

**TECHNICAL UNIVERSITY OF LIBEREC**  
**FACULTY OF ECONOMICS**



**DIPLOMA PROJECT**

2002

Abdurrauf Aradawi

**TECHNICAL UNIVERSITY OF LIBEREC**  
**FACULTY OF ECONOMICS**

Study discipline: 6208 - Economics and Management  
Specialisation: Business Administration

**THE ECONOMIC INTEGRATION BETWEEN THE ARAB  
COUNTRIES**

**Ekonomická integrace mezi arabskými státy**

DP-PE-KPE-2002 09

**ABDURRAUF ARADAWI**

Supervisor: doc. Ing. Ivan Jáč, CSc., Department of Business Administration

Consultant: doc. Ing. Ivan Jáč, CSc., Department of Business Administration

Number of pages: 52

Appendix: 0

Delivery Deadline: 25. 5. 2002

## ZADÁNÍ DIPLOMOVÉ PRÁCE

pro **Abdurrauf Ardawi**

obor č. 6208 T Podniková ekonomika

Vedoucí katedry Vám ve smyslu zákona č. 111 / 1998 Sb. o vysokých školách a navazujících předpisů určuje tuto diplomovou práci:

Název tématu: **The Economic Integration Between the Arab Countries**

Pokyny pro vypracování:

1. Definition of the Economic Integration
2. The Classical theory of the Economic Integration
3. Constitution of the Economic Integration
4. Basic Factors of the Economic Integration in the Arabic World
5. Analysis and Evaluation of already existing treaties of Economic Integration in the Arabic World

KPE/POE-PE

52.



Rozsah grafických prací:

50 - 60 stran textu + nutné přílohy

Rozsah průvodní zprávy:

Seznam odborné literatury:

Dr. Mohammed Abd Elaziz: Chapters on the Arabic Economics, , Dar Elnahda Alarabia Publishing & Distribution, Beirut 1998

Saad Hasan Jasim: Arabic Economic Integration, Prezent and Future, , Dar Al Arab Al Arabia Publishing & Distribution, Bagdad 1999

Kraft, J.: Světová ekonomika a ekonomická integrace, TU Liberec, Liberec 1999

General Union of Chambers of Commerce Industry and Agriculture for Arab Countries Arab Economic Report – January 2000

Jamil Matr: Arabian Regional System, Institution for Arabic Unity, Beirut, third edition 1993

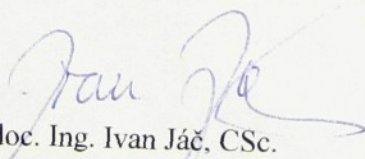
Vedoucí diplomové práce: doc. Ing. Ivan Jáč, CSc., TUL HF

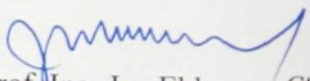
Konzultant: doc. Ing. Ivan Jáč, CSc., TUL HF

Termín zadání diplomové práce: 31.10.2001

Termín odevzdání diplomové práce: 24.5.2002



  
doc. Ing. Ivan Jáč, CSc.  
vedoucí katedry

  
prof. Ing. Jan Ehleman, CSc.  
děkan Hospodářské fakulty



## AKNOWLEDGEMENT

I would like to express my thanks to all, who assisted me in the accomplishment of this project especially to doc. Ing. Ivan Jáč, CSc., Business Administration Head Department for being very helpful and for his guidance all .

Thanks to go to my family for providing me with the comfortable atmosphere to work on this research , for their support and patience.

Finally I would like to thank my friend Basheer for his help.

I dedicate this work to my kids Ouhod and Alaa.

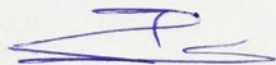
## Místopřísežné prohlášení

Prohlašuji, že jsem diplomovou práci vypracoval samostatně s použitím uvedené literatury pod vedením vedoucího a konzultanta. Byl jsem seznámen s tím, že na mou diplomovou práci se plně vztahuje zákon č. 121/2000 o právu autorském, zejména §60 (školní dílo) a §35 (o nevýdělečném užití k vnitřní potřebě školy).

Beru na vědomí, že TUL má právo na uzavření licenční smlouvy o užití mé práce a prohlašuji, že souhlasím s případným užitím mé práce (prodej, zapůjčení, apod.).

Jsem si vědom toho, že užití své diplomní práce či poskytnutí licence k jejímu užití mohu jen se souhlasem TUL, která má právo ode mne požadovat přiměřený příspěvek na úhradu nákladů, vynaložených univerzitou na vytvoření díla (až do její skutečné výše).

Po pěti letech si mohu tuto práci vyžádat v Univerzitní knihovně TU v Liberci, kde je uložena, a tím výše uvedená omezení vůči mé osobě končí.



V Liberci dne 20. května 2002



## **Anotation**

The aim of the study is to analyse and evaluate the present economic agreements between the Arab countries to see the important levels and processes that have been achieved and to asses the possibility of the future full economic integration between them.

