ERF WORKING PAPER SERIES

ARAB ECONOMIC INTEGRATION: AN AWAKENING TO REMOVE BARRIERS TO PROSPERITY

Nasser Saidi

Working Paper 0322

ECONOMIC RESEARCH FORUM

ARAB ECONOMIC INTEGRATION: AN AWAKENING TO REMOVE BARRIERS TO PROSPERITY

Nasser Saidi

Working Paper 0322

The author would like to thank the participants in the AMF-IMF High Level Seminar and the discussant of the paper, Dr. Ali Sadek, for comments, Dr. Ali Bolbol of the AMF who kindly provided hard to find data and statistics, and Zeina Zein El-Abidine for efficient research assistance. The analysis, views and opinions expressed are those of the author and should not be interpreted or construed to represent any official policies or views.

Abstract

External challenges frequently offer an impetus for internal unification. The challenges emerging post September 11, the war in Afghanistan and Iraq, and the declared war on terrorism, are strategic opportunities that the Arab countries should grasp to create a turning point in the history of the region.

This paper calls for an Arab awakening - a renaissance embodied in a strategy of regional economic integration. Witnessing an increase in intra-regional tourism, capital, and direct investment flows, the business sector has already taken up the challenge; while the corporate sector and the new generation of entrepreneurs aspiring to enjoy the benefits of regional economic integration, face barriers.

The paper reviews the empirical evidence and analysis relative to trade, investment, labour, and capital market integration. The Arab countries are less integrated than countries with similar levels of development and per capita income. Major impediments to integration and prosperity include economic policy and administrative obstacles that impede trade liberalization and economic integration and lead to relatively high costs of doing business. The institutional legacies of colonialism leading to weak regional integration institutions, poor regional infrastructure leading to high logistics costs, and the "curse of natural resources" are important structural factors retarding integration.

The paper concludes with a number of policy recommendations, namely: (1) Renegotiation of the GAFTA to establish an Arab Regional Integration Agreement (ARIA) with a wider scope that encompasses trade in services consistent with GATS, liberalization of capital flows and investment, freedom of labour movement, and freedom of establishment; (2) Finance investment in trans-national and regional infrastructure projects to help regional integration with private sector participation, leading to a pan-Arab integrated network of transport, communications, energy, telecommunications, and a broadband backbone to provide the "info structure" for an entry of Arab economies and societies into the digital age; (3) Assistance and finance for economic and social policies to support the convergence of incomes in the Arab region. (4) Prioritizing the development of the capital markets, setting the basis for their integration, and integrating the payment systems in the Arab countries to create an 'Arab Target' system that would establish the infrastructure for an Arab exchange rate system; (5) Establishing a set of institutions to enable and support economic integration and the creation of a regional integration and development financing facility; (6) Setting up a strategy for economic policy reform and public and corporate good governance; and (7) Implementation of a comprehensive regional policy-reform package to enable the emergence of the region's home-grown common "voice".

ملخص

غالباً ما تعطي التحديات الخارجية قوة دافعة للاتحاد الداخلي، وتحديات ما بعد أحداث 11 سبتمبر والحرب في أفغانستان والعراق، والحرب المعلنة علي الإرهاب؛ جميعها تمثل فرص استراتيجية يجب علي العرب اقتناصها لتحقيق نقطة تحول في تاريخ المنطقة.

إن ورقة البحث هذه تنادي بصحوة عربية - نهضة متمثلة في استراتيجية التكامل الاقتصادي الإقليمي. فبعد أن شهدت البلاد زيادة في السياحة ما بين الأقاليم، وزيادة رأس المال، وتدفقات الاستثمار المباشر؛ نجد أن قطاع الأعمال قد قبل التحدي بالفعل؛ و ذلك في الوقت الذي يواجه فيه قطاع الشركات والجيل الجديد من منظمو الأعمال حواجز عدة، وهم الذين يتطلعون إلي الاستمتاع بمزايا التكامل الاقتصادي الإقليمي.

في هذه الورقة استعراض للدليل التجريبي والتحليل فيما يتعلق بالتجارة، والاستثمار، والعمالة، وتكامل سوق المال. إن الدول العربية أقل تكاملاً من دول أخري بنفس مستويات التنمية والدخل الفردي. حيث أن هناك عوائق كبيرة تقف أمام التكامل والرخاء من بينها السياسة الاقتصادية، والعقبات الإدارية التي تعيق تحرير التجارة والتكامل الاقتصادي وتؤدي إلي تكاليف مرتفعة نسبياً للقيام بالأعمال. بالإضافة إلى إن الميراث المؤسسي المتخاف من الاستعمارأدي إلي مؤسسات ذات تكامل إقليمي ضعيف، وبنية تحتية إقليمية واهنة، والذي أدي بدوره إلي إرتفاع تكاليف الإمدادات، فضلاً عن "لعنة الموارد الطبيعية"، حيث يعد كل ما تقدم عوامل هيكلية هامة أدت إلي تأخر التكامل.

تُختتم الورقة بعدد من التوصيات السياسية، منها: (1) إعادة التفاوض بشأن منطقة التجارة الحرة العربية الكبري لإقامة اتفاق التكامل الإقليمي علي نطاق أوسع يشتمل علي تجارة الخدمات بما يتماشي مع الاتفاق العام بشأن تجارة الخدمات، وتحرير تدفقات رأس المال والاستثمار، وحرية تنقل العمالة، والحرية المؤسسية؛ و(2) تمويل الاستثمار في مشروعات البنية التحتية عبر الوطنية والإقليمية لمساعدة التكامل الإقليمي بمشاركة القطاع الخاص، مما يؤدي إلي شبكات متكاملة في الدول العربية للنقل، والإتصالات، والطاقة، والإتصالات السلكية واللاسلكية، وأساس عريض النطاق يقدم "هيكل المعلومة" لدخول الاقتصادات والمجتمعات العربية إلي العصر الرقمي؛ و(3) مساعدة السياسات الاقتصادية والاجتماعية وتمويلها لدعم تقارب الدخول في المنطقة العربية. و(4) تحديد أولويات تطوير أسواق المال، ووضع أسس تكاملها، وتوحيد أنظمة السداد في الدول العربية لإرساء نظام "الهدف العربي" الذي سوف يضع الأساس لنظام سعر الصرف العربي؛ و(5) تأسيس مجموعة من المؤسسات لتهيئة المناخ للتكامل الاقتصادي ودعمه وتأسيس مرفق للتكامل الإقليمي والتمويل التنموي؛ و(6) وضع إستراتيجية لسياسة الإصلاح الاقتصادي والإدارة الرشيدة العامة وللشركات؛ و(7) تنفيذ مجموعة من سياسات الإصلاح الإقليمية الشاملة لتساعد علي ظهور "الصوت" الإقليمي المحلي المشترك.

1. Introduction

The September 11, 2001 terrorist attacks followed by the war on Afghanistan and the continuing war on Iraq and their aftermath, pose a challenge to the Arab countries. The declared 'war on terror' has led to discrimination against the Arab and Islamic countries with greater impediments and barriers to business, and the flow of capital, labour and people. However, the challenges and discrimination provide a historical opportunity for Arab Economic Integration. External challenges are frequently an opportunity for internal unification. The Iraq-Iran war encouraged the GCC to take the initial steps towards unification. Post-colonial confrontations in the 1950s and early 1960s led to aborted unification attempts between Egypt and a number of Arab countries. Indeed, the establishment of the League of Arab States in 1945 was also an attempt to develop a common "voice" for the Arab world, with plans for an Arab Common Market. More recently, the emergence of large trading blocs and regional trade and integration agreements encouraged the Arab countries to move towards a Greater Arab Free Trade Area. While promising, none of these initiatives has resulted in greater integration.

This paper calls for an Arab Awakening, a tactical renaissance, embodied in a strategy of economic integration. We should not miss this strategic opportunity to create a turning-point in the history of the region. A silver lining has emerged in the post-September 11 world: an impetus towards increased regional business, investment, and tourism. Our business sector has seen the opportunity and taken up the challenge. Intra-regional tourism has been rising, as have intra-regional capital flows and direct investment. Higher energy prices have generated large trade balance, capital account, and fiscal surpluses with increased liquidity leading to a boom in real estate and the region's stock markets. On the one hand, the private sectors, businesses, enterprises, and civil society, have the incentive to seek the benefits of integration arising from the expansion of markets; and a new generation of entrepreneurs seeks to expand outside their small national markets. On the other hand, protected sectors, in particular the State Owned Enterprises (SOEs), are the main lobbyists against trade liberalization and integration.

Successful regional integration requires a number of building blocks. First: Governments should seize the opportunity and provide the enabling framework for the private sector to act as a major unifying force and integration promoter. This requires a vision and an Arab Economic Integration Treaty. Second: Integration requires investment in physical infrastructure to break down physical barriers, reduce transport and communication costs, and the costs of logistics. Third: The Arab countries must move beyond the superficial integration denoted by free trade in goods (as represented by the Greater Arab Free Trade Area) toward 'deep integration' and the harmonization of institutions, laws, and regulations to facilitate comprehensive economic integration. Given the small economic size of the majority of the Arab countries, differences in legislation, legal systems, regulations, norms and standards lead to high costs of transactions that reduce intra-regional trade, capital flows, and labour movements. Four: successful regional economic integration requires the creation of compensation mechanisms to overcome resistance to opening-up and to economic integration. The Arab countries will need to provide institutional financing for regional investment and development, along with the creation of social cohesion and structural funds as mechanisms during the transition period. Five: the process of Arab Economic Integration (AEI) should be a public-private partnership program designed to achieve consensus. The private sector must be kept informed of the process for efficiency in effecting the transition. Opening-up and economic integration will necessitate substantial investments to undertake structural change and transition towards market economies. Providing full information to the private sector on strategy and policies will reduce the costs of adjustment during transition and beyond.

2. Concepts of Economic Integration

Traditionally, economists thought of economic integration as openness in trade of goods. Two or more countries were considered highly integrated if a substantial amount of their trade was bilateral or multilateral with each other. With increased globalization during the 1980s and 1990s, the concept of economic integration has evolved to encompass trade in services, labour, and capital mobility as well as financial market integration. With increased importance of regional integration agreements and resurgence of interest in the role of economic institutions and New Institutional Economics[1], economic integration does not only refer to reducing barriers among countries to transactions and to movement of goods, capital, and labour, but also to the harmonization of laws and regulations, and the adoption of common norms and standards in organizing economic activities.

Economists distinguish between: (a) Shallow integration between economies resulting from the reduction or elimination of tariffs, quotas, and other barriers to trade in goods at the border, such as trade-limiting customs procedures; and (b) Deep integration, where economic integration goes well beyond removal of formal barriers to trade to include various ways of reducing the international burden of differing national regulations, such as the acceptance by one country of another country's certification that a satisfactory level has been met for ability, performance, health, sanitary and phyto-sanitary and safety standards. Therefore, as a result of bilateral and international agreements, deep integration requires the changing of government regulations and practices to make those of different countries the same or more compatible to each other.

We can divide cross-border transactions into 4 main groups:

- *International trade:* The exchange of goods and services across national boundaries;
- *Foreign direct investment:* Factor market integration - labour and the establishment and operation of a business in one country that is substantially controlled by residents of another;

[1] Largely inspired by the seminal work of Ronal Coase, the 'New Institutional Economics', incorporates a theory of institutions into economics. It builds on, modifies, and extends neoclassical theory. It retains and builds on the fundamental assumption of scarcity and hence competition - the basis of the theoretic approach that underlies microeconomics. It has developed as a movement within the social sciences, especially economics and political science that unites theoretical and empirical research and examines the role of institutions in furthering or preventing economic growth. It includes work in transaction costs, political economy, property rights, hierarchy and organization, and public choice. See New Institutional Economics.

- *Banking and capital markets integration:* The purchase and sale of financial assets either through portfolio investment or lending and borrowing; and
- *Labour migration:* The offer of labour services in one country by residents of another.

The General Agreement on Trade in Services (GATS), in particular, identifies four modes of supply: cross-border supply (mode 1); consumption abroad (mode 2); commercial presence (mode 3); and the presence of natural persons (mode 4). Thus, the GATS extends traditional trade law to include both foreign direct investment (mode 3) and movements of labour (mode 4).

It could be said that the Arab countries are perfectly economically integrated i) when their residents face no official obstacles to negotiating and executing economic and financial transactions anywhere and with anyone within the integrated area; and ii) when they face the same transaction costs independently of where they reside. Nevertheless, it is clear that this is not the case. Official or policy-based barriers to international integration include: tariffs, quotas, and non-tariff barriers impeding international trade; official controls on current payments and on international capital movements; laws and regulations limiting or constraining the freedom of establishment of firms; and labour and immigration laws that prevent workers from freely offering their labour services in the Arab countries.

In addition, there are 'behind-the-border' policy-based barriers that discriminate against foreign suppliers. These are derived from differences in national regulatory systems, licensing of businesses and service providers, and government procurement practices. Other obstacles to integration can arise from collusions between domestic firms to obstruct foreign firms leading to the formation of lobbies against liberalization and/or deregulation and the protection of vested interests.[2]

Finally there are barriers to integration originating from logistics costs, transportation and communications costs, and information asymmetries that give domestic firms superior knowledge of local business conditions.

3. Economic Integration: Some Guidelines from Theory

Jacob Viner's path-breaking work on customs union and related forms of trade integration identified two sets of forces resulting from increased integration: *trade creation* and *trade diversion*. Trade creation occurs because consumers and producers have access to wider markets and a larger variety and/or better quality of products fashioned according to the comparative advantage of each country or countries and benefiting from lower production costs and/or higher quality goods. These are the gains from trade. Trade diversion occurs if as a result of customs union or trade integration, imports are diverted from lower-cost producers (from the rest of the world) toward the higher-cost products and services of the partner country or countries. The countries, viewed jointly, lose if the costs resulting from trade diversion outweigh the benefits from

[2] See the interesting paper by T.G. Srinavasan on "Globalization in MENA – A Long Term Perspective, presented at The Fourth Mediterranean Development Forum, Amman, Jordan, 2002.

trade creation. This can be further refined to include the quality of goods. The argument of the gains from trade applies if *all* trade barriers were removed. Gains may not apply if partial or discriminatory reductions in trade barriers are effected.

Viner's model and subsequent literature adopted a static view of the pros and cons of economic integration. Recent literature has examined dynamic aspects of Regional Economic Integration (REI) and blended-in new theoretical trade aspects including the potential benefits from economies of scale and scope, as well as dealing with imperfect competition[3]. REI and cooperation can be a tool for overcoming disadvantages of the small size of the economies making up a Regional Integration Agreement (RIA). With a larger market size, firms can invest and benefit from economies of scale leading to lower costs and allowing increased product diversification and better product quality. Furthermore, the removal of trade barriers generates more competition and breaks down monopolies or quasi-monopolistic industrial organization structures.

REI may also be the means to overcome the disadvantages of smallness and border effects by pooling, integrating, and networking infrastructure. RIAs, in particular, can be creators of *regional public goods* that improve trade related logistics, lowering the cost and segregation of trade in goods and services as well as the overall costs of doing business.

4. Evidence on the Non- Integration of the Arab Countries

The evidence on the lack of regional economic integration of the Arab countries is extensive and well documented. The main 'stylized facts' are as follows:

- The Arab countries did not participate in the recent globalization wave of the 1980s and 1990s and are weakly internationally integrated. The AT Kearney Globalization Index ranks 62 countries worldwide according to four measures of international integration (not necessarily independent) namely: 1) Economic Integration (trade, portfolio, FDI, and investment income); 2) Political Engagement; 3) Personal Contacts; and 4) Technology. The Globalization Index is important since it goes beyond the traditional (economic) measures of integration, including technology that may affect long term productivity growth. The 'digital divide' of the Arab countries will affect medium and long term growth and development prospects, unless remedied and convergence achieved. Table 1 reveals that the countries of the region rank poorly on the Globalization Index. Out of those countries for which data is available and reported (Tunisia, KSA, Morocco, Egypt, and Iran), the highest ranked is Tunisia (35 out of 62 countries). The others are among the least 'glob theoretical alized', with Iran at the bottom of the international scale. It should be noted that the traditional measures of trade openness is not indicative of globalization in other domains.

- The foreign trade of the Arab countries remain limited at 2.7 percent of world trade (Figure 1), similar to their share in world income (Table 2). Indeed, the trade performance of the Arab countries is comparable to the sad performance of the

[3] See the survey of the literature in Baldwin and Venables, 1995.

African sub-continent. Total non-energy exports stood at 80 billion in 2003, about the size of Finland's exports[4], which has a population of 6 million as compared to some 310 million in the Arab world. Apart from the energy exports of the oil producing countries, which reflects the volatility of oil prices, the growth of imports and of exports has been sluggish in the Arab countries, consistent with their low overall economic growth rates.

