelling internationally will take some time. In this context, an increasing number of destinations are putting in place different measures including safety and hygiene protocols, the promotion of domestic tourism, and the creation of travel corridors or bubbles to ensure a safe restart of tourism. In this context, OIC countries are recommended to follow up international developments like the “Safe Travels Stamp” initiative of the WTTC. For instance, Saudi Arabia was one of the first OIC countries to adopt the global safety and hygiene protocols of the WTTC and obtain the Safe Travels Stamp.

With the increasing availability of the vaccines against COVID-19, OIC countries, as other countries around the globe, have recently started to use the silver bullet to fight the pandemic and restart international tourism activities. According to UNWTO (2021a), 68% of international tourism experts expect that the vaccination rollout will contribute to the resumption of international tourism in 2021. Yet, the existing pace of vaccination and issues related to reciprocal recognition of vaccine cards or certificates stay as a challenge in many OIC countries. To address this problem some regional organizations developed solutions. For instance, the ‘EU Digital COVID Certificate Regulation’ entered into application on 1 July 2021 that EU citizens and residents are able to have their “Digital COVID Certificates” issued and verified across the EU. It aimed to ease the resumption of tourism activities in the region and help recovery in tourism. In a similar vein, if OIC countries could develop a similar scheme and speed up the vaccination rollout, it would help to restart international tourism in OIC countries in a coordinated manner as well as enhance intra-OIC tourism activities.

There is a close link between health related preventive measures and tourism policies in the wake of the pandemic. For instance, once OIC countries could increase the share of vaccinated



populations rapidly, international tourism activities are likely to restart and recover as early as possible. In this regard, ensuring effective coordination through established mechanisms among various authorities such as the Ministries of Health and Tourism in OIC countries is essential to mitigate the challenges faced by the tourism stakeholders.

The quality of infrastructure, human resources, and the existence of strong political willingness will all play a role in responding to the needs of the tourism sector in OIC countries. In this context, investing in physical infrastructure (e.g. hygiene kits, screening, and rapid COVID-19 test equipment) and upskilling the capacities of staff through offering training programmes with a view to equipping them with new COVID-19 related health and hygiene protocols could help OIC countries to become more competitive in the international tourism sector.

OIC countries are very rich in terms of policy responses to mitigate the negative impacts of the pandemic on tourism. Sharing of best-practices or lessons learned during the pandemic in the domain of tourism would help to increase the capacities of national institutions in OIC countries and help them in the process of building resilience for future shocks. They could serve as a source of inspiration for policy makers and therefore would stimulate the transfer of knowledge and experiences at the OIC cooperation level. Moreover, enhancing intra-OIC tourism activities by, for instance, easing bilateral visa policies, considering reciprocal recognition of vaccine cards, developing regional travel bubbles, and providing incentives (e.g. temporary tax cuts, subsidies) for airlines along with travel agencies would also help to minimize the potential financial losses in 2021 and beyond, and could save many jobs that are affected by the COVID-19 pandemic.

Annex: Country Classifications

A. Major Country Groups used in the Report

OIC Countries (56+1)					
Code	Name	Code	Name	Code	Name
AFG	Afghanistan	GUY	Guyana	PAK	Pakistan
ALB	Albania	IDN	Indonesia	PSE	Palestine
DZA	Algeria	IRN	Iran	QAT	Qatar
AZE	Azerbaijan	IRQ	Iraq	SAU	Saudi Arabia
BHR	Bahrain	JOR	Jordan	SEN	Senegal
BGD	Bangladesh	KAZ	Kazakhstan	SLE	Sierra Leone
BEN	Benin	KWT	Kuwait	SOM	Somalia
BRN	Brunei Darussalam	KGZ	Kyrgyz Republic	SDN	Sudan
BFA	Burkina Faso	LBN	Lebanon	SUR	Suriname
CMR	Cameroon	LBY	Libya	SYR	Syria*
TCD	Chad	MYS	Malaysia	TJK	Tajikistan
COM	Comoros	MDV	Maldives	TGO	Togo
CIV	Cote d'Ivoire	MLI	Mali	TUN	Tunisia
DJI	Djibouti	MRT	Mauritania	TUR	Turkey
EGY	Egypt	MAR	Morocco	TKM	Turkmenistan
GAB	Gabon	MOZ	Mozambique	UGA	Uganda
GMB	Gambia	NER	Niger	ARE	United Arab Emirates
GIN	Guinea	NGA	Nigeria	UZB	Uzbekistan
GNB	Guinea-Bissau	OMN	Oman	YEM	Yemen

* Membership to the OIC is currently suspended.

Developed Countries* (39)			
Australia	Germany	Lithuania	Singapore
Austria	Greece	Luxembourg	Slovak Republic
Belgium	Hong Kong SAR	Macao SAR	Slovenia
Canada	Iceland	Malta	Spain
Cyprus	Ireland	Netherlands	Sweden
Czech Republic	Israel	New Zealand	Switzerland
Denmark	Italy	Norway	Taiwan Province of China
Estonia	Japan	Portugal	United Kingdom
Finland	Korea	Puerto Rico	United States
France	Latvia	San Marino	

* Refers to "advanced economies" as classified by the IMF. Last update April 2021.

Developing Countries

Includes all countries other than those classified as developed countries.



B. OIC Countries by Income Group

High Income* (7)

Bahrain	Kuwait	Qatar	United Arab Emirates
Brunei Darussalam	Oman	Saudi Arabia	

Upper Middle Income* (14)

Albania	Iraq	Libya	Turkey
Azerbaijan	Jordan	Malaysia	Turkmenistan
Gabon	Kazakhstan	Maldives	
Guyana	Lebanon	Suriname	

Lower Middle Income* (20)

Algeria	Côte d'Ivoire	Kyrgyz Republic	Palestine
Bangladesh	Djibouti	Mauritania	Senegal
Benin	Egypt	Morocco	Tajikistan
Cameroon	Indonesia	Nigeria	Tunisia
Comoros	Iran	Pakistan	Uzbekistan

Low Income* (15+1)

Afghanistan	Guinea	Niger	Syria**
Burkina Faso	Guinea-Bissau	Sierra Leone	Togo
Chad	Mali	Somalia	Uganda
Gambia	Mozambique	Sudan	Yemen

* Country grouping by income level is based on World Bank classification by GNI per capita in 2020. Accordingly;

- Low-income countries: with a GNI per capita of \$1,045 or less,
- Lower middle-income countries: with a GNI per capita between \$1,046 and \$4,095,
- Upper middle-income countries: with a GNI per capita between \$4,096 and \$12,695, and
- High-income countries: with a GNI per capita of \$12,696 or more.

** Membership to the OIC is currently suspended.

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