This work is divided in to five chapters. The first chapter is an introductory one explaining he important and methodology of the research .The second chapter gives a brief about both the Arab countries and their economies. The third chapter define the term "economic integration", shows the stages of the economic integration and explains the theories of economic integration. Basic factors of the economics integration in the Arab world are described the forth chapter describes the forms of agreements in the Arab world with the emphasis of the regional co-operation agreements. Finally a deep and a thorough analysis and evaluation of the actual situation is carried out.

# Contents

## Chapter I

1.1. Introduction .....	2
1.2. The problem of the study .....	3
1.3. Importance of the study .....	4
1.4. Aims of the study .....	4
1.5. Methodology .....	4

## Chapter II

2.1. Brief about the Arab countries .....	5
2.2. Basic features of the Arab economies .....	12

## Chapter III.

3.1. Definition of the economic integration .....	16
3.2. Stages of the economic integration .....	17
3.3. Economic integration theories .....	19
3.3.1. Internal Economies of Scale .....	19
3.3.2. External Economies of Scale .....	20
3.3.3. Comparative advantage .....	20
3.3.4. Use of the economic resources .....	20
3.4. Factors of the economic integration between the Arab countries .....	20
3.4.1. Human factors .....	21
3.4.2. Natural factors .....	25
3.4.3. Financial factors .....	28
3.4.4. Demographic factors .....	30
3.4.5. SWOT among Arab countries .....	31

## Chapter IV.

4.1. Existing forms of Agreements of Economic Integration .....	33
4.1.1. Mutual agreements .....	33
4.1.2. Collective agreements .....	33
4.2. Existing forms of integration in the Arab world .....	34
4.2.1. North African Countries Union .....	34
4.2.2. Gulf Cooperation Council .....	34
4.2.3. Arabic Common Market .....	35

## Chapter IV

4.1. Analysis and Evaluation of the Arabic economic integration .....	36
4.2. Recommendation .....	41
4.3. Conclusion .....	50
Sources .....	52



# Chapter I

## 1.1 Introduction

"We Arabs, as usual, watch, wait and see. We should by now, however, have had enough of these nonproductive practices. Others have undertaken reforms and are consequently making progress. We are still content to watch and wait and see."<sup>1</sup>

The human communities since the early times of the human history have a tendency to develop and integrate or extend either with regard to the area in which they live or the degree of the complexity in the internal or external relationships between them and other communities that exist in the neighborhood.

In our present time we notice that the loyalty of the human being to his national country is of a basic feature, despite the existence of loyalty to the lower religious and ethnic groups. It can be said that the national country became the basic destination towards which people are directed by the end of the 20<sup>th</sup> century.

The national country was not the end of the development of the human communities towards a greater integration rather the notion of integration arose after the second world war to represent a middle position between the Capitalist and the former Eastern block, to leave space for an international rule. The regional integration could be seen from a moral point of view as a building of some kind of cooperation between some countries lead to a creation of new entities of human communities in a peaceful way at a high degree of organization that maintains the conditions and processes needed to put in to reality.

The regional integration depends on the reasons and ways the countries adopt to achieve it and their willingness to give up national sovereignty and integrate with the others in a broader entity. The integration will not ever be based on violence of whatever kind.

The year after the World War II. And the emergence of the many economic and social changes together with the problems of developments, the matter that led some countries of

---

<sup>1</sup> Yousri, A. R., Studies in the Science of Islamic Economics, Dar El-Gamaat El-Masria, Alexandria, 1988



different levels of political systems and degrees of developments to look for some kind of economic cooperation, which gradually lead to the existence of new fusions in the frame work of regional economic integration between the developed countries or underdeveloped countries. The success of these kinds of cooperation specially between the developed countries had the effect of stimulating the others to look for such kind of cooperation and finally the total economic integration. Based on this the arab countries, same as other nations, long time ago were seeking some kind of integration either on the collective basis or mutual levels like the was existed between Egypt and Syria in 1958 and the experience of Arab republics. Unions between Libya, Egypt and Syria at the early seventies and the emergence of Gulf Cooperation Council in 1981, Arabic Cooperation Council in 1989 and The North African Union between the countries of Libya, Tunisia, Algeria, Morocco and Mauritania last not the least.

## **1.2 The problem of the research**

The modern world is dominated by some kinds of groupings and regional fusions, that cooperate between them in order to make use of their resources and capabilities to make a greater economic power stand against all changes and threats from others in this world of competition.

The recent condition of the arab world amides these changes in the international scene and emergence of the big economic cooperation, still suffering from disintegration and absence of affectivity using of its huge economic resources that could make him a stronger unity that could compete with the existing integration like the EU.

My research is trying to analyze the existing agreements in the Arab world and go in details to examine the important processes and steps that were achieved in this regard, then the attempts to solve these obstacles that may stand in the way in order to reach some suggestions that will achieve this integration and its goals.

This research is assuming that the existing agreements and individual regional agreements according to their contents and goals represents the basic of a highly economic integration between the Arab countries.