- Despite some policy efforts at production and export diversification (Figure 2), the product base and range remains limited. Hence, there is a high degree of concentration in exports (73 percent are energy/mining) and imports (79 percent are manufactures). Furthermore, the exports are natural resource intensive and value-added is low. The related feature is that there is a near absence of trade in intermediate products, reflecting limited international supply-chain integration.
- Given their young and growing populations, the critical element for the future of the Arab countries is developing service exports, which is considered the fastest growing component of world trade and potentially the most promising.
- There is also a mismatch in the direction of trade, with Asia representing more than 52 percent of exports, while Europe is the source of about 50 percent of the imports of the Middle East (Figure 3). Given that the majority of the Arab countries peg their currencies to the US $, they are vulnerable to substantial real effective exchange rate movements and/or terms of trade shocks[5].
- The limited extent of intra-Arab trade is not surprising, given the lack of international trade integration. Intra-regional trade represents about 3.5 percent of GDP (Figure 4). On average, intra-Arab trade represents some 11 percent of the region's imports and some 8 percent of their exports. Two other characteristics are noteworthy. Most intra-Arab trade is within sub-regions. Some 75 percent of GCC trade with the Arab countries is with GCC countries. Similarly, the trade of the North Africa Arab countries is mainly with themselves, as in the case for the Levant countries.[6] The pattern of intra-Arab trade is similar to their non-Arab trade, with energy exports representing over 60 percent of exports. Product complementarity, as measured by the 'complementarity index' of Havrylyshyn[7], is largely similar to that of other regional groupings. There is wide variation in the

---

[4] Table A1 shows summary indicators and contrasts two economies, Finland and Spain, with the Arab countries, illustrating the effects of different growth patterns and the impact of alternative trade and financial policy regimes.

[5] Saidi, N. (2003) notes that based on the methodology in Alesina, Barro and Tenreyro (2003) for a country that would seek to adopt a foreign currency, there are three important criteria for judging the benefits of an exchange rate anchor: (i) expansion of international trade that could result from a currency area; (ii) effect of the degree of co-movement of prices and output; and (iii) reduction of inflation resulting from linking to a low-inflation anchor currency. Empirical results suggest that for Arab countries an optimal anchor policy would call for linking to the Euro and not the US$, given the importance of trade and output linkages.

[6] Al-Atrash, Hassan M. and Yousef, Tarik, Intra-Arab Trade - Is It Too Little? IMF, Working Paper, 2000

[7] Havrylyshyn, O. and Al-Atrash, H. Opening Up and Geographic Diversification of Trade in Transition Economies, IMF Working Paper, 1998.

extent of intra-Arab trade across the Arab countries. Countries pursuing liberal trade regime policies have a higher fraction of intra-Arab trade.

- Labour movements and the accompanying flow of remittances appear to be the exception to the lack of regional integration (Figure 5). The intra-Arab labour flows are from the resource-poor but labour-rich countries (Lebanon, Egypt, Jordan) to the resource-rich but labour-poor countries. However, Arab labour is facing increased competition by Asian countries of lower-wage labour, resulting in a reduced flow from the labour exporting Arab countries and providing a possible reversal of the wage and income convergence process.
- The same observations apply a '*fortiriori'* to economic integration with the Arab countries, whether the indicator is trade in goods, services, financial assets, FDI or to a lesser extent labour. Figure 6 shows that the MENA region has not been able to attract FDI or other forms of capital flows. Out of FDI flows to the developing countries of US$135 billion, total FDI flows to the MENA region did not exceed US$2 billion in 2003, which is less than Finland at US$2.9 billion! Indeed FDI represented about 2 percent of investment in the region.

To summarize: the Arab countries are not well integrated[8] either on an international basis or on a regional basis (Table 3). Although some evidence suggests that there is under-trading at the regional level as compared to some benchmarks such as a gravity model, the lack of regional integration is a reflection of the lack of globalization[9]. Across a broad variety of indicators, trade in goods and services, capital flows, and to a lesser extent labour flows, the Arab countries are relatively less integrated than countries with similar levels of development and per capita income.

5. Barriers to Integration and Prosperity: Colonialism, Geography and Logistics

Why are Arab economies not more integrated? Evidence on economic growth and its determinants and on external trade of Arab countries suggests that growth under-performance and limited globalization result from a similar set of factors. One: There is a legacy of protectionist trade policy regimes that favoured inward-oriented policies during the 1960s and throughout the 1970s and early 1980s. Apart from the liberal outward oriented trade policy regimes of GCC countries, tariffs and non-tariff barriers have remained high despite initiation of trade liberalization policies during the past decade. This is evidenced at the institutional level by the relative delay in entry into the GATT/WTO, whose members accounted for more than 96 percent of world imports in 2003. Out of the 22 members of the Arab League, only 10 are members of the WTO, while four others are observers. Two: Political and/or security factors affected both the pattern of trade and the extent of intra-regional trade as a result of sanctions or trade embargos in both North Africa, as well as in the Middle East and the Levant. Three: The combination of protectionist trade policies and similar factor endowments generated

---

[8] See table A7, to learn about Arab's world share of world's total.

[9] The 2002 World Economic Outlook provides a summary of the evidence and reports on research. See http://www.imf.org/external/pubs/ft/weo/2002/02/pdf/chapter3.pdf

similar production structures, resulting in a lack of product diversification or product complementarity.

Box 1: MENA WTO Members and Accession Date

Members and WTO Accession Date			
Bahrain	1 Jan 1995	Tunisia	29-Mar-95
Kuwait	1 Jan 1995	Qatar	13-Jan-96
Malta	1 Jan 1995	United Arab Emirates	10 Apr 1996
Morocco	1 Jan 1995	Jordan	11 Apr 2000
Egypt	30 Jun 1995	Oman	9-Nov-00
Observer Governments			
Algeria	3-Jun-87	Yemen	14-Apr-00
Saudi Arabia	13-Jun-93	Libya	10-Jun-04
Lebanese Republic	30-Jan-99	Iraq	-

Source: Trade Profile, WTO

Hence, there appears to be limited basis for trade based on comparative advantage resulting from differences in factor endowments (Hecksher-Ohlin-Samuelson) across the Arab countries, and differences in relative factor intensities industries, leading to differences in relative production and cost structures. Similarly, the wide variation in per capita income between the countries of the region could have resulted in product differentiation. However, specialization and trade in product quality was constrained by the limited size of the markets. Four: The relatively small size of the economies prevented product diversification by limiting economies of scale and of scope. Five: Although there are large cross-country differences in the cost of doing business[10] with the GCC countries having lower costs, primarily the relatively high costs of doing business and the high trade logistics costs in the countries of the region lead to high transactions costs, limit the extent of trade, and negatively affect competitiveness. The high costs of doing business result in high transaction costs and are accompanied by inadequate and inefficient infrastructure and related services. This leads to higher logistics costs. These are part of the 'deep determinants' of growth and trade under-performance.

5.1 Colonialism

Limited institutional development and evolution since the colonial period has been a contributory factor to the lack of economic development. Our public administrations and government structures are mostly inherited from the Ottoman Empire and former colonial powers. The fact that a majority of the countries of the MENA region are under the French Napoleonic Code tradition is likely a contributory factor to the lack of legal and constitutional evolution, particularly in economic and financial legislation, which prevented adaptation to the changing and more open world. Colonialism with its legacies in the form of legal origins of laws and institutions, has been a negative and persisting factor in economic integration: a) Design and shaping of emerging nation-states and impact on economic geography: the colonial powers imposed borders that led to the

[10] See the Table A5 on the cost of doing business in the Arab countries.

emergence of small sized entities with small markets primarily linked and economically integrated with the former colonial power. Trade and trade patterns, in particular, remain strongly imprinted and distorted by colonial ties. The colonial regimes imposed non-tariff barriers in the form of technical and product specifications belonging to the colonial power. An example is the use of the metric system for weights and measures in the former French colonies as compared to the non-metric British standard in former British colonies; b) Effect on trade credit: the emerging banking systems of the Arab countries were either dominated by banks from the colonial or mandatory powers that were given privileged access, or tied to correspondents in the colonial power, thus creating a financial effect favouring trade credit for transactions with these powers.

5.2 The 'Curse' of Natural Resources[11]

Salai-i-Martin and Subramanian (2003) developed systematic evidence that an abundance of natural resources and rents damage the quality of institutions and governance. The natural resource-rich Arab countries became reliant on their natural resource wealth. Consequently they have avoided undertaking fiscal reform, diversifying tax revenues, and aligning the pricing of public utilities (transport, communications, water, electricity and other public services) with costs. They relied primarily on revenues from the exploitation of natural resources. The availability of low-extraction cost oil and gas led to a high degree of specialisation and prevented economic diversification. This resulted in economies with a high degree of concentration in the structure of production and exports but vulnerable to the risks of energy price volatility (Figures 7 and 8). It is observed that those Gulf countries or entities with low or declining natural resource endowments, such as Dubai, Bahrain, and Yemen, are the leaders in evolving new economic strategies based on economic diversification into services and other non-oil sectors (Figure 9).

In turn, the relatively liberal labour migration policies of the resource-rich but labour-poor GCC acted as a pressure valve for the labour abundant countries, such as Egypt or Lebanon. As a result, the labour exporting countries became reliant on remittance income and transfers, and did not undertake necessary reforms when faced with changing economic circumstances requiring change in economic strategies and policies. Moving forward will require establishing new fiscal and tax administrations, introduction of a system of direct and indirect taxation, and reform of the pricing of public utilities and services to provide an alternative to oil revenues. Public sector reform, tax, and fiscal reform should be priorities on the agenda of economic integration (Figure 10).

5.3 Size and Geography

Small-sized countries and markets lack diversification of available goods and services due to the limited diversification of natural endowments and factors of production. As reviewed above, all the indicators of international integration show the Arab countries as lagging not only in international integration, but also in regional integration. This is contrary to the prediction that the smaller the size of countries and economies, the more likely they are to be open and integrated in order to obtain access to goods and services,

[11] The recent study by Martin and Subramanian, discusses the negative impact of the presence of natural resources on economic performance and more generally on governance.

which are unavailable given domestic factor endowments. The reason lies in protectionist policies. High tariff barriers in the non-oil producers, pursuit of non-market economic development strategies that stress 'self-sufficiency' and import-substitution, and lack of support to the adoption or transfer of knowledge, technology, and innovative ideas, all lead to the use of old and limited technologies that result in low growth of total factor productivity. Although small, the GCC countries have pursued liberal policies with low external tariff barriers. Although they have limited domestic production, which results in non-diversified and non-integrated economies, they are more open and trade-oriented.

The sub-discipline of economic geography has been undergoing a revival in the past decade. Economists are highlighting the role of geography in affecting economic activity and as a factor affecting growth performance and trade. Sachs (2003) and Gallup and Sachs (2003) provide empirical evidence on the impact of geography on transport costs and on the public health environment. In turn, the public health environment influences economic growth since it affects the accumulation and quality of human capital, mortality, mother and family health, and fertility. Thus, proximity to the tropics is a retarding factor in economic growth due to its negative effect on health and human capital accumulation. Similarly, J. Diamond (1999) shows how geography has had long-lasting effects on technical development and diffusion. In a series of books, Thomas Sowell (1998) shows the impact of conquests and migration on the spread of technology and cultures; but also shows the significance of geographical location in preventing the spread of know-how, innovation, and technology.

Geography, in the form of distance of trade (DOT) to market; i.e. measures of the proximity to the centre of world economic activity in North America and Western Europe, is empirically an important factor in international competitiveness. An important recent paper by C. Carrere and M. Schiff[12] provides evidence on the evolution of the DOT in 1962-2000 for different countries, regions, and the world as a whole. They compute the distance of exports, imports, and total trade for 150 countries over 39 years (1962-2000), from the COMTRADE bilateral (non-fuel) trade data. The average DOT (ADOT) varies substantially across regions, with a world average of 4,850 kms. When ranked by continent/region, the ADOT is smallest for the EU-15 (2,800 kms) and larger for the MENA16 (4,590 kms). The Americas are more than double the EU-15 ADOT

[12] Carrere and Schiff find that: "The DOT falls over time for the average country in the world, and that the number of countries with declining DOT is close to double those with increasing DOT. In other words, distance has become increasingly important over time for a majority of countries. One of the conclusions is that the evolution of the DOT is unrelated to that of the overall level of trade costs but depends on the relative evolution of its components. For instance, the DOT falls over time as long as dwell costs fall proportionately more or rise proportionately less than distance costs, irrespective of the direction of change of transport costs as a whole. The paper also examines the impact on the DOT by changes in production costs, customs costs, domestic transport costs, of air relative to land and ocean transport costs, of competition, exchange rate policy, regional integration, uneven growth, counter-season trade, and of just-in-time inventory management. Changes in production costs, domestic transport costs, customs costs, and specific tariffs have a similar effect on the DOT as changes in dwell costs. A surprising finding is that, despite the negative impact of regional integration on the DOT over time, the share of countries with a positive trend in the DOT is larger for countries that are members of trade blocs than for countries that are not."

(6,160 kms), followed by Sub-Saharan Africa or SSA (7,790 kms), Asia (8,085 kms), and South America (8,180 kms). Carrere and Schiff show that despite improvements in technology leading to lower transport costs, the MENA region 'distance of trade' index has increased over the past decades, (by +57 percent for exports and +21 percent for imports), contrary to the experience of most countries and regions. This is confirmatory evidence that logistics and regulatory structures have been a continuing drag on economic growth and productivity, resulting in inability to enter international markets (Figure 11).

6. Arab Economic Integration and Lessons from the EU Experience

What forces drive economic integration? Can the Arab countries emulate the example of Europe and other country groups that have successfully integrated through Regional Integration Agreements? The contributors to Hoekman and Messerlin (2003) argue that the initial pre-integration conditions of the European countries are different from those in the Arab countries, even if the motivation is similar: a desire for political unity and integration. The key institutional features that helped drive integration in the above example are: a) Strong political backing that enabled and supported a central executive body to manage and drive the process; and b) Financial and other mechanisms for redistribution devised to sustain integration and cooperation.

These 'enabling factors' may not be strong in the Arab countries. However, other factors favouring integration are present: a common language and ethno-linguistic traditions, culture, history, and geographical proximity. The Arab countries share a number of characteristics that favour their economic integration, expansion of trade, direct investment, and capital flows. Geographically and according to the gravity model[13] of international trade, short distances between main urban centres and long common borders suggest that transport and transactions costs should be low favouring a large volume of trade between the Arab countries.

In addition, a common language greatly reduces the transaction costs associated with gathering information, making contacts, and conducting negotiations. A recent study by Shang-jin Wei[14] finds that sharing a common language is a highly significant determinant of trade. Countries with this tie typically have a volume of trade 80 percent higher than countries that do not. It is the institutional features and governance of the process that need to be addressed (Figure 12).

Two other structural elements are problematic for the integration process: The first element is the consequences of nationalistic regimes that pursued nationalization policies and state expansion through extensive ownership of the means of production through State Owned Enterprises (SOEs). These led to non-market economic development strategies based on socialist models and on import-substitution policies, characterized by

[13] Gravity models posit that bilateral trade flows are inversely related to distance (which increases transport and transactions costs): $T_{ij} = AY_iY_j/D_{ij}$, where T_{ij} is exports from country i to country j, Y_i,Y_j are their national incomes, D_{ij} is the distance between them, and A is a constant. Other constants as exponents and other variables are often included.

[14] Wei, Shang-jin, (1996). "Intra-National Versus International Trade: How Stubborn Are Nations in Global Integration?" NBER, Working Paper No. 5531.

large, protected and stultified SOE industrial and service sectors that are incapable of innovation and of facing international competition. The result has been low real economic growth and low total factor productivity growth[15]. The second element is the 'Arab-Dutch-disease', or the curse of abundant natural resources, which established a balanced interaction or equilibrium between the resource-rich but labour-poor countries. This equilibrium is now threatened by the availability of competing labour from the Asian countries and can no longer serve as a paradigm for the future.

How will the process of change and reform be managed? It is clear that Arab Economic Integration cannot succeed without the creation of enabling institutions. The success of the EU in economic integration owes much to the role played by Legislative (the European Parliament), Judicial (Court of Justice and Court of First Instance), Executive (Commission and Council), and Economic institutions (the EIB European System of Central banks and then the ECB). This required devolution of power from sovereign states and governments, which was achieved through consensus on a vision of a common Europe with integrated market and institutions. The EU adopted a series of agreements that supported economic integration institutions. The Arab countries have to face the issue of loss of sovereign decision-making and independent government policy. Economic integration will be a matter of political will and of the willingness to make and implement compensatory mechanisms.