### **1.3. Importance of the study**

The gains that could be exerted from the cooperation and integration between the countries, could not be exerted by any country alone, that because will not be able to be competitive enough against the others. The emergence of the integration will contribute, to a greater extend in raising the level of development, specially if we put in to our consideration the structures of their economies, the wide area that they have and the existence of huge economic resources such as the petrol, water resources, etc.

### **1.4. Aims of the study**

The aim of this study is the analysis and evaluation of the existing economic agreements between the Arab countries to see the important levels, processes that have been achieved, these aims could be identified:

- 1) to build a theoretical notion of the study, through which to explain the process of the economic integration.
- 2) to explore the agreements of the regional economic cooperation in the Arab world.
- 3) The process and the real achievements to the assumed integration.
- 4) The obstacles that may stand in the way of this integration and the ways to go through them.
- 5) To asses of the possibility of future full economic integration between the Arab countries.
- 6) Conclusions and the recommendations that could be derived.

### **1.5. Methodology**

This study is basically descriptive analysis on the ground of the documents of the agreements of Arabic economic cooperation, related resources and regional statistics and reports.

## Arab world





# Chapter II.

## 2.1. Brief about the Arabic countries

The Arab world extends in a very huge area represents more than 13,6 million km<sup>2</sup> which equals 1/10 of the area of the world. This area extends from the Arabic Gulf in the south west of Asia in the east to the Atlantic Ocean in the west. It is the origin of different kinds of old civilizations. The area is considered to be a strategic position, cause it controls one of the most important marine route between the East and West, which goes through Babel mandab strait in the south of the Red sea and Suez Canal. From an economic point of view the importance comes as the result of the existence of 2/3 of the world's oil reserves, and the 2<sup>nd</sup> position of the oil production.

The population of the 21 Arabic countries according to the estimations of the year 2000 is about 233 million (see table 6), distributed as follows:

37,5% in the Nile valley (Sudan and Egypt)

30,2% in the North of Africa (Libya, Tunisia, Morocco, Algeria and Mauritania)

16,61% in the fertile crescent (Jordan, Syria, Lebanon)

7,5% in the Gulf area (Saudi Arabia, Qatar, Bahrain, Emirates, Oman, Iraq, Kuwait)

8,2% in the Yemen, Somalia, Djibouti

The Average yearly population growth is varying between 8,9% (Qatar) and 7,81% (Yemen), however the over all yearly average growth is 3%.

The Arabic countries differ in regard to their capabilities, so we find different criteria to divide these countries. The criteria could be either as to the number of population, or the oil, some times both criteria are combined. According to the last criteria the Arabic countries could be divided:

Group 1: Algeria, Iraq

Group2: Kuwait, Emirates, Qatar, Saudia, Libya

Group 3: Bahrain, Oman, Syria, Tunisia, Egypt, Lebanon, Syria, Jordan

Group 4: Sudan and Yemen

Group 5: Somalia, Djibouti, Mauritania



The dominant factor unifying the Arab world is the Islamic religion and identity, which began in the sixth century AD and profoundly affects all aspects of life (including business) in Arab countries. Islam is the primary driving force behind contemporary Arab culture and society, affecting all aspects of behavior, attitudes, beliefs and morals. The major twentieth-century event affecting Arab countries was of resource the oil price increased of the 1970s and early 1980s which increase enormously the spending powers of certain Middle Eastern nations.

The Arab world comprises around 280 million Arabic-speaking people in 20 countries. Linked by a common heritage, culture and language but with extreme differences in political orientation. Living standards vary enormously, ranging from affluence in the oil-rich Gulf states to dire poverty elsewhere. Conventionally, two criteria are used to differentiate Arab countries:

1. politically radical versus politically conservative
2. oil-rich nations as opposed to those without substantial oil reserves

Within some of the oil-rich countries there is rapid growth in non-oil sectors brought about by extensive government investment, continuing growth in import demand, and rapid increases in the education levels of consumers, with consequent demand for sophisticated and high-quality products.

Some economists distinguish between the oil-rich, such as Saudi Arabia, Kuwait, Iraq and Libya and the oil-poor, such as Egypt, Syria and Jordan. The ability of the oil-rich to use oil proceeds for domestic development depends on their ability to translate these resources into useful imports. Owing to limitations on that capacity, they have been susceptible to shortages of domestic resources, resulting in internal inflation. In the oil-poor countries, the export sector cannot be distinguished from the non-export sector. Although export demand depends on the world economy, the supply of exports generally relates on the development of the whole economy. The oil-poor nations can become labor-surplus countries, where capital and import constraints usurp their economic growth.

A number of oil-rich Arab countries (notably Saudi Arabia and the Gulf states) drive around 90 per cent of government revenues from oil and have high per capita incomes but a limited industrial base. Other states which oil resources have encouraged industrial



diversification, usually within a framework of rigid state control (Iraq, Libya and Algeria fall within this group). The major Arab countries without extensive oil reserves (Egypt, Jordan, Syria, Morocco, Sudan and Tunisia) depend on industry and agriculture. All Arab countries import significant volumes of industrial and transport equipment and technical services.