Currently, the Arab world lacks the integrating institutions. The implementation of an Arab Regional Integration Agreement (ARIA) and other agreements such as the Euro-Med Association Agreements (AA) will require deep political reforms of existing institutions such as the Arab League, and the creation of new institutions that will drive the REI process. The Arab League has not been able and was not enabled to play a regional integration role. For example, the Arab League Economic Commission has not been able to agree on common rules of origin to regulate trade between the Arab partners despite years of negotiations that were in fact sterile. By contrast, the Arab countries that have signed Association Agreements with the EU[16] (Tunisia, Morocco, Egypt, Jordan, Syria, and Lebanon) have agreed rules of origin relating to their bilateral trade with the EU. This creates an incongruous situation whereby similar goods from the EU or Arab countries face different conditions for entry to a common economic area! A recent proposal for reform of the Arab League and its related institutions has been tabled but was shelved for lack of consensus. Similarly, regional economic institutions such as the Arab Monetary Fund have not evolved into economic integration institutions.

An agenda of economic reform and regional economic integration requires strong *political leadership*. Regional integration allows, by lowering intra-member political and other tensions, lower defence expenditures. This can free up substantial resources that can be used to foster and support regional economic integration through investing in regional infrastructure, the creation of structural adjustment funds, 'cohesion' funds, or funding institutions for economic integration. Historically, the EU benefited from the Franco-German partnership as the major driver of European economic integration. Who will be

[15] See the discussion in D. Rodrik, (2004).

[16] See Table A4, for a review of Trade and Services Agreements, Preferential Agreements and Others.

the Arab champion or champions? Leadership criteria include regional economic size, trade, and economic linkages. The country or countries likely to lead are those with the largest expected gain from regional economic integration. Based on these criteria, it is the GCC that should take the leadership in driving the process of AEI. The GCC, given their resources and their ongoing drive towards local integration are best able to play the role of 'integrators'.

7. Regional Integration Agreements (RIAs)

By May 2004**,** some 208 RIAs (free trade areas and customs unions including those that are asymmetrical in nature) had been notified of the GATT/WTO of which 178 had been established since 1990. Indeed, the rate of formation of RIAs has accelerated with the establishment of the WTO. More than 1/3 of world trade is now conducted within RIAs, but with a great deal of variance across RIAs. Some 60 percent of EU trade is now intra-EU, whereas only 10 percent of WAEMU takes place within (Figure 13). This is similar to the fraction of intra-Arab trade. The RIAs cover a number of dimensions including trade in goods and services, factor market integration, monetary and payment systems, institutions, laws, and in some cases political systems.

There has also been a surge in the number of Free Trade Agreements (FTAs) during the 1990s (Figure 14). Most FTAs are North-North or South-South. Few are North-South. These have been increasing primarily as a result of the EU's policy towards the Mediterranean, which has resulted in FTAs with the 12 Med partner countries, as well as the FTAs that the US has signed with a number of countries in the area (Jordan, Israel, Morocco, and more recently Bahrain.)[17]

7.1 Issues Raised by RIAs

The formation of RIAs goes against the MFN principle incorporated in the GATT/WTO stating that trade policy is non-discriminatory. RIAs are allowed under Article XXIV of GATT on condition that they cover "substantially all the trade".[18] As Table 4 shows, note that the average frequency of MENA country participation in RTAs is similar to the world average (5 per country), and that nearly all participate in an RTA (20 countries out of 21).

It is not clear yet whether the RIAs will be a force for a more or less liberal external trade policy (Table 5). The presence of an increasing number of RIAs may act to retard progress on the multilateral system and in advancing the Doha agenda in particular. Countries are choosing to form RIA clubs with their most important partners, with dominant countries, or with blocs such as the US or the EU. This raises the issue of the

[17] Apart from NAFTA, the US has also signed FTAs with Chile, Singapore, and other countries.

[18] The relevant part of article XXIV reads as follows: "*a*) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that (i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and, (ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;…"

fiscal consequences of such RIAs. The fiscal dimensions of RIAs are important for countries in which trade taxes generate a significant share of government revenue. For the Arab countries, reliance on trade taxes remains substantial, particularly for the Mashrek countries and to a lesser extent the Maghreb countries. Furthermore, in case of RIAs with dominant countries or blocs, the blocs are seeking to extract additional preferences in the framework of the RIAs, or introducing non-trade-related provisions into the agreements such as political (human rights), environmental, investment, and labour provisions. These provisions detract from the fundamental trade-related issues.

8. Evidence on the Impact of AEI

Two types of evidence have been cited relating to the impact of AEI, namely, *econometric studies* and the *simulations of computable general equilibrium* (CGE) models. Recently, Konan (2002) and the IMF (2003) have undertaken CGE simulations calibrated for the Arab countries of *shallow* (trade in goods) and *deep* (trade in goods and services) forms of integration. It is clearly more difficult to model or simulate 'deeper integration' including the harmonization of laws and institutions and their effects on 'Coasian' transactions costs.

The results of these exercises are:

- Comprehensive service sector integration would generate greater gains than those attained through trade and tariff liberalization. In the cases of Tunisia and Egypt, the magnitude of the gains is a multiple from what would be generated from shallow integration.
- In the case of Yemen and the GCC (Yemen is not a member of the GCC), "output could grow by up to 14 percent in Yemen and by 7 percent in the GCC countries over the long run".[19]

Can the results from these simulations be a guide for policy makers; and can they be reliable for simulating the effects of alternative trade policy reform proposals? The CGE simulations are attractive in that they are based on microeconomic foundations, are helpful in identifying the role of transactions costs, and impose consistency of economic and financial interrelations. However, the models have to be "calibrated" to be used for the Arab countries. A number of problems arise in this context. One: We lack reliable statistics and econometric estimates for the main macroeconomic aggregates, let alone the microeconomic evidence at the firm and household levels necessary for well designed calibrations. This makes 'calibration' closer to an art than an informed exercise. How useful are CGE models based on data and estimates from developed countries for the Arab countries dominated by SMEs? Two: The CGE models might not adequately model agents' expectations and their role in economic behaviour. Like their econometric counterparts, they are prone to the Lucas economic policy critique. Agents and economies will take into account policy changes and reforms. For example, the announcement of trade regime or other economic policy changes will affect agents' expectations and lead to changes in behaviour that are not captured by the current

[19] See IMF.

generation of CGE models. Three: The CGE models used for the Arab countries do not capture the role of money and finance and the payment system in the economy. Four: The silence of CGE models concerning the institutional structure of the economy - does it make a difference to the simulations what laws and regulations and what economic institutions underlie the economy in Tunisia, Egypt, and the GCC countries, and the differences between them? Five: The nature of REI agreements is that they are comprehensive and involve changes in economic structure that affect the dynamics of the economy.

I make these comments not to critique CGE or econometric models, but to point out the difficulty of estimating the impact of RIAs, and to advocate building statistical capacity in the Arab countries to provide information and data allowing better assessment of the impact of changes in trade regimes. It is one thing to estimate the effects of a change in a tariff on domestic consumption, production, and imports - it is quite another to simulate the effects on the economy of structural and institutional changes brought about through 'deep integration' and joining or forming an RIA.

That said, the evidence from the process of European economic integration suggests that economic integration and the creation of markets that lower transactions costs and break down 'barriers to prosperity', generates medium and long term benefits. I would venture that the estimates and simulations underestimate rather than overestimate the benefits from economic integration of the Arab countries, on condition that the process of AEI is accompanied by structural and economic policy reforms.

8.1 REI, Fiscal Reform and Harmonization

Apart from the oil producing countries of the GCC, trade taxes contribute an important fraction of government revenue for the countries of the region. Implementing an ARIA will imply a loss of tariff revenues which will have to be compensated through the introduction of alternative broad-based taxes such as VAT, general sales taxes, and other fiscal measures such as removing the subsidies to, and reforming the pricing of, providing public services and amenities in many of the oil-producing countries.

8.2 Regional Integration and Foreign Direct Investment

The region is suffering from low external investment rates, low FDI. It is clear (as noted above) that micro-economic aspects play a leading role. The WB report on the cost of doing business shows that the countries of the region impose large costs on establishing and conducting business. The process of Regional Integration (RI) is likely to lead to an increase in intra-regional FDI (from the members of the RI group of countries) and from outside the region. A recent study[20] has examined the impact of regional integration on FDI flows while comparing different types of integration: North-South (US-Mexico), South-South (MERCOSUR), and North-North (Canada –NAFTA). Responses to integration depend on the environmental changes brought about by the regional integration, and location advantages brought about the REI. The most positive impact of FDI occurs when REI is accompanied by domestic liberalization and macroeconomic stabilization in the member countries. While plausible, this raises the issue of causality

[20] See the by M. Bloomstrom and A. Kokko, Regional Integration and FDI, NBER 6019, April 1997.

and identification. Is it possible to identify the independent effects of REI on investment flows as compared to liberalization and reform?

8.3 Integrated Infrastructure is the Basis for Economic Integration

The success of modern economies and societies owes much to the overcoming of physical obstacles to communication and access to markets and trade. As a major component of the REI, the Arab countries should invest to link and integrate the physical networks that underlie and facilitate trade, the mobility of factors of production, capital flows, and direct investment. These include: air, rail and road transportation, energy, oil and gas pipelines, and modern ICT networks.

The economic integration of the Arab countries should be based on an integrated infrastructure and networks. The Arab countries have underdeveloped transport (air, road and rail), energy (oil, gas, and electricity), water, and information and communications networks. Even in the relatively well-endowed countries of the GCC, the existing infrastructure has aged and represents technologies of the 1970s and 1980s; and needs replacement, development, and modernization. In the non-oil countries and non-GCC oil producers, existing infrastructure is inadequate to serve the needs of modern economies and societies and fast-growing populations and labour forces. Generally, the infrastructure is typically managed by State Owned Enterprises (SOEs), resulting in high cost and inefficient enterprises that do not provide the private sector and the general public with adequate services. The region lacks the infrastructure with interconnectedness, quality, and density. The result is a high cost of infrastructure services and logistics leading to high production costs of goods and services and to a low quality of final services to consumers, whether households or businesses. In turn, small markets protected by import-substitution policies and the absence of a performing high density and quality infrastructure, has reduced the extent of diversification of economic activity in the Arab countries, and prevented the development of trade in intermediate and processed goods. An important consequence is that the structure of production and trade in the Arab countries remains highly concentrated in labour-intensive and high resource content with low value-added products and with limited vertical specialization.

The infrastructure gap extends to cross-border infrastructure. Poor quality logistics negatively affects trade in goods and services, tourism, and movement of people; and has resulted in a growing ‘digital divide’ with the developed countries. The other characteristic is that the existing communications and transport infrastructure is largely designed for extra-regional (North-South) contact and interaction with former colonial or mandatory powers. The result is poor intra-regional infrastructural services and communications. It is easier and frequently cheaper to contact the West from any capital in the region than to establish communication within the region!

Trade competitiveness is strongly affected by the cost of logistics. The intra-regional and international trade of the Arab countries is impeded by inefficient trade logistics. Bureaucratic procedures, time consuming transit procedures, bribery, corruption, and customs clearance all lead to high logistics costs which substantially reduce the volume and value of trade. A recent study on trade logistics in the MENA countries[21] finds that logistics costs can vary from 7 percent to some 55 percent of the landed price of exported goods depending on the per unit value of the goods (Table 6). For the Arab countries with low value-added or low value per unit exports, high logistics and trade logistics costs are more important than other barriers. It is not surprising that our export performance is lacklustre!

Similarly, a recent study shows that there is strong positive relation between the share of total exports that is driven by vertical specialization and the quality of infrastructure. Trade in intermediate goods depends on the availability of infrastructure services and efficient trade logistics. Vertical specialization, in particular, is sensitive to trade barriers, infrastructure quality, and the cost of infrastructural services.[22]

The bottom line is that poor quality and costly infrastructure services and other barriers, have prevented regional integration and economic integration with the rest of the world. We are not benefiting from geography and proximity of the major markets of the EU and the rapidly growing Asian markets. What should be done?

9. Removing the Barriers to Prosperity

9.1 Regional Infrastructure Investment for Regional Trade and Growth

Regional Infrastructure Investment for Regional Trade and Growth remedy the high logistics costs. The Arab countries should invest massively in infrastructure and networks and integrate them with their main trade partners' (the EU and Asia) infrastructure and networks. Such investments, which will break down barriers and reduce logistics costs, are likely to create large benefits from economies of scale and generate high returns to investment. Three major infrastructure networks should be envisaged: a) Energy: (electricity, oil and gas; b) An Integrated Information and Communications (ICT) Arab network; and c) Integrated Payments Network to facilitate and support trade and growth. I comment briefly on each.

9.2 The Trans-Euro-Mediterranean Networks (TEN)

The Trans-Euro-Mediterranean Networks (TEN) have been identified as a clear priority and should be extended to the Arab countries of the Gulf to ensure gas and electricity interconnections and South-South and South-North in the region.

9.3 The Euro-Mediterranean Energy Forum Program

The Euro-Mediterranean Energy Forum Program and Action Plan should be accelerated and extended to the Gulf:

---

[21] "Global links to regional networks: trade logistics in MENA countries", by Julia Devlin and Peter Yee, Paper Presented at the Fourth Annual Mediterranean Development Forum Held in Amman, October 6-9, 2002.

[22] See H.K. Nordas, "Vertical specialization and the quality of infrastructure", WTO, Staff Working Paper ERSD, December, 2003.

- To create the Mediterranean Electricity Ring to link the countries of the Euro-Med process. The electricity ring should be further integrated to link with the countries of the Gulf.
- A priority undertaking is a Euro-Med Oil and Gas Link with oil and gas pipelines linking the EU with oil and gas producing countries of North Africa, Egypt, and the Gulf. At the moment planned pipelines bypass the Mashrek countries to pass through Turkey (Figure 15).
- To create a Euro-Med Integrated Road and Rail Network linked to the integrated transport network developed for the Mashrek - the Integrated Transport System in the Arab Mashrek (ITSAM) [23]. The railroads would link the Arab Mashrek countries with Europe and with the Arab countries of the Gulf. This would reduce transport costs, enhance the overall integration of the region, and allow for efficient transport of goods and people throughout the area. Road and Rail Transport are two strategic transport projects that should be given priority on both the bilateral and regional levels. Briefly, these include:
- The "International Roads in the Arab Mashrek", which has been long delayed
- The rail network should be re-developed with two projects: 'Berlin to Baghdad' Railway would link the heart of Europe to the centre of the Arab world, passing through Eastern and Central Europe and through Turkey and the Arab Mahsreq.
- The "Hejaz' Railway took 8 years to build, with about 7000 soldiers, and at a cost of about US$16 million in 1908. With new superior technology it would cost about US$300 million today and would deliver fast and reliable transport services and would link Turkey to the Arab Mahsreq and the GCC.
- Integrated ICT Infrastructure: The Arab countries have to bridge the digital divide. They should undertake substantial investments in the ICT infrastructure of their economies and societies. Investment in telecommunications and in broadband technologies will be critical in the economic integration of the Arab countries. This calls for establishing integrated high speed broadband technology networks. It would enable the region to harness the powers of modern ICT for economic and social development, for e-Services, e-Government, and e-Society.
- Payment System Integration: Economic integration in the Arab countries requires the support of a modern and efficient payment infrastructure that underlies trade, investment, and economic links. The successful introduction of a common currency for the GCC will imply a reduction in transaction costs, both within the GCC and cross-border. The monetary authorities and finance ministries should work at the set-up of an Arab-Payments System, which would unify the payment systems of the Arab countries and integrate them into the Euro-System. I would advocate the extension of the EU TARGET system to create an Arab-TARGET system. This would form the basis of a new payment system, allowing and

[23] See "The Role of the ESCWA in Promoting Trade and Transport Facilitation in the ESCWA Region", by Nabil Safwat, 2002.

facilitating the use and adoption of the Euro. In turn, an integrated payment system would facilitate monetary integration through the set-up of an Arab exchange rate system. The planned adoption of a common currency by the GCC countries could provide the currency and exchange rate with anchor of an Arab exchange rate system linked to a currency basket of international currencies.

The envisaged infrastructure program, likely to extend over a generation, would develop and strengthen the links of the Arab countries, lead to a strong expansion of trade and private sector investment, raise economic growth in the region, create jobs, and raise labour and total productivity growth. Regional infrastructure investment should be considered a Regional Public Good and a policy priority, undertaken through a revival of the privatization and private sector participation programmes initiated in the 1990s and through public-private partnerships.

10. Financing Mechanisms for Economic Integration and the Creation of a Regional Investment and Development Bank

10.1 Role of the Banking and Financial Sector in Economic Integration

The banking and financial sector should spearhead the process of regional economic integration of the Arab world. It is in the interest of the sector to have access to benefits of a unified market, including economies of scale and scope, risk diversification, and deployment of modern ICT technologies applied to banking and to integrated payment system. This would allow the banking and financial sector to finance the process of economic integration by participating in the finance of regional infrastructure projects. In addition, the creation of a single banking market would lead to channelling of funds from the liquidity-rich, capital-exporting, natural-resource-rich countries, to high return investment and lending in the capital-importing countries of the Arab world. Similarly, the development of the Arab countries' capital markets and their integration would allow the financing of economic development and transition towards market-based economies.