The political situations of many Arab countries are highly unstable and liable to sudden and dramatic change. Political risk in the Middle East frequently involves religious factors, since the oppositions to the governments of several Middle Eastern countries have a fundamentalist religious base. Note, however, that it may well be that multitudes of secular opposition groups are using the various Islamic factions as convenient vehicles for resisting the status quo. A factor encouraging political uncertainty is perhaps the absence of democratic government (in the western sense) in some Arab countries. Arab society can fruitfully link itself with world commerce so as to satisfy its basic economic needs, potential for future development at the national level varies significantly between the Arab countries due principally to differences in natural resources, terrain, size of population, economic growth and health, and the people's attitudes to life.

A common goal of each Arab nation is technological independence from developed countries. To achieve this, a sound industrial base is required, along with a solid education system. Also, the lack of trained local manpower may represent a considerable hurdle, as in the case of Saudi Arabia. In contrast, Morocco and Egypt have a ready supply of labor but the industrial base is too narrow and the education/training system insufficiently organized to much job opportunities with employment demands. Thus, progress in one field of development is often held back by deficiencies in other fields.

With regard to communication system, television and telephone services are well established in most of Arab nations. Indeed, in Saudi Arabia these services are among the most advanced in the world. Cable, microwave and satellite communication systems are being put in place to link most Arab and Mediterranean countries. Looking to the future, it is hoped, that new and evolving technologies will release even more of the potential for development shared by these countries. Examples are the solar energy techniques, extracting oil from oil shale, innovative agricultural methods and water-treatment techniques.



Arab region, however is a region whose nations and people are linked not only by geographic proximity and history, common moral and religious standards, and generally uniform modes of life, but, as well, by tradition of trading practices. Despite the prevailing cohesive forces that bind them together, Arab countries still differ widely in their physical and union endowment's, in their social, technological and political structures, as well as in their stage of economic development. Thus, there is no single market, rather, there are a number of individual markets within the Arab countries. The indigenous firms of the region, like those of other less developed regions, are crucially depended on transfer of technology from abroad for their innovative activities, which still primarily consist of the absorption and adaptation of imported technologies for successful assimilation.

The region has a very small manufacturing base and depends almost entirely on foreign imports to sustain an increasingly high-tech urban society. Nor does the region have a sustainable agricultural base, making imported food and chemicals critical to survival. Locally produced capital goods are virtually nonexistent and transport, communications, power generation and distribution, water purification and distribution, and construction equipment must all be imported. Health care suppliers and equipment, automobiles, aircraft, spare parts, hospitality-industry supplies and equipment, and building materials are other excellent prospects for Western exporting to the region.

Most of Arab countries rely heavily on export marketing to obtain the foreign currencies necessary for their economic development. Lack of direct access to foreign markets entails economic losses because the export potential is not fully exploited by Arab countries and because import delays lead to the emergence of idle capacity or the costly building-up of precautionary or stand-by inventories (see table 1). More efforts should be directed to the marketing orientation of officials in public administration. Perhaps more also to macro-marketing policies in Arab countries.



Table no. 1

## TOTAL IMPORTS OF ARAB COUNTRIES (IN MILLIONS OF U.S. DOLLARS)

COUNTRY	1999	1998	1997	1996	1995	1994	1993	1992	1991
JORDAN	3 716,80	3 828,45	4 101,68	4 292,81	3 696,20	3 381,42	3 541,57	3 257,47	2 512,63
EMIRATES	32 457,45	30 524,17	26 603,13	25 832,20	23 481,34	22 688,64	19 613,18	17 433,94	13 919,91
BAHRAIN	3 588,30	3 566,22	4 025,53	4 272,87	3 715,69	3 747,87	3 857,98	4 263,03	4 115,16
TUNISIA	8 389,25	8 354,14	7 951,44	7 704,51	7 891,84	6 571,08	6 148,15	6 431,93	5 179,54
ALGERIA	9 187,48	9 906,84	8 812,67	9 105,61	10 088,40	9 570,34	8 761,18	8 539,75	6 672,93
SAUDI ARABIA	28 032,04	30 012,55	28 743,12	27 765,02	28 087,32	23 364,22	28 201,87	33 272,63	29 085,45
SUDAN	1 414,95	1 924,65	1 579,72	1 504,39	1 189,73	1 161,48	944,93	820,90	890,33
SYRIA	880,81	887,46	1 007,37	1 537,70	1 538,30	1 859,82	1 545,87	1 386,35	1 246,65
SOMALIA	...	...	...	...	...	...	...	211,43	196,91
IRAQ	...	...	...	...	611,10	491,00	533,19	602,45	422,97
OMAN	4 673,86	5 681,14	5 026,01	4 577,63	4 248,37	3 914,43	4 113,91	3 769,05	3 194,02
QATAR	2 499,56	3 356,79	3 321,84	2 868,27	3 398,05	1 927,36	1 890,69	2 015,38	1 721,02
KUWAIT	7 616,47	8 615,98	8 247,81	8 373,98	7 782,48	6 681,45	7 049,12	7 259,46	4 679,46
LEBANON	6 207,42	7 071,07	7 466,72	7 575,23	5 010,06	2 852,40	2 269,15	4 104,80	3 748,40
LIBYA	4 392,99	5 805,52	5 602,83	5 272,03	4 888,29	4 114,77	5 308,00	4 764,15	8 167,08
EGYPT	16 009,21	16 536,57	13 245,34	13 035,94	11 763,76	9 584,30	8 215,66	8 304,39	7 758,89
MOROCCO	10 804,59	10 274,42	7 874,56	8 256,44	8 532,63	7 167,52	6 657,17	7 355,94	6 858,83
MAURITANIA	580,00	615,00	600,18	630,70	637,70	558,30	572,70	599,20	471,66
YEMEN	2 002,91	2 167,27	2 013,70	1 496,70	645,91	453,84	856,93	1 090,37	1 062,82
TOTAL	142 454,10	149 128,22	136 223,64	134 102,02	127 207,18	110 090,26	110 081,26	115 482,62	101 904,64

Source: Arabic Monetary Fund



Table no. 2

## TOTAL INTER-ARAB IMPORTS FIGURES IN MILLIONS OF U.S. DOLLARS

COUNTRY	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
JORDAN	587,61	665,57	522,19	679,50	719,96	759,20	868,40	1074,50	963,40	735,70	803,00
EMIRATES	755,00	951,00	803,00	862,00	1061,00	1180,10	1375,10	1406,40	1394,70	1539,60	1590,00
BAHRAIN	1424,93	1978,67	1815,68	1871,01	1604,53	335,60	362,20	356,20	370,70	379,71	396,70
TUNISIA	381,62	406,02	268,88	369,37	290,20	350,91	492,13	580,70	505,27	418,58	493,90
ALGERIA	189,06	184,84	195,13	324,35	295,77	396,35	331,34	255,83	361,33	260,40	185,40
SAUDI ARABIA	1076,62	1124,41	1182,02	1390,33	1498,15	1426,20	1623,00	1883,00	1784,80	1980,50	1780,90
SUDAN	277,07	444,89	297,48	418,23	426,96	293,00	310,88	344,03	406,78	530,10	353,90
SYRIA	118,49	150,11	141,03	182,82	257,47	342,00	367,00	414,00	340,00	306,00	318,20
SOMALIA	27,49	25,32	12,00	25,83	54,40	22,61	32,40	35,90	40,59	51,50	54,98
IRAQ	1240,51	925,64	150,36	79,44	130,91	170,20	303,40	152,80	235,09	175,00	238,16
OMAN	631,88	729,69	937,83	1180,00	1344,80	1273,64	1233,71	1289,00	1362,84	1343,40	1386,40
QATAR	138,76	197,66	222,39	275,38	323,90	321,80	321,80	449,10	414,18	487,20	640,82
KUWAIT	816,65	2,00	1,20	2,80	561,17	802,00	951,60	1033,40	1079,70	1057,10	1018,10
LEBANON	252,38	423,57	474,45	562,62	518,81	600,90	580,30	932,10	691,50	609,00	557,90
LIBYA	243,78	333,84	465,35	581,41	507,45	347,10	428,00	440,10	558,10	513,70	419,00
EGYPT	171,21	191,51	269,26	251,01	214,88	340,60	450,60	509,90	691,70	896,10	1009,70
MOROCCO	579,17	1031,92	879,69	987,94	775,13	756,00	766,20	832,30	890,90	665,80	896,80
MAURITANIA	14,83	25,51	41,96	27,02	43,93	28,20	32,36	36,80	34,58	35,75	33,69
YEMEN	400,52	504,85	483,56	532,77	610,21	130,55	211,91	412,10	548,30	638,60	746,50
TOTAL	9327,58	10297,03	9163,48	10603,82	11239,66	9876,96	11042,33	12438,16	12674,46	12623,75	12924,05