The creation of an integrated Arab economic zone cannot be successful without a supporting financial mechanism that includes grants and financial transfers. Increased integration should be supported by the set-up of economic integration institutions. Adjustment to trade liberalization, structural reform, transition to a market economy (including a reduced role of the State and increased private sector participation), financing large scale infrastructure projects to support the regional integration of the Arab countries, all call for setting-up a Regional Investment and Development Bank. Note that the Regional Investment and Development Bank could emerge from a restructuring of existing institutions and funds, without the need to create another new institution at additional costs. What is important is the mission: its objectives and programme. The Regional Bank would provide special priority to the development of private-sector economic activity and to projects, contributing to the creation of a favourable climate for private investment. The EU's successful regional integration and the main lesson-learned from the EIB's experience confirm the importance of a dynamic public bank to support integration and convergence processes[24]. The Regional Bank would work with the Arab Monetary Fund, other Arab Funds, and international financial organizations to provide financing for regional infrastructure projects. Infrastructure and "info-structure" are major factors in fostering physical and communication links, reducing transaction costs, lowering transport and communication costs, fostering intra-Arab trade and investment, bringing the region into the digital age, and generating economic growth.

The rationale for a Regional Investment and Development Bank is a reflection of the limited financial sector development in the region. Financial markets are pre-emerging, incomplete, and segmented (Figure 16). Except for short-term Treasury bills, most countries do not have developed government debt markets. The consequence is that governments cannot rely on domestic debt markets in order to finance long-gestation or infrastructure projects. They have to rely on financial reserves, short-term bank finance, or turn to the international capital markets. Similarly, the near-absence of modern financial technology, particularly securitisation tools and technology, limits the possibility of financing infrastructure and development projects. In turn, basic physical infrastructure networks (roads, transport, energy, water, communications, and telecommunications) are inadequately developed. This leads to high information and logistics costs, segmented goods, services, and labour markets both within countries and –*a fortiriori*- between the Arab countries.

11. Arab Economic Integration: the Framework for Reform and Governance

The empirical evidence reviewed above shows that the economies of the Arab countries are not internationally integrated. The indicators of capital markets integration: trade in goods, services, labour, and capital flows, all suggest that the Arab economies did not benefit from the wave of globalisation that dominated the world economy in the 1990s.The Arab economies are also not regionally integrated. Indeed, the degree of regional integration is less than the extra-regional integration. Existing trade liberalization agreements are inadequate to foster integration. GAFTA, even when implemented, is unlikely to lead to a large increase in income or a sustained increase in economic growth. GAFTA is limited to free trade in goods. Much needs to be done to remove non-tariff barriers to trade and 'beyond the border' barriers, arising from different product technical specifications, government procurement practices, and the like. The GAFTA should be re-negotiated to include free trade in services that is consistent with the GATS. Theory and empirical simulations suggest that the benefits from liberalizing trade in services are likely to be a multiple of the benefits from free trade in goods.[25]

Policy reforms leading to the liberalizing of trade, capital movements, and labour flows are important if not critical in order to benefit from AEI and to raise economic growth on a sustainable basis in the Arab countries. Reform, de-regulation, and liberalization of services improve the overall efficiency of the economy, in both the traded and non-traded goods sector. This reduces barriers to growth and lowers the cost of doing business.

[24] See the working paper by S. Griffith- Jones, A. Steinherr and A.T. Fuzzo de Lima, "The European Investment Bank: A useful inspiration for emerging countries?" presented at the Seminar on Regional Financial Arrangements, UN, July 2004.

[25] See the studies included in Galal and Hoekman (2003) and Konan (2002).

There are also production efficiency gains because in many cases services are an intermediate good, a factor of production for final goods and services. Service liberalization can lead to higher total factor productivity growth as well as increased labour and capital productivity growth. A case in point is financial services. The Arab countries have not developed their financial sectors and capital markets commensurately with their economic growth and development. Indeed, the lack of financial development, and in some cases financial repression, has been a retarding aspect in total-factor productivity and economic growth.

11.1 Trade Policy and Regional Integration: Changing the Development Paradigm

The individual Arab countries are faced with a number of policy options relating to their trade policy and economic agendas. Clearly, each sovereign country can proceed in pursuing a trade liberalization policy. Many of the countries have pursued a policy path of bilateral FTAs with the EU (all the Arab Mediterranean countries with the exception of Libya), with other Arab countries, or with the US (Bahrain, Jordan, and Morocco). Others have pursued multilateral policies (WTO) or regional trade integration (Agadir Agreement[26] and the GAFTA). The absence of a comprehensive trade strategy results in a 'spaghetti bowl' of cross-cutting agreements which complicate customs procedures and impede trade and investment. From this perspective, moving to a regional integration agreement within a strategy of multilateral liberalization is preferable. Moving towards regional economic integration will require a change in the development paradigm that has guided economic policy for the past several decades and led to a 'governance gap'. Policies based on import-substitution, protection of domestic production, nationalization, and a preponderant role of the State, have not delivered sustainable growth and prosperity. The initial high growth rates of the 1960s and 1970s resulted from high population increase rates, high investment rates, and catch-up effects related to initially low levels of per capita incomes. For the Arab countries to achieve the dynamic benefits of economic integration, including a sustained increase in growth and total factor productivity, requires "deep integration": institutional convergence through the adoption of common codes and standards, harmonization of laws and regulations, and establishment of common rules of the game for economic activity and property rights. Policy should focus on creating a framework for the private sector to play the dominant role.

11.2 Corporate Governance, Investment, and Competition Policy

Corporate Governance, Investment, and Competition Policy should be the focal point of MENA policy-makers who seek to obtain the benefits of increased private sector participation and investment, whether domestic or FDI. Both theory and empirical evidence suggest that attracting FDI and encouraging domestic investment is predicated on an effective implementation of the principles of good corporate governance[27] and on

---

[26] This creates a FTA between Egypt, Tunisia, Jordan, Morocco and Algeria.

[27] See discussion and references in Saidi, N. (2004), "Transparency and Disclosure: CG for the MENA countries". Beirut, Lebanon, http://www.gcgf.org/Events_Roundtables_Fora/MENA_Forum/TransparencyandDisclosure_CGMENA.pdf , which discusses the role and applicability of the OECD CG framework and the state of good CG in the MENA region.

the implementation of a framework or policy for effective and beneficial competition. Good corporate governance and an effective competition policy are main factors influencing investment particularly foreign direct investment in the region.

In moving towards REI, the Arab countries will have to bridge the existing 'corporate governance' gap and develop competition policy. The framework for private sector participation should include well-designed privatization strategies including implementing laws and the creation of regulatory bodies. This does not imply a simplistic approach to 'privatization' or 'private sector participation' in infrastructure. All too often (as was frequently the case in the 1990s) privatization or the devolution of State Owned Assets has been undertaken within a protectionist regime and in the absence of a well-designed regulatory framework. In many cases, private monopolies were in the hands of insiders. As a result, privatization and related economic reforms did not lead to the expected improvement in efficiency and to a private sector resumption of economic growth. To be successful, privatisation should be accompanied by a strategy for implementing good corporate governance principles and the implementation of anti-trust or competition policy. Given the small size of the Arab economies, it will be important to ensure that privatisation does not transform public monopolies into private monopolies. In this context, moving towards regional economic integration will lead to more 'contestable markets' and increase the forces of competition. A case in point is the networking of national electric power grids allowing users to benefit from cross-border competition and achieve economies of scale. Deeper integration with an ARIA is also likely to reduce the risk of investment in the Arab region with its instability. A recent paper[28] finds that the MENA countries have higher investment risk than other developing countries; and that when the instability of investment risk increases, deterrents to investment also increase. This is confirmatory evidence that the volatility of security, political, and economic risks are an important factor that negatively affects capital flows to the region, in particular FDI.

Regional Integration Agreements (RIAs) are more likely to be stepping stones rather than blocks to multilateral opening-up and liberalization. The political argument is clear: coalitions are more likely to emerge in favour of regional trading blocs than in favour of immediate multilateral liberalization.[29]. The argument is that global free trade, which is best or is a Pareto-dominant strategy, may not be initially politically feasible. RIAs can be stepping-stones towards multilateral liberalization. It will also be important to make sure that they are not stumbling blocks and that countries do not find themselves in a sub-optimal equilibrium situation blocking further liberalization. Furthermore, membership of an efficiently organized RIA can be a 'policy commitment mechanism'. RIA membership would strengthen the credibility of policymakers as it implies an investment in time-consistent policies, among other things. An ARIA would also allow the Arab countries to go beyond the trade policy tariff, the equivalent reduction, and binding commitments resulting from GATT/WTO membership, to policy commitment in many areas,

---

[28] See *K. Chan and E. Gemayel,* "Risk, Instability and the Pattern of Foreign Direct Investment in the Middle East and North Africa Region" by *(IMF Working Paper* WP/04/139, August 2004).

[29] See the analysis in Wei and Frenkel, (1996).

including services, investment, labour, the environment, and others. More generally, an ARIA would allow cooperation and commitment with respect to regional public goods.

For the Arab countries, RIA should be viewed as complementary to, and not substitute for, multi-lateral opening-up via entry into the WTO. Economic integration agreements are comprehensive agreements that imply trade liberalization through the removal of tariff (and NTBs), agreement on Technical barriers to trade, (TBTs). They are also 'deep integration' agreements on investment, agriculture, services, rights of establishment, and related areas.

Adjustment and Transition: The Arab countries need to consider (as did the European countries) a comprehensive package of policy measures to accompany and support an Arab Regional Integration Agreement (ARIA). These measures are important to deal with trade creation and trade diversion effects, the dynamic effects of implementation (particularly those related to FDI), capital flows- fiscal impacts, and the development of economic integration institutions.

12. Final Remarks

The Arab countries should consider an ARIA as part of an overall 'awakening' and development strategy to deal with the challenges facing them. In particular, it is important to make a clear commitment to reduce the income gap between the Arab countries by pursuing policies that are consistent with cross-country convergence of income.

To move ahead, the Arab countries need to design a comprehensive regional policy reform package, including:

- Renegotiation of the GAFTA to establish an Arab Regional Integration Agreement (ARIA) with a wider scope, encompassing trade in services consistent with GATS, liberalization of capital flows and investment, freedom of labour movement, and freedom of establishment. To initiate the process, the Arab countries could sign a framework Association Agreement, at least as comprehensive in terms of content, scope, and preferences as those negotiated within the bilateral Euro-Med AA. This would set the basis for 'deep integration' based on harmonization of laws and regulations, including a series of 'mutual recognition agreements' (MRAs), with a focus on trade facilitation and the removal of barriers to capital and labour flows.

- Finance investment to help integration: Specifically, the Arab countries need to invest in trans-national regional infrastructure projects. The Arab countries should undertake massive investments in infrastructure with private sector participation, leading to a pan-Arab integrated network of transport, communications, energy, telecommunications, and a broadband backbone to provide the "info-structure" for an entry of Arab economies and societies into the digital age. A Trans-Arab Network should be integrated in two strategic directions. One direction is towards the EU and the Trans European network. The second towards Asia to provide China, ASEAN, and Japan with access to the region's energy supplies.

- Assist and finance economic and social policies supporting the convergence of incomes: Increased openness and integration of the Arab countries will require adjustment and are likely to lead to an initial greater divergence of income levels between the partners, given that the poorer countries in the Arab world are also the less-open countries requiring more extensive policy reforms.[30]
- 'Arab Target System': Prioritize the development of the capital markets, set the basis for their integration, and integrate the payment systems in the Arab countries to create an 'Arab Target' system that establishes the infrastructure for an Arab exchange rate system.
- Establish a set of institutions to enable and support economic integration: It is critical that ARIA be supported by a financial mechanism to include the establishment of a Regional Investment and Development Bank; and Developing Structural Adjustment Funds should be considered.
- Assist in the financing of the Arab's entry into the digital age and becoming knowledge-based economies. The digital gap between the Arab world and the industrialized economies is wide; and despite recent progress it may still be growing.

The next 50 years will hopefully be unlike the past 50 years for the Arab countries and their economic and financial integration. A confluence of factors may induce an Arab awakening; and external threats and discrimination may be a propelling force towards market creation and economic integration.

There are two roads ahead for the Arab countries:

- One road, if regional integration is neglected, leads to carrying-on with unstructured trade policies, without benefit of the negotiating power of a trading bloc. This results in limited gains from trade creation and loss from trade diversion, notably in relation to the rapidly growing Asian economies, particularly China.
- The other road is one of REI based on 'deep integration'. The Arab countries should sign a unifie set of Association Agreements among each other, with a minimum scope and content as those signed with the EU. Such an inter-Arab AA covering economic, diplomatic, social, cultural, environmental, and political relations could subsume the large number of existing bilateral and regional agreements. The resulting breakdown of barriers to trade, investment, and the movement of people would gradually lead to an Arab awakening. This awakening can create a market with over three hundred million consumers and producers, and can allow producers and consumers the benefits of economies of scale and scope. This Arab awakening through REI will lead to a resurgence of economic

[30] There are lessons to be learnt from the EU's financing mechanisms. These included Structural Funds (1958), the EIB (1958), the European Regional Development Funds (1975), the Cohesion Funds (1993) to assist the new members, the European Investment Fund (1994), and the EBRD to assist in the transition of Eastern and Central Europe towards a market based economic system.

growth and employment, to an improvement in socio-economic conditions, and to reduction of poverty, allowing the Arab countries to meet the MDGs.

An Arab awakening is a new 'Welt Anschauung', a vision developed of a region that is 'deeply' economically integrated with the rest of the world - with the EU and Asia; a region potentially forming the largest market zone of the world where physical and virtual barriers to prosperity and riches will have been eliminated, and where our children can interact, trade, invest, and work without barriers. The vision is realistic and within our grasp. The resources, technology, and knowledge are at our disposal. We need leadership, institutions, and efficient mechanisms to carry out the vision. It requires courage, determination, and long-term commitment. Our children and future generations will not forgive us if we do not steer in that direction. We owe it to them to try. It is time to act. We must take our future in our hands. We must build our future and own it. It is deliberately irresponsible and unacceptable that our children's future, through violence, conflict, and force of arms, be forged by initiatives from outside the region.

References

Al-Atrash, Hassan, and Tarik Yousef. 2000. "Intra-Arab Trade: Is It Too Little?" IMF, Working Paper 00/10.Washington: International Monetary Fund (January).

Anderson, Kym. 1998. "Environmental and Labor Standards: What Role for the WTO?" in Anne Krueger, ed. *The WTO as an International Organization.* Chicago and London, University of Chicago Press. Handbook of International Economics, vol 3, ed. G. Grossman and K. Rogoff, North Holland 1995.

Bloomstrom, M. and A. Kokko. 1997. "Regional Integration and FDI", NBER 6019, April.

Chan,K. K. and E. Gemayel, 2004. "Risk, Instability and the Pattern of Foreign Direct Investment in the Middle East and North Africa Region", IMF Working Paper WP/04/139, August.

Commission of the European Communities. 2004. "Communication from the Commission: European Neighborhood Policy ", Strategy Paper. Brussels, May.

Diamond, Jared. 1999. Guns, Germs, and Steel: *The Fates of Human Societies*. (New York: W.W. Norton

Dasgupta, Dipak, Jennifer Keller and T.G. Srinivasan. 2002. "Reform and Elusive Growth in the Middle-East: What has Happened in the 1990s ?" World Bank, Working Paper Series. No. 25, June.

Demirguc-Kunt, Asli, and Ross Levine, eds., 2001. *Financial Structures and EconomicGrowth: A Cross-Country Comparison of Banks, Markets, and Development*. Cambridge, MA: MIT Press.

De Rosa, Dean A. 2000. "Agricultural Trade and Rural Development in the Middle East and North Africa" in Bernard Hoekman and Jamel Zarrouk, Eds., *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries*. Ann Arbor: University of Michigan Press, 45-80.

Dessus, Sebastien, Julia Devlin and Raed Safadi, (Editors). 2001. *Towards Arab and Euro-Med Regional Integration.* Organization for Economic Cooperation and Development, Paris.

Devlin, Julia, and John Page. 2001. "Testing the Waters: Arab Integration, Competitiveness, and the Euro-Med Agreements." In *Towards Arab and Euro-Med Regional Integration*, edited by Sebastien Dessus, Julia Devlin, and Raed Safadi. Paris, Organization for Economic Cooperation and Development.

Devlin Julia and Peter Yee. 2002. "Global Links to Regional Networks: Trade Logistics in MENA Countries", Paper presented at the Fourth Annual Mediterranean Development Forum Held in Amman, October 6-9, 2002.

El-Erian, Mohamed and Stanley Fischer. 1996. "Is MENA a Region? The Scope for Regional Integration" Washington, D.C.: IMF Working Paper 96/30.

European Investment Bank. 2004. *Europe and the Mediterranean Region: An Enhanced Financial Partnership*.

Femise Network. 2003. “The Impact of EU Enlargement on the Mediterranean Partners”. Femise Contribution to the 7th Annual Meeting of Experts on Economic Transition in the Southern Mediterranean Countries. April.

Frankel, Jeffrey A. 1997. *Regional Trading Blocs in the World Economic System.* (Washington: Institute for International Economics).

Frankel, Jeffrey A., and Andrew K. Rose. 2000. “Estimating the Effect of Currency Unions on Trade and Output,” NBER Working Paper No. 7857 (Cambridge, Massachusetts: National Bureau of Economic Research).

Frankel, Jeffrey A., and Shang-Jin Wei. 1998. “Regionalization of World Trade and Currencies,” in *The Regionalization of the World Economy*. ed. By Jeffrey A. Frankel (Chicago: University of Chicago Press).

Galal, Ahmed. 2000. “Incentives for Economic Integration in the Middle East.” In *Trade Policy Developments in the Middle East and North Africa*. Edited by Bernard Hoekman and Hanaa Kheir-El-Din.Washington:World Bank.

Galal, Ahmed, and Bernard Hoekman, eds. 1997. *Regional Partners in Global Markets: Limits and Possibilities of the Euro-Med Agreements*. London: Center for Economic Policy Research.

Galal, Ahmed, and Bernard Hoekman, eds. 2003. *Arab Economic Integration: Between Hope and Reality*. Egyptian Center for Economic Studies, Brookings Institution Press.

Galal, Ahmed, and Robert Lawrence, eds. 1998. *Building Bridges: An Egypt-U.S. Free Trade Agreement.* Brookings.

Griffith-Jones Stephany, Alfred Steinherrand and Ana Teresa Fuzzo de Lima. 2004. “The European Investment Bank: A Useful Inspiration for Emerging Countries?” Seminar on Regional Financial Arrangements. Economic Commission for Latin America and the Caribbean and Department of Economic and Social Affairs United Nations. New York, July.

Havrylyshyn, Oleh, and Peter Kunzel. 2000. “Intra-Industry Trade of Arab Countries: An Indicator of Potential Competitiveness.” In *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries.* Edited by Bernard Hoekman and Jamel Zarrouk. University of Michigan Press.

Hertel Thomas, David Hummels, Maros Ivanic and Roman Keeney. 2004. “How Confident Can We Be in CGE-Based Assessments of Free Trade Agreements?” IMF Working Paper, 10477.

Hoekman, Bernard, and Patrick Messerlin. 2001. *Harnessing Trade for Development in the Middle East and North Africa*. New York: Council on Foreign Relations.

Hoekman, Bernard, and Partick Messerlin. 2002. “Initial Conditions and Incentives for Arab Economic Integration: Can the European Community’s Success be Emulated?”, World Bank Policy Research Working Paper 2921, October.

Hoekman, Bernard and Hanaa Kheir-El-Din, (eds.). 2000. *Trade Policy Developments in the Middle East and North Africa*. Washington: World Bank, Washington D.C.

Jbili, Abdelali, Vicente Galbis, and Amer Biset. 1997. "Financial Systems and Reform in the Gulf Cooperation Council Countries," (unpublished; Washington: International Monetary Fund).

Institutes of for International Economics. "Regional Trading Blocks in the World Economic System" Introduction to Regional Trading Arrangements. Available at <http:///www.iie.com.>

International Bank for Reconstruction and Development. 2004. *World Development Report 2005: A Better Investment Climate for Everyone*. Co-publication of the World Bank and Oxford University Press. Washington DC.

International Bank for Reconstruction and Development. 2004. *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda*. World Bank. Washington DC.

International Bank for Reconstruction and Development. 2003. *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda*. World Bank. Washington DC.

International Monetary Fund. 2004. World Economic Outlook "The Global Demographic Transition", world economic and financial surveys. Statistical Appendix. September.

Konan Denise Eby. 2003. "Alternative Paths to Prosperity: Economic Integration Among Arab Countries." Egyptian Center for Economic Studies, Working Paper 77.

Mansour, Antoine. 2001. "Support Services and the Competitiveness of SMEs in the Arab Region." ECES Working Paper No. 56. Cairo: Egyptian Center for Economic Studies (May).

Nabli,Mustapha, and Annette De Kleine. 2000."Managing Global Integration in the Middle East and North Africa." In *Trade Policy Developments in the Middle East and North Africa.*

Nabli, Mustapha and Marie-Ange Veganzones-Varoudakis. 2004. *Reforms and Growth in MENA Countries: New Empirical Evidence.* May.

Nordas, Kyvik H. 2003. "Determinants of Vertical Specialization" SNF, Bergen and World Trade Organization. WTO, Staff Working Paper ERSD, December.

Organisation for Economic Co-operation and Development. 2003. *Trends in International Migration and in Migration Policies*. SOPEMI.

Romain Wacziarg and Karen Horn Welch. 2003. "Trade Liberalization and Growth: New Evidence" Working Paper 10152, NBER December 2003 http://www.nber.org/papers/w10152

Safwat, Nabil. 2002. *The Role of ESCWA in Promoting Trade and Transport Facilitation in The ESCWA Region*. UN Economic and Social Commission for Western Asia (ESCWA). Beirut

Saidi, Nasser. 2004. "Financial Sector Development in MENA: Comments and Policy Agenda." Paper presented at the conference: MENA: the Challenges of Growth and Globalization. International Monetary Fund, April.

Saïdi, Nasser. 2004. "Corporate Governance in MENA Countries: Improving Transparency and Disclosure". The Second Middle East and North Africa Regional Corporate Governance Forum. The Lebanese Transparency Association.

Schiff Maurice. 2002. "Regional Integration and Development in Small States". World Bank, Working Paper.

Schiff Maurice and L. Alan Winters. 2003. *Regional Integration and Development*. World Bank.

Sowell, Thomas. 1998. *Conquests and Cultures: An International History*.

Srinavasan , T.G. 2002. "Globalization in MENA – A Long Term Perspective". Paper presented at The Fourth Mediterranean Development Forum, Amman, Jordan.

United Nations Development Program. 2004. *Human Development Report: Cultural Liberty in Today's Diverse World.* New York.

United Nations Development Program and the Arab Fund for Economic and Social Development. 2003. *Arab Human Development Report: Building a Knowledge Society.* New York.

United Nations Development Program and the Arab Fund for Economic and Social Development. 2002. *Arab Human Development Report*. New York.

United Nations Economic Commission for Western Asia. 1985. *Economic Integration in Western Asia.* London: Frances Pinter.

United Nations Economic and Social Commission for Western Asia. 1999. *Proceedings of the Expert Group Meeting on Trade and the Environment in ESCWA Member Countries.* New York: United Nations.

Venables Anthony J. 1999. "Regional Integration Agreements: a force for convergence or divergence?" Paper presented at the World Bank, Annual Bank Conference on Development Economics, Paris.

Viner, Jacob. 1950, *The Customs Union Issue*. New York.

Wei, Shang-Jin. 1996. "Intra-National Versus International Trade: How Stubborn Are Nations in Global Integration?" NBER Working Paper No. 5531 (Cambridge, Massachusetts: National Bureau of Economic Research).

Wilson, Rodney. 1994. "The Economic Relations of the Middle East: Toward Europe or within the Region?" *Middle East Journal* 48 (2), 268-287.

World Bank. (1992). *World Development Report 1992: Development and the Environment*. New York: Oxford University Press.

____. 2003. *MENA Development Report. Trade, Investment and Development in the Middle East and North Africa: Engaging with the World.* Washington D.C.

____, 2005. *Global Economic Prospects: Trade Regionalism, and Development. The International Bank for Reconstruction and Development.* Washington, D.C.

Yeats, Alexander, and Francis Ng. 2000. "Beyond the Year 2000: Implications of theMiddle East's Recent Trade Performance." In *Catching Up with the Competition*.

Yeats, Alexander. 1998. “Export Prospects of Middle Eastern Countries: A Post-Uruguay Round Analysis” in Raed Safedi, ed., *Opening Doors to the World* , 85-128

Zarrouk, Jamel. 2000. “The Greater Arab Free Trade Area: Limits and Possibilities.” In *Catching Up with the Competition*.

Zarrouk, Jamal Eddine. 1992. “Intra-Arab Trade: Determinants and Prospects for Expansion” in Said El-Naggar, ed. *Foreign and Intra trade Policies of the Arab Countries*. Washington, D.C.: International Monetary Fund.

———, 2000, “Natural Openness and Good Government,” NBER Working Paper No. 7765 (Cambridge, Massachusetts: National Bureau of Economic Research).

Web-sites;

<http://coase.org/newinstitutionaleconomics.htm>

<http://www.eib.org>

<http:///www.e-lebanon.com>

<http://www.europa.eu.int>

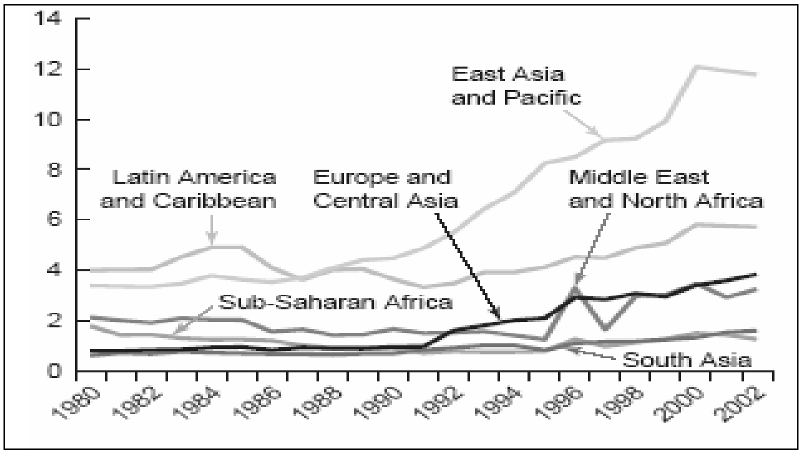
<http://www.imf.org>

<http://www.unctad.org>

<http://www.worldbank.org>

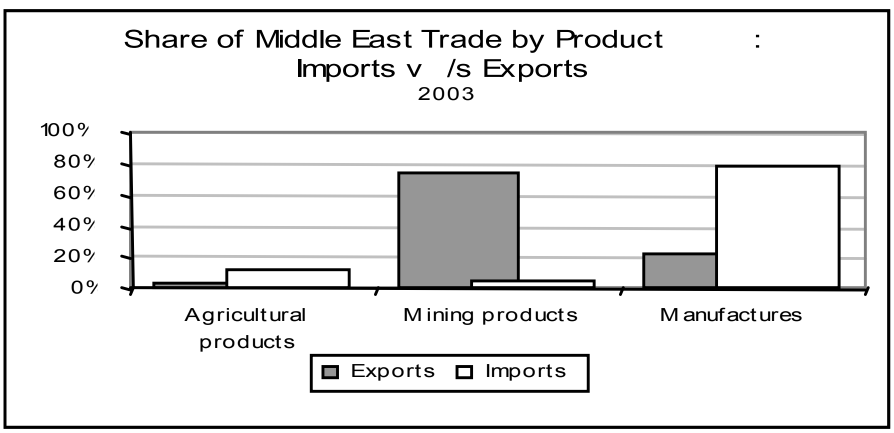
<http://www.wto.org>

Figure 1: Regional Exports as Percentage Share of World Exports (oil excluded)



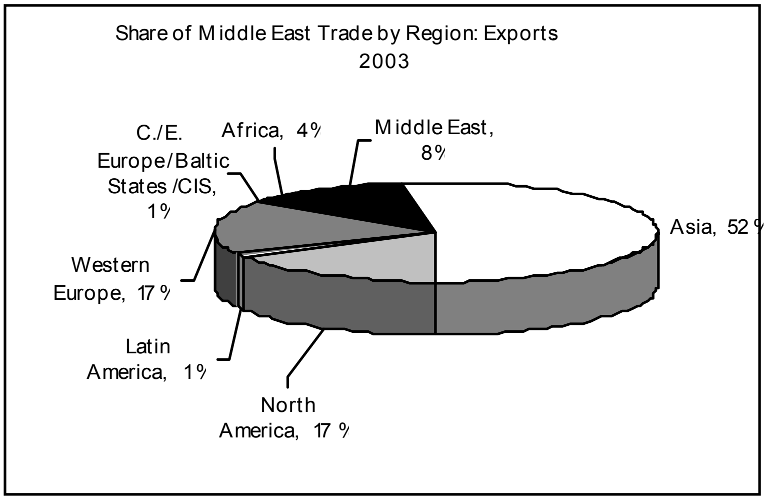
Source: Global Economic Prospects, 2005

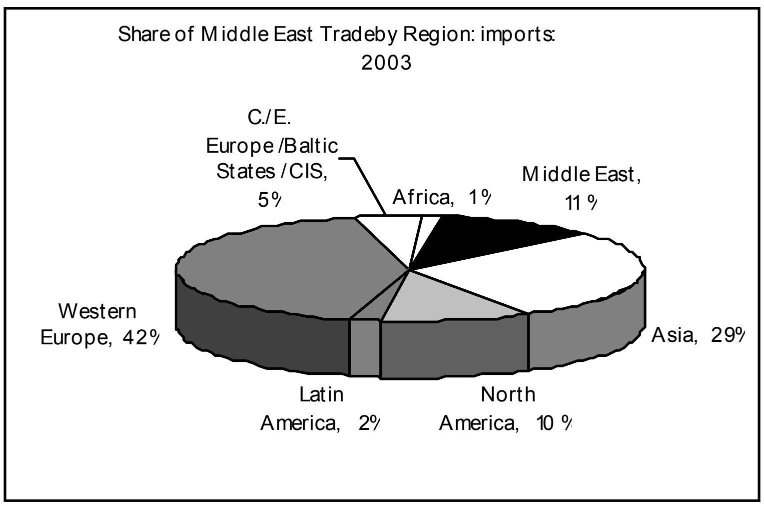
Figure 2: Share of Middle East Trade by Product



Source: WTO

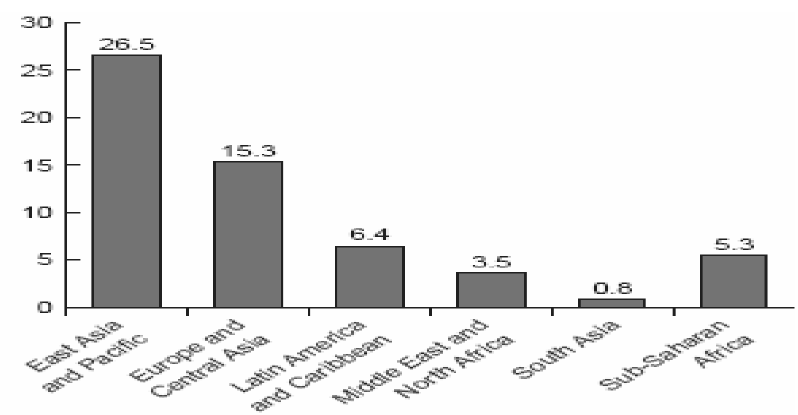
Figure 3: Share of Middle East Trade by Region