Source: Arabic Monetary Fund



Table no. 3

## BALANCE OF PAYMENTS OF ARAB COUNTRIES (IN MILLIONS OF U.S. DOLLARS)

COUNTRY	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
JORDAN	972,90	-536,10	274,60	-188,20	-171,30	-264,90	-861,20	-137,20	2 025,10	421,10	464,70
EMIRATES	1 530,90	751,80	326,90	621,10	757,40	643,00	411,30	378,60	771,00	2 669,60	1 800,60
BAHRAIN	25,50	-16,80	102,70	-6,40	169,80	-47,60	-109,60	-88,80	-104,80	573,70	-188,50
TUNISIA	692,50	-187,00	337,00	396,00	80,00	532,00	65,00	97,00	-55,00	-123,00	66,00
ALGERIA	-2	-1	1 160,00	-2	-6	-4	-30,00	-110,00	1 047,00	84,00	-773,00
SAUDI ARABIA	420,00	530,00		100,00	300,00	360,00					
SUDAN	2 815,00	-719,00	648,00	5 749,00	1 217,00	-146,00	1 496,00	-5	49,00	-5 376,00	-3
								664,00			508,00
SYRIA	111,50	73,20	18,10	37,50	63,10	19,10	41,80	-158,80	-272,80	-244,40	-192,40
SOMALIA	259,00	434,00	449,00	983,90	840,60	693,00	563,00	590,00	420,00	887,00	-66,00
IRAQ	...	...	...	...	...	...	...	...	...	...	-189,40
OMAN	-171,60	-1	689,30	-80,60	-494,10	-648,00	-871,00	163,00	506,00	109,00	282,00
		516,30									
QATAR	2 457,70	-48,10	-487,60	-524,20	-836,80	-539,80	-6,10	-118,40	-162,90	267,30	-28,90
KUWAIT	925,40	200,00	-56,00	-87,00	-57,00	74,00	-1	1 892,00	1 276,00	-900,00	1 642,00
							429,00				
LEBANON	266,00	-488,00	420,00	786,00	256,00	1 131,00	1 170,00	54,00	1 074,00	432,00	-309,00
LIBYA	752,80	-410,80	1 851,80	1 460,20	1 989,10	379,70	-1	1 683,70	211,10	1 144,60	269,20
							633,40				
EGYPT	-4	-535,00	1 192,00	998,00	410,00	1 143,00	18,00	3 360,00	-1	-10 224,00	-534,00
	027,00								709,00		
MOROCCO	1 638,60	247,40	553,00	292,00	-982,00	482,00	443,00	794,00	964,00	1 697,00	21,00
MAURITANIA	-43,10	-11,70	-13,80	-11,60	-6,10	-104,60	-282,00	17,00	16,30	-72,50	-5,20
YEMEN	319,80	-463,10	116,40	-393,00	-553,00	-674,10	-1	-1	271,60	-36,60	-298,20
							024,60	089,00			
TOTAL	6 105,90	-4 755,50	7 581,40	7 932,70	-3 617,30	-1 688,20	-2 038,80	1 663,10	6 326,60	-8 691,20	-1 547,10

Source: Arabic Monetary Fund

It is very obvious that Arabs not used their vast resources to at least acquire some of the basic knowledge to be players in the international explosion of technology and commerce. It is a fact that billions of US Dollars are investing by wealthy Arabs all over the world and foreign Stock Markets. Creating Arab Common marked and healthy investment environment would attract some of these billions into the Arab markets. Something amazing is that in the US many of the young minds in many growing areas of technology are Arabs.

Arabs cannot expect the distinctions of politics, geography and history to vanish overnight. Therefore, what they ought to do is to start acting seriously and conscientiously to cut distinctions to size, and consequently to get them marginalized so that they may be able to have them eliminated altogether. To protect the Arabic and Islamic values which are at



present subject to cultural, intellectual and social onslaughts, the greatest responsibility of leadership of the Arab world is to bring together the disfranchised, the un-integrated, and at times, antagonistic elements of Arab society into a harmonious whole. To do that Arabs have to bridge the gap between what they preach and what they practice and they must fill the great gap of disagreement and trouble between the masses and their leaders. If they want to achieve such a goal, regardless of ideological beliefs of philosophy, it is their duty to build a bridge between the leaders and their people, a bridge across which both the leaders and followers can interact.

## **2.2. Basic features of Arabic Economies**

The basic features<sup>2</sup> of the Arabic economies can be summarized as follows:

- 1) The economies of the Arabic countries can be considered as national backward economies co-exist with an advanced economies having the form of capitalistic economy. This duality results in the establishment of some sort of contrast and struggle in favor of the advanced economy represented mostly by the multinational firms.
- 2) The economies of the Arabic countries are one-directed economy, this means that, they depend on one or few sources of wealth, these sources are in the form of raw materials whether agricultural, animal or oil. These raw materials are further go in to procession to industry, these are subject to international fluctuations and crisis.
- 3) Instability to fully utilize natural and human resources
- 4) It's the result of the weakness of the human and material factor of production and their low level of production
- 5) The social distortion of the labor force in the Arabic communities, the complete separation of industry from agriculture and the transfer from the small scale to a mechanized one.
- 6) Backwardness of the production structure and similarity of production styles which dominated by the activities of agriculture, fishing, mining and posturing, this has the result



of diminishing the chance of exchange between the Arab countries be cause of the similarity of their output.

7) Low production and productivity

1) production and productivity is growing very slowly due to the existence of old fashioned means of production.

8) fluctuation and lower rates of income

9) Narrowness of the Arabic market

Generally conclusion<sup>3</sup> is that the market is dominated by a primitive means of commerce under capitalistic and some times in a feudalistic manner. The demand is mostly for consumption goods while demand for the investment goods is very limited.

The economic integration may reach to an economic unity in the Arabic world, the importance can be derived from the availability of the factors that could represent the basis for this integration.