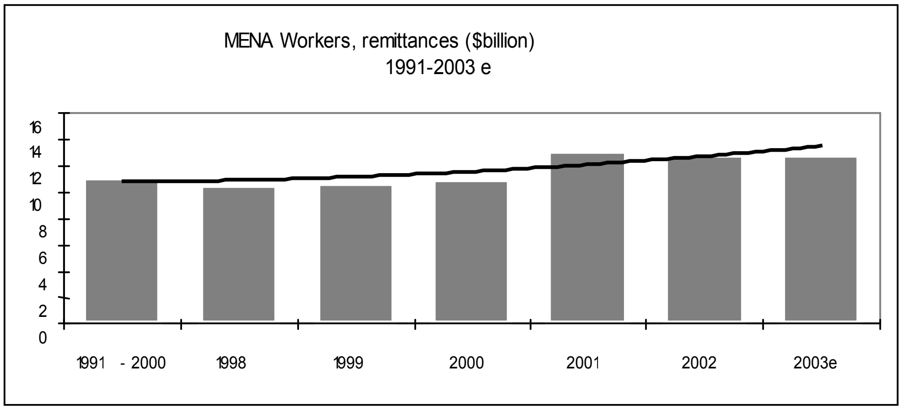
Source: WTO 2004

Figure 4: Intra Regional Trade as a Share of GDP (Percent), 2002



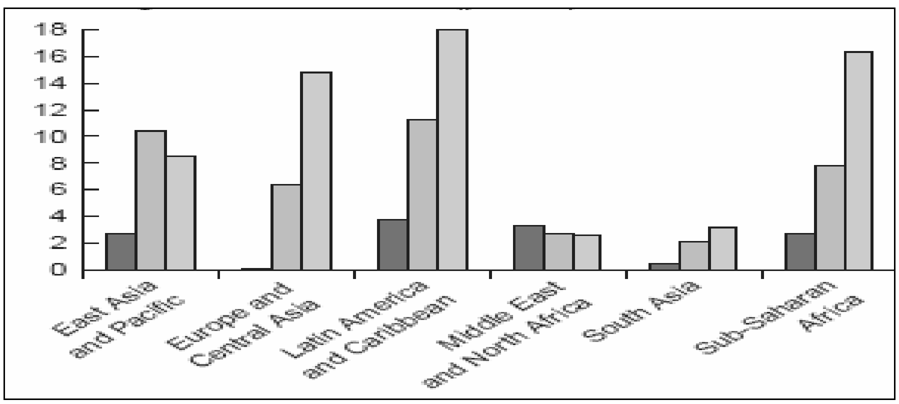
Source: Global Economic Prospects, 2005

Figure 5: MENA Workers' Remittances



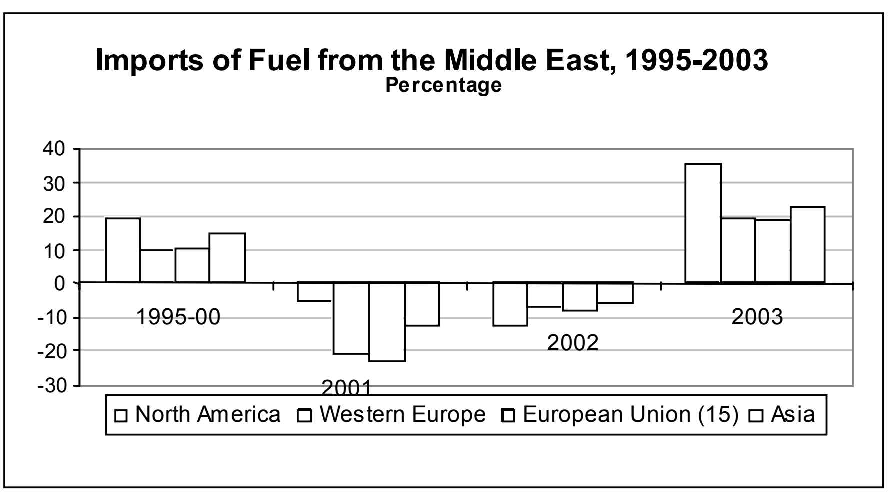
Source: GDF 2004

Figure 6: Share of Region's Net FDI Inflows in the Region's Total Investment (percent) for 1980-89, 1990-99, and 2000-02



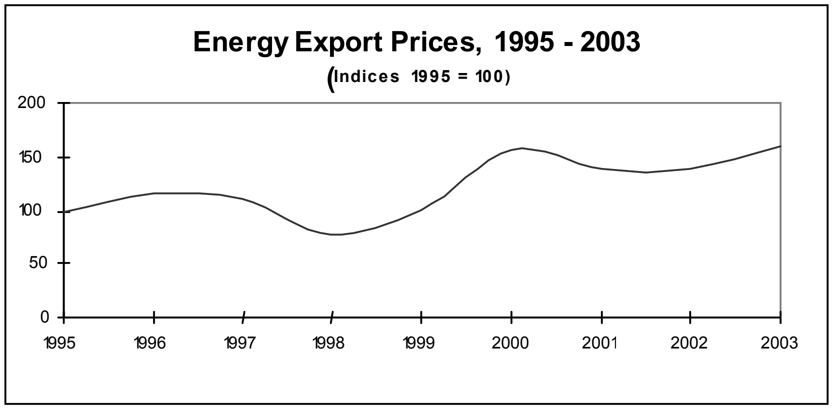
Source: Global Economic Prospects, 2005

Figure 7: Fuels Imports from the Middle East



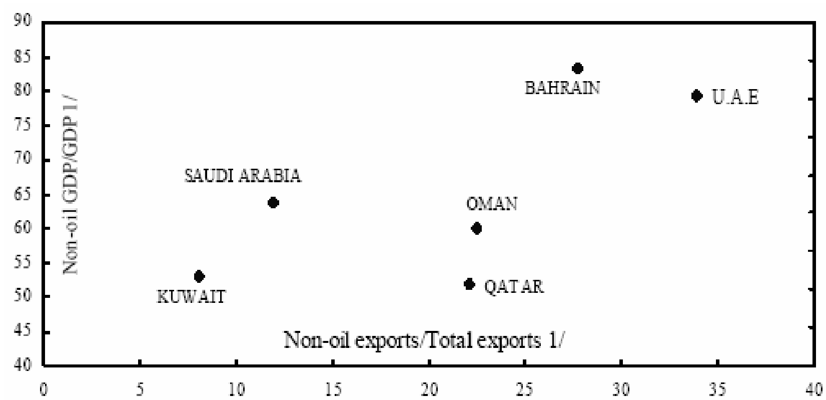
Source: WTO 2004

Figure 8: Energy Export Prices



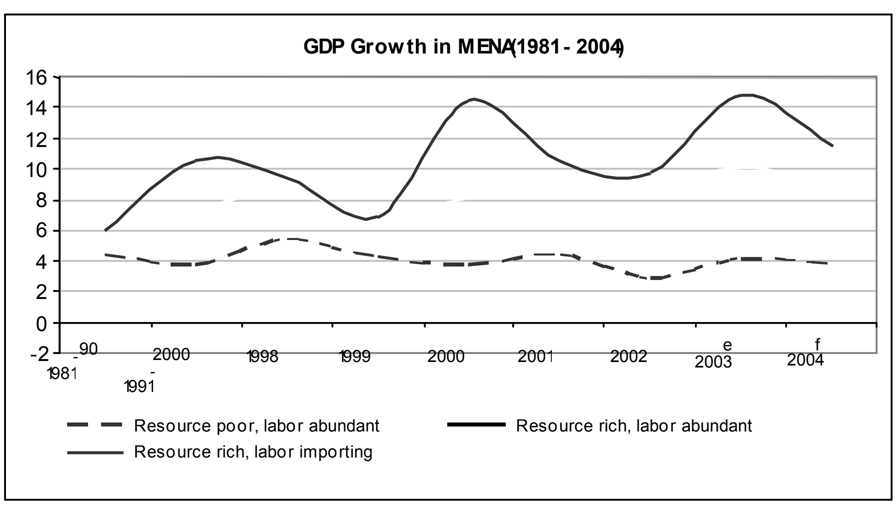
Source: WTO 2004

Figure 9: Diversification and Composition of GDP, 1995 – 2003



Source: IMF (2003)

Figure 10: Comparative GDP Growth



Source: GDF 2004

Figure 11: Average Distance in Trade - MENA

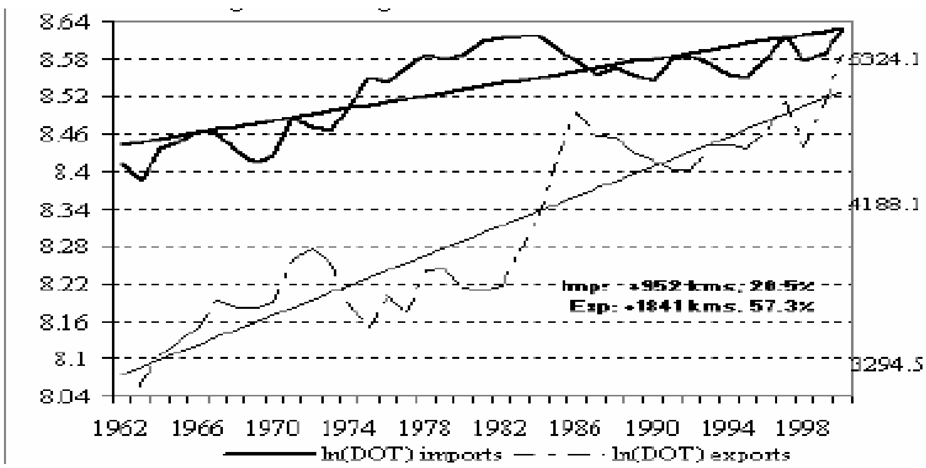


Figure 12: Intra-Arab Trade

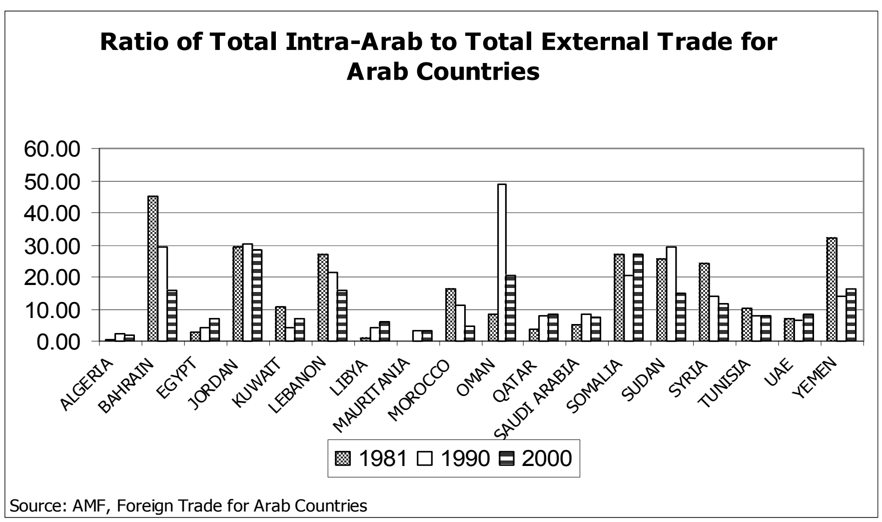


Figure 13: Regional Trade Blocks of Total Block Exports (Percent)

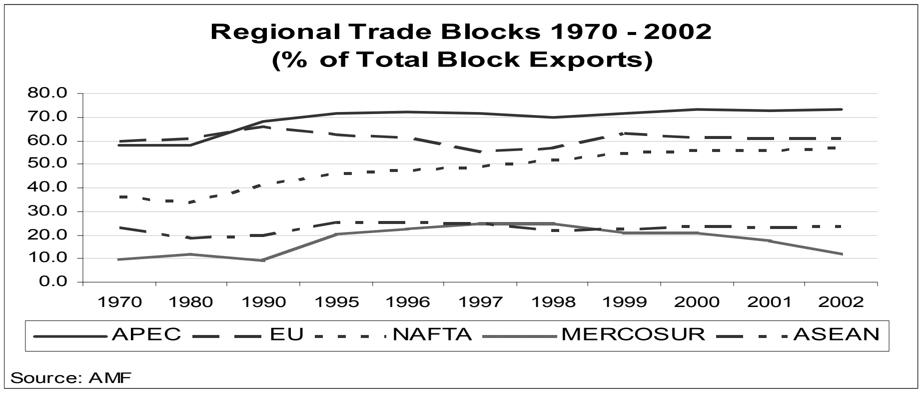
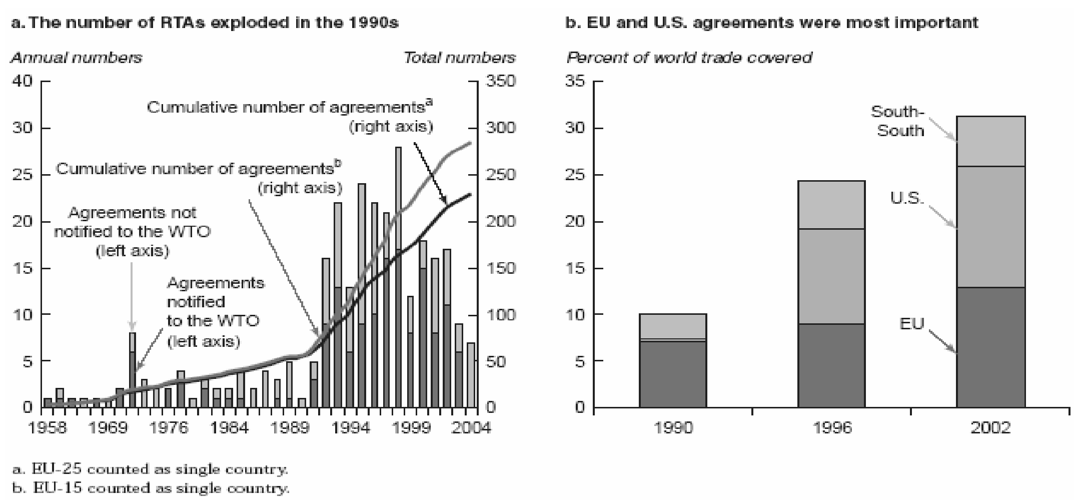


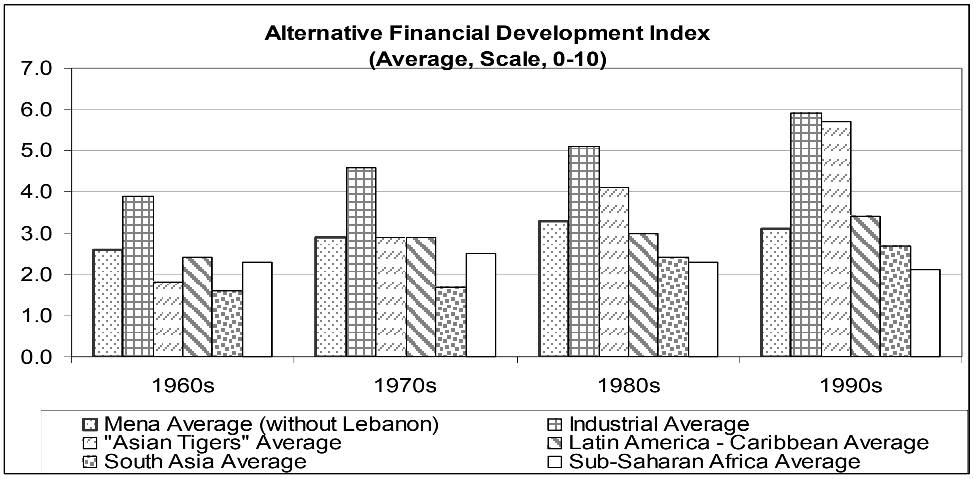
Figure 14: Regionalism Spread



Source: Global Economic Prospects, 2005

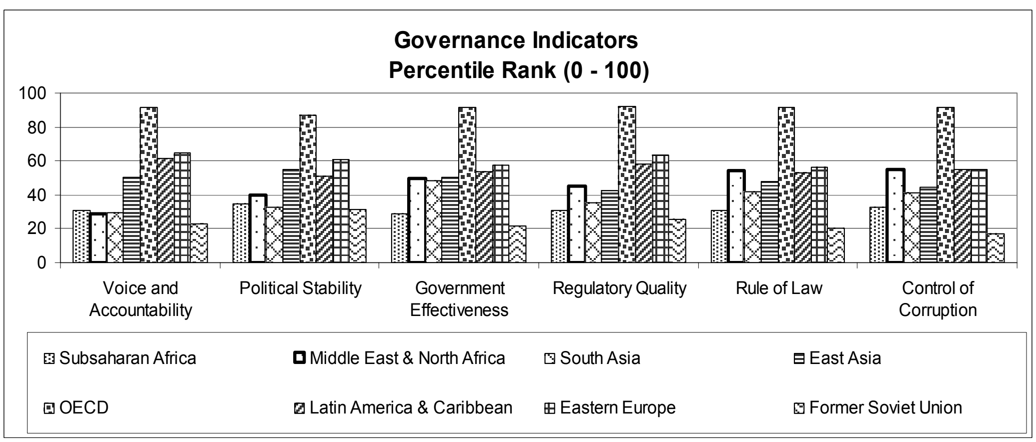
Figure 15: East Meditarranean Gas Link

Figure 16: Alternative Financial Development Index



Source: "Financial Sector Development in the Middle East and North Africa", Creane, S., Authors' Calculations.

Figure 17: Governance Indicators



Source: D. Kaufmann, A. Kraay, M. Mastruzzi, 2003: Governance Indicators for 1996-2002

Table 1: A.T. Kearney Index

Country/Region[31]	GDP % of the World			GDP	Annual GDP growth rate % of the World GDP		
	1962	1980	1990	2000	1962-79	1980-89	1990-2000
Americas	42.89	35.01	0.00	35.52	4.27	2.78	3.24
Asia	19.28	24.56	28.58	29.76	6.88	4.75	3.10
Sub-Saharan Africa	1.37	1.23	1.11	1.04	4.82	2.14	2.05
MENA	1.16	2.08	1.84	1.94	8.90	1.95	3.20

Source: Carrere and Schiff, (2003)

Table 2: Evolution of GDP per Region

2004 Ranking	Country	Change from 2003	Economic	Personal	Technological	Political
1	Ireland	0	1	2	14	11
2	Singapore	2	2	3	10	40
3	Switzerland	-1	9	1	7	33
4	Netherlands	1	3	11	8	14
5	Finland	5	7	15	4	12
35	Tunisia	4	25	31	46	42
41	Saudi Arabia	0	49	24	43	59
47	Morocco	-18	54	30	54	55
60	Egypt	-12	58	47	53	49
62	Iran	0	59	62	48	61

Source: AT Kearney >*http://www.atkearney.com/shared_res/pdf/2004G-index.pdf*>

[31] See Annex table 7, for further breakdown of GDP evolution per region.

Table 3: Regional versus International Trade Integration

	Total Arab External Trade of World Trade (%)			Total Intra-Arab Trade of Total External Trade (%)		
	2000	**2001**	**2002**	**1999**	**2000**	**2001**
Algeria	1.57	1.61	1.59	1.87	2.00	2.17
Bahrain	0.57	0.60	0.61	6.08	5.94	6.02
Egypt	1.44	0.86	1.26	5.95	6.58	5.62
Jordan	0.30	0.37	0.39	5.53	5.58	7.21
Kuwait	1.34	1.22	1.19	5.77	6.03	5.65
Lebanon	0.35	0.37	0.35	3.47	3.69	3.66
Libya	0.86	0.79	0.75	3.56	3.45	3.15
Mauritania	0.06	0.06	0.07	0.13	0.12	0.20
Morocco	1.05	0.92	1.06	3.40	3.23	5.29
Oman	0.80	0.82	0.74	10.79	10.76	9.99
Qatar	0.76	0.86	0.79	3.06	4.29	4.04
Saudi Arabia	5.41	5.70	5.66	29.47	27.08	25.76
Somalia	0.02	0.02	0.02	0.55	0.36	0.36
Sudan	0.16	0.19	0.20	1.75	1.54	1.66
Syria	0.52	0.61	0.63	4.25	3.98	4.12
Tunisia	0.75	0.83	0.80	3.84	3.87	3.88
UAE	4.14	4.25	4.28	20.85	22.50	21.47
Yemen	0.33	0.34	0.36	3.59	3.51	3.56

Table 4: MENA Participation in RTAs

	East Asia and Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa	North	Total
Number of countries	32	36	39	21	8	48	25	209
North-South bilateral								
Countries belonging to at least one RTA	4	12	6	10	0	2	10	44
Average number of RTAs per country	2	1	2	1		1	4	2
Maxim number of RTAs per country	4	4	4	3	0	1	24	24
All others								
Countries belonging to at least one RTA	24	22	33	20	8	47	10	164
Average number of RTAs per country	2	6	8	5	4	4	8	5
Maxim number of RTAs per country	3	12	17	12	9	9	15	17
Total								
Countries belonging to at least one RTA	26	26	35	20	8	48	11	174
Average number of RTAs per country	2	6	8	5	4	4	11	5
Maxim number of RTAs per country	7	12	19	13	9	9	29	29

Source: Published WTO data, World Bank staff.

Note: Bilateral agreements are defined as an RTA with two members. North is OECD 24 plus Lichtenstein, and South is all other countries

Table 5: Intraregional Trade in Selected Trade Blocs, 2001. (Billions of US dollars)

	Intraregional trade value	Intraregional trade as share of total trade (%)
ASEAM	166.1	22
EU	2650	59
GAFTA	30.54	7.5
NAFTA	622	19

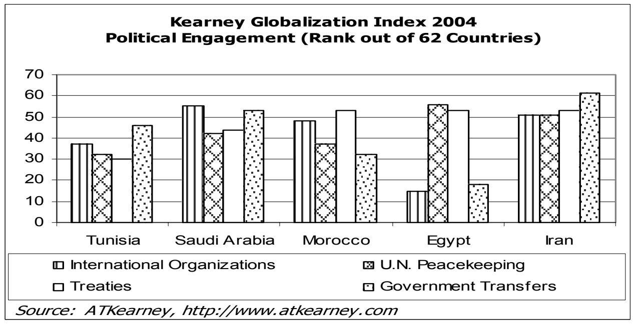
Source: ESCWA, based on Canadian Department of Foreign Affairs and International Trade, "NAFTA at eight: a foundation for growth". IMF, Direction of Trade Statistics Quarterly, June 2002.

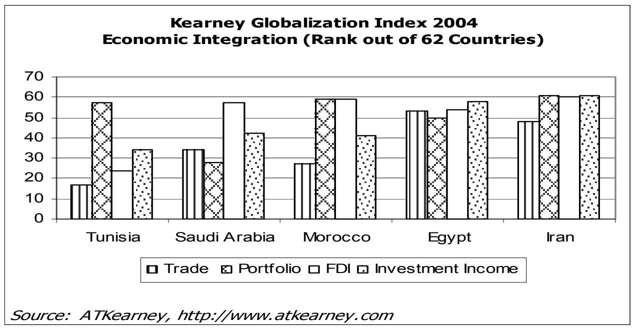
Table 6: Logistics Costs for MENA Exporting Firms (US$)

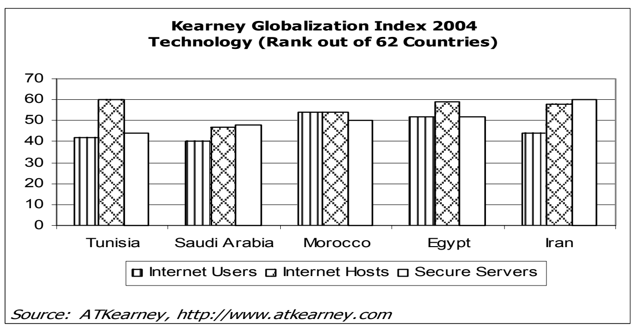
	Yemen			Egypt		Jordan	
	Tuna	**Coffee**	**Banana**	**Garments**	**Potatoes**	**Garments**	**Okra**
Non-Transport Logistics Costs							
Ordering and other admin. Cost	25	25	25	60	60	90	40
Load/unload	462	526	159	560	14,000	2,200	110
Capital carrying cost in transit	21	1,830	3	996	591	2,000	1.35
Capital carrying cost in storage	10	4,238	2	670	295		0.25
storage cost	370	1,800	40	475	800	240	25
shelf-loss in Transit/Storage	4,800		520	90	3,750	50	100
Filing loss and damage claims	25	25					
Safety Stock/Stock-Out Cost				30			
Emergency shipment cost	2,772						
Subtotal	8,459	8,444	749	2,881	19,496	4,580	268
Transport charges							
Truck	1,167	950	590	400	19,200	4,400	210
Airfreight	12,348			7,000		19,000	1,925
Ship		1,700		3,800	8,400	9,200	
Subtotal	13,515	2,650	590	11,200	27,600	32,600	2,135
Logistics Costs as a percentage of Landed Price	54.9	7.2	23.0	15.4	26.0	6.7	48.0

Annex

Figure 1: A.T. Kearney Globalization Index 2004.







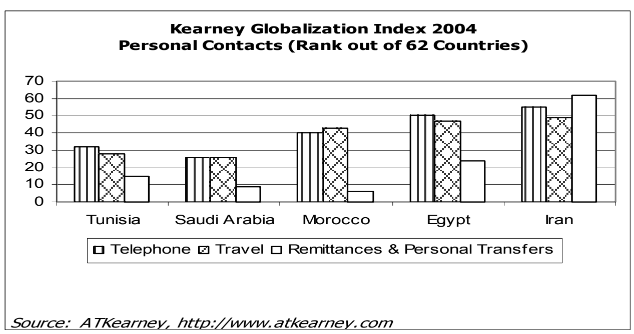
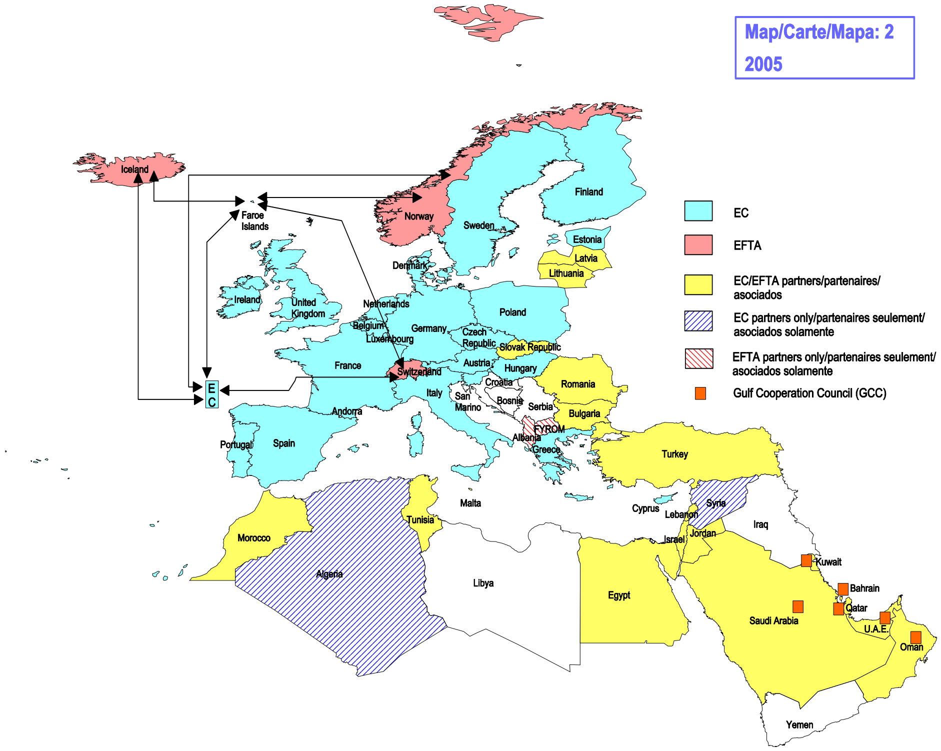


Figure A2: 2005 Expected RTAs between EC and EFTA



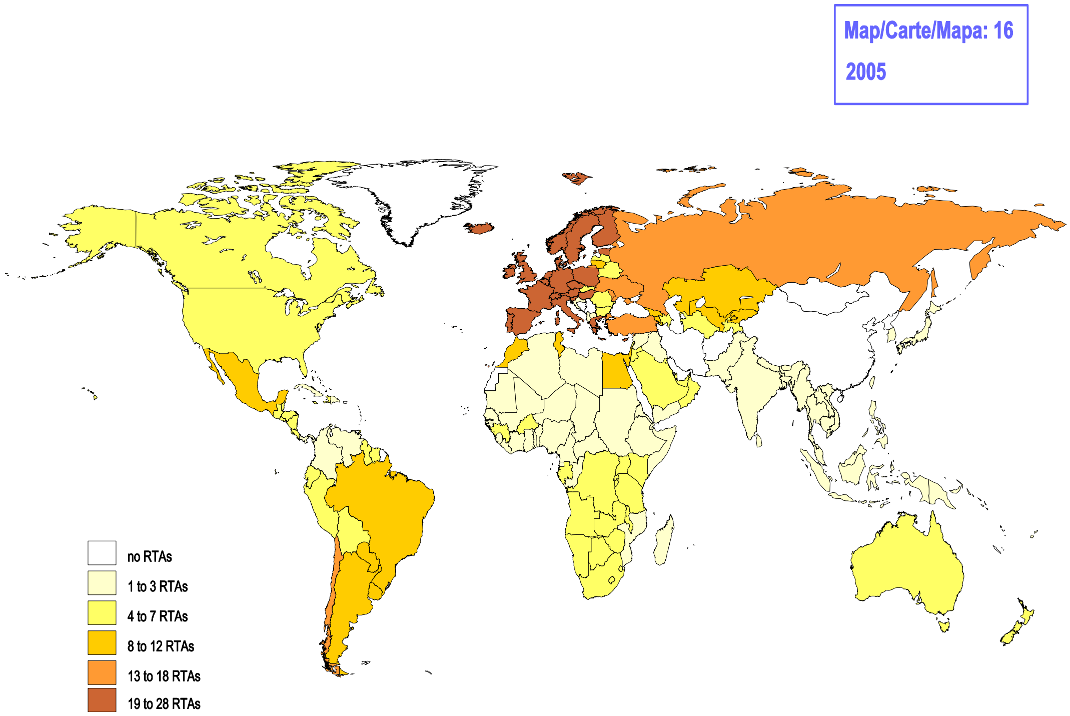
Source: WTO

The above map shows the network of RTAs expected to be in force by 2005 between the EC and EFTA with other countries in the Euro-Mediterranean region[32].[33] By 2005, it is expected that EFTA will have concluded RTAs with Malta, Tunisia, Jordan, Lebanon, Egypt, Albania and the Former Yugoslav Republic of Macedonia (F.Y.R.O.M). Meanwhile the EC is expected to extend its network to include Algeria, Lebanon, Egypt and Syria. RTAs between the EC and EFTA respectively and the six member countries of the Gulf Cooperation Council should be in force by 2005. The enlargement of the EC to include Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia, also scheduled for 2005, will have a considerable impact on the existing web of agreements in this region. The six new EC members will automatically become parties to the EC's existing network of agreements, superseding the six acceding countries' bilateral RTAs. In the medium term, a Euro-Mediterranean free-trade area may be in place by 2010.

[32] Other RTAs expected to be in force by 2005 in the Euro-Mediterranean region (which do not involve the EC or EFTA) are shown in Maps 4 and 6.

[33] The EC's and EFTA's RTAs with the Palestinian Authority are not shown. Only the EC (not EFTA) has RTAs with Andorra and San Marino. Both the EC and EFTA have RTAs with Malta. The Faroe Islands are a self-governing part of Denmark, but not part of the EC. Assumes the enlargement of the EC to include Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia.

Figure A3: 2005 Expected RTAs in MENA

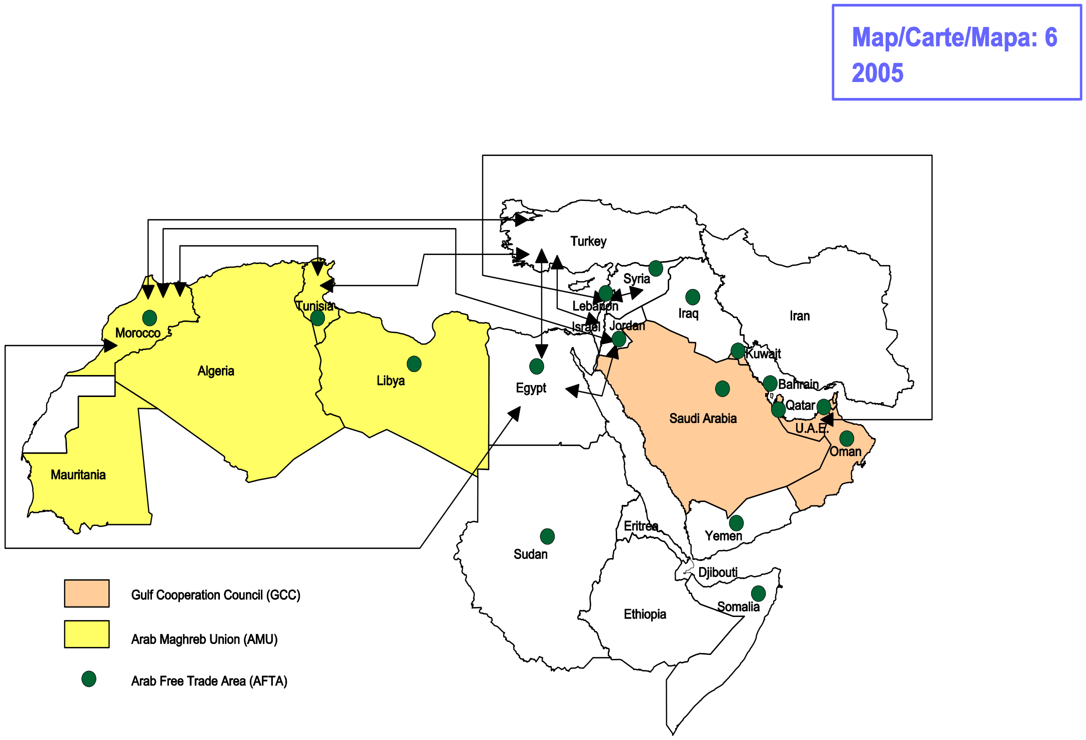


Source: WTO

The above map shows the network of RTAs expected to be in force by 2005 in North Africa and the Middle East.[34] By 2005, Turkey, Morocco and Egypt are expected to extend their networks of bilateral RTAs, while the majority of countries in this sub-region should become part of the Euro-Mediterranean Free-trade area, scheduled for 2010.