---

<sup>2</sup> see source (3)

<sup>3</sup> Saad Hassan Jasam Elhayali, Arabic Economic Integration, Reality and Feature, Dar AFAG ALARABIA Publishing and Distribution – Baghdad 1999

Table no. 4

## GROSS DOMESTIC PRODUCT PER CAPITA (FIGURES IN U.S. DOLLARS)

COUNTRY	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
JORDAN	1 524	1 536	1 516	1 495	1 517	1 469	1 395	1 337	1 133	1 159	1 337
EMIRATES	17 745	17 063	19 205	19 360	17 755	16 784	17 160	17 609	17 768	18 250	15 778
BAHRAIN	9 956	9 632	10 208	10 170	10 103	9 975	9 666	9 154	9 087	9 004	7 458
TUNISIA	2 201	2 144	2 051	2 155	2 013	1 781	1 698	1 838	1 574	1 520	1 266
ALGERIA	1 633	1 638	1 680	1 667	1 484	1 538	1 858	1 821	1 771	2 449	2 256
SAUDI ARABIA	6 525	6 212	7 324	7 305	6 798	6 625	6 773	7 298	7 246	6 662	5 436
SUDAN	381	426	371	297	351	229	219	233	500	512	527
SYRIA	1 044	1 029	1 100	1 203	1 171	1 117	1 028	1 015	998	1 147	898
SOMALIA	...	...	...	...	...	...	...	14	26	44	137
IRAQ	3 674	3 649	3 701	3 748	3 834	3 910	3 942	3 973	3 563	4 145	3 865
OMAN	6 724	6 192	7 023	6 901	6 477	6 223	6 191	6 581	6 556	7 182	5 386
QATAR	21 898	19 027	21 643	17 939	16 642	15 558	15 592	17 182	15 971	17 609	16 593
KUWAIT	13 160	11 150	13 592	14 838	13 553	15 307	16 426	14 230	7 943	8 610	11 921
LEBANON	4 676	4 754	4 517	4 108	3 656	3 132	2 682	2 054	1 706	1 124	1 070
LIBYA	5 859	6 035	6 694	6 405	5 772	5 296	6 315	8 126	8 589	7 758	6 027
EGYPT	1 435	1 362	1 272	1 156	1 060	920	853	776	651	690	610
MOROCCO	1 197	1 235	1 184	1 324	1 216	1 141	1 028	1 114	1 113	1 055	954
MAURITANIA	365	394	443	465	462	453	434	549	557	530	508
YEMEN	383	351	402	344	318	356	402	467	491	682	546
TOTAL	2 281	2 206	2 330	2 297	2 151	2 043	2 061	2 114	2 013	2 131	1 899

Source: Arabic Monetary Fund



Table no. 5

## ANNUAL GROWTH RATES OF GROSS DOMESTIC PRODUCT (IN PERCENT)

COUNTRY	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
JORDAN	2,2	4,7	5,0	2,1	7,1	9,1	8,4	22,5	4,3	-3,3	-30,4
EMIRATES	10,1	-6,0	5,0	12,1	11,9	7,1	0,9	4,4	0,8	22,6	15,7
BAHRAIN	7,1	-2,6	4,1	4,3	5,1	7,0	9,5	2,9	1,9	23,9	7,3
TUNISIA	3,8	5,9	-3,5	8,7	15,3	7,0	-5,7	19,1	5,6	22,7	-0,8
ALGERIA	1,1	-1,1	2,2	13,5	-1,7	-15,7	4,0	4,7	-26,3	11,7	-6,2
SAUDI ARABIA	8,4	-12,4	3,7	10,6	6,4	1,4	-3,8	4,4	12,8	26,1	9,0
SUDAN	-8,0	18,2	28,4	-13,2	58,0	7,7	-3,0	-52,0	0,6	2,1	38,7
SYRIA	4,8	-3,4	-5,6	5,9	8,4	11,4	4,7	5,2	-10,0	32,0	-5,9
SOMALIA	...	...	...	...	...	...	...	-47,9	-38,6	-67,4	-14,7
IRAQ	3,0	0,9	1,0	0,0	0,3	1,5	1,5	14,2	-11,7	10,8	5,0
OMAN	10,4	-10,6	3,7	10,7	6,8	3,4	0,3	9,8	-2,9	39,1	10,4
QATAR	18,9	-9,2	24,7	11,3	10,4	3,0	-6,4	11,1	-6,5	13,4	7,4
KUWAIT	17,2	-15,7	-3,4	17,0	7,1	3,3	20,8	83,5	-40,8	-24,8	17,5
LEBANON	2,0	8,8	14,4	16,9	21,4	21,5	35,9	24,6	55,3	5,4	-17,9
LIBYA	-0,5	-7,6	7,2	13,8	11,8	-14,0	-20,3	-3,0	13,5	34,4	3,3
EGYPT	7,6	9,4	12,3	11,3	17,0	10,2	12,3	22,0	-3,6	16,4	10,0
MOROCCO	-1,2	6,4	-8,8	11,1	8,7	13,2	-5,8	2,2	7,8	13,0	3,3
MAURITANIA	-4,4	-8,6	-1,7	3,5	5,0	7,4	-18,6	1,3	8,2	7,0	2,5
YEMEN	13,0	-9,6	21,0	12,1	-7,7	-8,1	-10,8	-1,4	-25,4	31,7	-6,1
TOTAL	5,8	-3,1	3,9	9,3	7,9	1,7	0,0	7,8	-3,4	16,0	5,0

Source: Arabic Monetary Fund

# Chapter III.

## 3.1. Definition of the economic integration

Integration<sup>4</sup> is the process of forming a system of higher level from a series of a relative independent lower systems. The smaller system, then in this new system come in to mutual dependency in which decrease the level of their independence. The opposite of integration is disintegration.