[34] The RTAs between Israel and the Palestinian Authority, and Turkey and the Palestinian Authority are not shown. The Palestinian Authority is a member of AFTA.

Figure 4: Countries Involvement in RTAs



Source: WTO

The above map shows the expected level of involvement of individual countries/customs territories in RTAs in 2005. It also shows that a significant number of countries are likely to be involved in more RTAs by 2005.[35] This trend is most evident in the Americas and in Eastern Europe and Central Asia and also partly in the Euro-Mediterranean Region. By contrast, countries in Sub-Saharan Africa are not expected to conclude new regional RTAs, but to focus on the implementation, consolidation, and/or extension of existing ones.

[35] While 38 per cent of countries are currently involved in more than three RTAs, that percentage will rise to 59 per cent in 2005.

Table A1: MENA, Spain, Finland and World Comparative Table

	Spain	Finland	MENA	World
People				
Population, total	41.1 million	5.2 million	311.6 million	6.3 billion
Population growth (annual %)	0.4	0.2	1.9	1.2
Economy				
GNI, Atlas method (current US$)	698.2 billion	140.8 billion	689.4 billion 1	34.5 trillion
GNI per capita, Atlas method (current US$)	16,990	27,020	2250 1	5,500
GDP (current $)	836.1 billion	161.5 billion	677.0 billion 1	36.4 trillion
GDP growth (annual %)	2.4	1.9	3.1 1	2.6
Value added in agriculture (% of GDP)	3.4 1	3.4 1	10.8 1	4 2
Value added in industry (% of GDP)	30.1 1	32.6 1	41.3 1	29.6 2
Value added in services (% of GDP)	66.5 1	64 1	47.9 1	66.4 2
Exports of goods and services (% of GDP)	28.5 1	38.1 1	34.2 1	23.8 1
Imports of goods and services (% of GDP)	30 1	30.2 1	28.7 1	23.2 1
Gross capital formation (% of GDP)	26 1	19.6 1	23 1	20 1
Technology and infrastructure				
Fixed lines and mobile telephones (per 1,000 people)	1330.4 1	1390.9 1	180.2 1	363.8 1
Personal computers (per 1,000 people)	196 1	441.7 1	38.2 1	100.8 1
Internet users	6.4 million 1	2.7 million 1	9.7 million 1	622.6 million1
Paved roads (% of total)	99 2	64.5 2	63.8 2	45.1 2
Aircraft departures	500.0 K1	108.5 K 1	428.6 K1	20.5 K1
Trade and finance				
Trade in goods as a share of GDP (%)	41.9 1	59.6 2	50.5 1	40.3 1
Trade in goods as a share of goods GDP (%)	117.3 1	141 1	90.9 1	107.3 2
High-technology exports (% of manufactured exports)	6.9 1	24.2 1	2 1	21.4 1
Foreign direct investment, net inflows in reporting country (current US$)	25.5 billion	2.9 billion	1.8 billion	630.8 billion1
Aid per capita (current US$)	..	..	21.3 1	11.3 1

Source: World Development Indicators database, August 2004

1 Year 2002 Figures, 2 Year 1999 Figures

Table A2: Arab Countries Intra-regional Imports and Exports

	Exports by: 1/				
	Arab Countries	**Maghreb Countries**	**GCC Countries**	**Selected Mashreq Countries**	**Other Countries**
(Intra-regional exports, in billions of U.S. Dollars)					
Export to:					
Arab Countries, of which:	12.0	1.6	7.5	2.6	0.3
Maghreb	2.0	1.0	0.6	0.4	0.0
GCC	6.8	0.1	5.3	1.2	0.2
Selected Mashreq	2.6	0.5	1.2	1.0	0.0
Other	0.6	0.0	0.4	0.0	0.1
(Intra-regional exports, as percent of exports to world)					
Arab Countries, of which:	8.2	4.9	7.7	22.7	12.5
Maghreb	1.4	3.1	0.6	3.3	0.0
GCC	4.6	0.4	5.5	10.2	7.5
Selected Mashreq	1.8	1.4	1.2	8.6	0.1
Other	0.4	0.0	0.4	0.6	4.9
(Intra-regional exports, as percent of exports to Arab countries)					
Arab Countries, of which:	100.0	100.0	100.0	100.0	1000.0
Maghreb	16.7	63.2	7.7	14.7	0.1
GCC	56.6	7.6	71.4	44.9	59.9
Selected Mashreq	21.8	29.1	15.6	37.7	0.8
Other	4.9	0.1	5.2	2.7	39.3

Source: IMF Direction of Trade Statistics, 1998 Yearbook.

1/ Country groupings are:

Maghreb: Algeria, Libya, Mauritania, Morocco, Tunisia.

GCC: Bahrain, Kuwait, Oman, Saudi Arabia, United Arab Emirates.

Selected Mashreq Countries: Egypt, Jordan, Lebanon, Syria, Sudan.

Other Countries: Djibouti, Somalia, Yemen.

Table A3: Aggregate Intra-Arab FDI Flows 1985-2002 ($ thousands)

To/ From:	Jordan	Emirates	Bahrain	Tunisia	Algeria	Saudi Arabia	Syria	Oman	Qatar	Kuwait	Lebanon	Egypt	Morocco	Yemen	Total
Jordan	*	11,815	1,541	239		35,149	43,319		5,442	13,509	20,334	37,029	859	627	172,784
Emirates	29,277	*	43,782	85	26	6,535,549	18,002	66,879	254,862	362,122	44,136	10,702	1,092	1,546	7,370,136
Bahrain	4,359	59,912	*	627		376,004	80	796	2,729	180,837	26,834	2,950			663,804
Tunisia	135,844	144,204	2,832	*	5,425	405,282	3,961		20,689	359,073	8,335	4,705	100,254	192	1,489,282
Algeria	160,320	28,329	20,100	24,660	*	41,488	22,800		7,000	26,296	11,190	337,050		24,300	872,045
Saudi Arabia	319,636	157,112	149,665	3,447	4,005	*	539,722	3,120	66,358	153,349	270,627	173,039	8,090	130,809	2,005,324
Syria	12,021	375,386	21,688	5,455	303	372,548	*	5,757	12,662	338,258	246,057	6,695	50		1,405,458
Oman	12,111	39,185	12,241			34,989	1,176	*	7,624	3,405	4,338	434		36,192	151,695
Qatar	8,624	78,740	2,833			63,925	2,343	14	*	107,711	841	280		55	270,204
Kuwait	27,801	954	1,035	847		5,461	17,526	1,921		*	11,111	5,469	168	723	73,016
Lebanon	1,173	804,405	21,486	662		1,205,470	150,339	891	91,601	683,628	*				2,959,655
Egypt	134,992	221,756	56,719	13,500	5,618	1,579,560	122,710	65,525	228,637	60,044	83,284	*	45,856		2,859,018
Morocco	2,445	76,847	65,830	22,660	16,133	171,949	26,882		2,334		8,675		*	26,444	463,050
Yemen	26,636	15,549	223		33	197,220	10,613	14,495	64,364	3,479	12,302	37,526		*	387,302

Source: AMF

Table A4: Trade and Services Agreements, Preferential Agreements and Others (Chronological)

50s	60s	70s	80s	90s	00s
EC (Treaty of Rome) 1-Jan-58 Services agreement	**EFTA (Stockholm Convention)** 3-May-60 Free trade agreement	**EFTA accession of Iceland** 1-Mar-70 Accession to free trade agreement	**SPARTECA** 1-Jan-81 Preferential arrangement	**MERCOSUR** 29-Nov-91 Customs union	**EC — South Africa** 1-Jan-00 Free trade agreement
EC (Treaty of Rome) 1-Jan-58 Customs union	**CACM** 12-Oct-61 Customs union	**EC — OCTs** 1-Jan-71 Free trade agreement	**LAIA** 18-Mar-81 Preferential arrangement	**AFTA** 28-Jan-92 Preferential arrangement	**EC — Morocco** 1-Mar-00 Free trade agreement
	TRIPARTITE 1-Apr-68 Preferential arrangement	**EC — Switzerland and Liechtenstein** 1-Jan-73 Free trade agreement	**CER** 1-Jan-83 Free trade agreement	**CEFTA** 1-Mar-93 Free trade agreement	**EAC** 7-Jul-00 Preferential arrangement
		PTN 11-Feb-73 Preferential arrangement	**CAN** 25-May-88 Preferential arrangement	**MSG** 22-Jul-93 Preferential arrangement	**SADC** 1-Sep-00 Free trade agreement
		EC — Iceland 1-Apr-73 Free trade agreement	**CER** 1-Jan-89 Services agreement	**EEA** 1-Jan-94 Services agreement	**United States — Jordan** 17-Dec-01 Services agreement
		EC — Norway 1-Jul-73 Free trade agreement	**GSTP** 19-Apr-89 Preferential arrangement	**NAFTA** 1-Jan-94 Free trade agreement	**United States — Jordan** 17-Dec-01 Free trade agreement
		CARICOM 1-Aug-73 Customs union		**NAFTA** 1-Apr-94 Services agreement	**EFTA — Jordan** 1-Jan-02 Free trade agreement
		Bangkok Agreement 17-Jun-76 Preferential arrangement		**COMESA** 8-Dec-94 Preferential arrangement	**EC — Jordan** 1-May-02 Free trade agreement
		EC — Algeria 1-Jul-76 Free trade agreement		**CIS** 30-Dec-94 Free trade agreement	**EFTA** 1-Jun-02 Services agreement
		PATCRA 1-Feb-77 Free trade agreement		**SAPTA** 7-Dec-95 Preferential arrangement	**EFTA - Singapore** 1-Jan-03 Services agreement

Table A4: Cont'd.

50s	60s	70s	80s	90s	00s
		EC — Syria 1-Jul-77 Free trade agreement		**CARICOM** 1-Jul-97 Services agreement	**EFTA - Singapore** 1-Jan-03 Free trade agreement
				EC — Palestinian Authority 1-Jul-97 Free trade agreement	**EC - Chile** 1-Feb-03 Free trade agreement
				EAEC 8-Oct-97 Customs union	**EC - Lebanon** 1-Mar-03 Free trade agreement
				EC — Tunisia 1-Mar-98 Free trade agreement	**ASEAN - China** 1-Jul-03 Preferential arrangement
				CEMAC 24-Jun-99 Preferential arrangement	**EU Enlargement** 1-May-04 Accession to customs union
				EFTA — Palestinian Authority 1-Jul-99 Free trade agreement	**EU Enlargement** 1-May-04 Accession to services agreement
				EFTA — Morocco 1-Dec-99 Free trade agreement	**EC - Egypt** 1-Jun-04 Free trade agreement
					ECO not available Preferential arrangement
					GCC not available Preferential arrangement

Source: WTO

Table A5: Cost of Doing Business

	East Asia and Pacific	Europe and Central Asia	Latin America and Caribbean	Middle East and North Africa	OECD High income	South Asia	Sub-Saharan Africa
Starting a Business							
Number of Procedures	8	9	11	10	6	9	11
Duration (days)	52	42	70	39	25	46	63
Cost (% GNI per capita)	47.1	15.5	60.4	51.2	8	45.4	225.2
Min. Capital (% GNI per capita)	100.5	51.8	28.9	856.4	44.1	0	254.1
Difficulty of Hiring Index	20	31	44	22	26	37	53
Hiring and Firing Workers							
Rigidity of Hours Index	30	51	53	52	50	36	64
Difficulty of Firing Index	22	42	34	40	26	53	50
Rigidity of Employment Index	24	41	44	38	34	42	56
Firing Costs (weeks)	52	38	70	74	40	84	59
Registering Property							
Number of Procedures	4	6	6	6	4	5	6
Time (days)	51	133	56	54	34	55	114
Cost (% of property per capita)	4.2	3	5.6	6.8	4.8	6.1	13.1
Getting Credit							
Cost to Create Collateral (% of income per capita)	2	7.6	19.4	18.6	5.2	8	41.8
Legal Rights Index	5	5	3	3	6	3	4
Credit Inform. Index	1	2	4	2	5	1	2
Public Credit Registry Coverage (borrowers per 1000 adults)	33	6	85	20	76	1	1
Private Bureau Coverage (borrowers per 1000 adults)	33	6	85	20	76	1	1
Protecting Investors							
Disclosure Index	3.6	2.3	2.6	5.6	2.9	2.3	2.3
Enforcing Contracts							
Number of Procedures	27	29	35	38	19	29	35
Time (days)	316	412	462	437	229	349	434
Cost (% of debt)	56.9	17.6	23.3	17.9	10.7	38.5	42.9
Closing a Business							
Time (years)	3.4	3.3	3.6	3.8	1.6	5.1	3.5
Cost (% of estate)	29.8	13.1	15.8	13	6.8	8.3	20.5
Recovery Rate (cents on the dollar)	30.4	30.5	26.6	28.6	72.2	21.4	17.1

Source: http://rru.worldbank.org/DoingBusiness/default.aspx

Table A6: Evolution of GDP Per Region

Country/Region	GDP % of the World GDP				Annual GDP growth rate % of the World GDP		
	1962	**1980**	**1990**	**2000**	**1962-79**	**1980-89**	**1990-2000**
World	**100**	**100**	**100**	**100**	**5.45**	**3.18**	**3.69**
OECD countries	86.94	84.12	82.85	79.06	5.26	3.02	2.21
non OECD countries	13.06	15.88	17.15	20.94	6.60	3.98	4.76
EU- 15 members	32.11	34.46	31.84	28.91	5.87	2.36	1.70
USA	36.28	26.00	25.99	27.47	3.52	3.17	3.26
Americas	**42.89**	**35.01**	**0.00**	**35.52**	**4.27**	**2.78**	**3.24**
NAFTA	37.23	29.42	29.17	30.77	4.08	3.09	3.24
Latin America and Caribbean	6.60	6.80	5.56	5.89	5.62	1.13	3.28
MERCUSOR	3.90	4.13	3.24	3.39	5.78	0.73	3.14
CARICOM	0.10	0.08	0.07	0.07	4.33	1.97	2.05
Asia	**19.28**	**24.56**	**28.58**	**29.76**	**6.88**	**4.75**	**3.10**
EAP	17.88	23.41	27.12	27.89	7.04	4.71	2.98
South Asia	1.40	1.15	1.47	1.86	4.29	5.71	5.19
China	0.61	0.89	1.58	3.18	7.70	9.29	10.10
Japan	13.66	18.00	19.67	17.36	7.08	4.09	1.41
ASEAN	0.93	1.35	1.78	2.22	7.62	6.10	4.99
Sub-Saharan Africa	**1.37**	**1.23**	**1.11**	**1.04**	**4.82**	**2.14**	**2.05**
MENA	**1.16**	**2.08**	**1.84**	**1.94**	**8.90**	**1.95**	**3.20**

Source: Carrere and Schiff, (2003)

Table A7: Arab World Share of World's Totals

	Arab World	World Total	Arab World as Percentage of World Total
GDP in 2001 (billions of US dollars)	632	30938.8	2.0
Population in 2001 (millions)	289.9	6134.1	4.7
Total Exports in 2000 (billion of US dollars)	243.3	7603.1	3.2
Total Imports in 2000 (billions of US Dollars)	152.5	10892.9	1.4
Number of fixed telephone lines in 2001 (millions)	21	1046	2.0
Fixed telephone density in 2001 (lines per 100 residents)	8.2	17.2	-
Number of mobile phone lines in 2001 (millions)	16	946	1.7
Mobile telephone density in 2001 (lines per 100 residents)	6.3	15.6	-
Number of personal computers in 2001 (per 10,000 residents)	2	8.4	-
FDI inflow (billions of US dollars)	6	753.4	0.8
Countries acceded to WTO as of February 2002	11	144	7.6
Countries negotiating for accession to WTO as of February 2002	5	30	16.7
Number of Tourists in 2001 (millions)	33.2	692	4.8
Tourism Revenues in 2001 (billions of US dollars)	16	463	3.6

Source: ESCWA, based on national and international sources

A dash (-) indicates that the item is not applicable

As of August 1998, financial support towards the ERF Working Papers Series from the Commission of the European Communities (through the FEMISE Program) is gratefully acknowledged. The views expressed in the Working Papers are those of the authors and do not necessarily reflect the views of the European Commission.

ECONOMIC RESEARCH FORUM
منتدى البحوث الاقتصادية

7 Boulos Hanna St. Dokki, Cairo, Egypt
Tel: (202) 7615071 – (202) 7615072 – (202) 7602882
Fax: (202) 7616042. Email: erf@erf.org.eg Website: http://www.erf.org.eg