Economic Integration can be defined in the frame work of division of labor. Division of labor which means specialization whether of the individuals. Individual producer, in this case firm, of the specialization of the national economies, in the context of increasing returns of scale.

As the result of increasing the amount of quantity produced, the cost of producing a unit is decreased (declined). This decrease will raise the product competitiveness and at the same time will increase profits. The profits in relation to the rise of the level of competitiveness will lead to further decrease in the costs of the units of a product as the result of a progressive use of technology – but this only on the condition of increasing returns.

Economic integration can be understood as a state on one hand and as a process on the other hand. The first one understands integration as a process which lead to a forming of a union, that is a concrete state of integration. The economic integration is a part of the common problems of the economic policy and explains the forming of the suitable structures of the international economy and to get rid of the artificial barriers that prevent its optimal function. This idea leads to divide integration in to two types<sup>5</sup>:

- 1) Negative integration: means removing the barriers that prevent the development of unifying the economies

---

<sup>4</sup> Kraft, J.: *Světová ekonomika a ekonomika integrace*, TU Liberec, 1999

<sup>5</sup> Kraft, J.: *Světová ekonomika a ekonomika integrace*, TU Liberec, 1999



- 2) Positive integration: represent the constitutional instruments and institutions that will make it possible of forming the market. This opinion does not represent a homogenous reality. Here it's understood only of removing custom duties.

Integration as a process leads namely to removal of custom duties between the integrated economies. This has the economic effect in the form of intensifying the growth of wealth.

#### Functional and institutional notion of integration

##### Functional notion:

Is the ability of the market mechanism regulate by the meanst of objective workin economic laws the development of mutual interaction of the integrated economies. Practically does not consider the intervention of governments or international institution in to the economic process and its regarded as not necessary<sup>6</sup>.

##### Institutional

Is based on the assumption that the role of the state or regional organs is relatively a condition of the economic growth of the integrated countries in to a certain kind of unity. It's necessary to remove the barriers and impose all the related elements of coordination and unification.

### 3.2. Stages of Economic Integration

The term integration describes certain level of non-homogeneity at least at three levels<sup>7</sup>.

1. Level: According to the means of forming the integrated economic complex.

Here we differentiate:

---

<sup>6</sup> see source (2)

<sup>7</sup> Dr Mohammed Abd ELAZIZ: chapters on the Arabic Economics, Dar El Nahda Alarabia Publishing and Distribution, Beirat 1998

- horizontal: integration process includes all the sectors of the integrated economic
- vertical (sectoral): where the integration process unifying at the first level only a selected sectors, even though the aim of integration is gradually joining all the sectors of the economy

## 2. Level: according to the territory

- Local: realization of the integration process between few countries.
- Continental: includes a quite number of countries within a continent.
- Global: to put through number of the world's economy.

## 3. Level: according to the stages of the intensity of unification

Every stages is given certain characteristics a independence. The end of the stage leads automatically to the next stage. The individual stages are adequate level of development of an economic phenomenon. The stages can be described as follows:

### 1) Free Trade Area

Represent the lower level of economic integration. Removal of tariffs and custom duties between two or more economies which will lead to distributing the function of the international trade. The advantages of quantity effect at the countries with the least rates of tariffs is stimuli for the other countries to decline their tariffs which finally lead to the rise of the 2<sup>nd</sup> stage or phase.

### 2) Custom Union

The imposition of common external tariffs by all the members of the free trade area. Here the customs and other trade barriers are removed to gather with free movement of goods and services.

### 3) Common Market

Is the removal of all barriers of the free movement of goods, services and persons amongst the member states, leading to rational dislocation of the sources. This demands not bring in to harmony not only taxing but also income policies



#### 4) Monetary Union

Development of a single currency and common monetary authority. Common currency could be understood as:

- a single monetary unit (currency) for all the integrated countries.
- imposing fixed exchange rates between the currencies, without following corrections these rates
- combinations of the above two mentioned on the base of a fixed exchange the national currencies against the regional ones, as the same as mutually toward each other.

Realizing the monetary unit leads to the increase of the level of homogeneity of the integrated countries. This enable the central banks to free part of the reserves of the currencies, which will lead to the increase of the quantity of the capital in the economy for investment and finally to the economic growth.

#### 5) Total Economic Integration

Means single economic policies, attributes of a single economy and social policies.

### 3.3. Economic integration theories<sup>8</sup>

This theory is based on certain factors explaining generally the importance of integration in general and between the developed countries in special. These factors:

#### 3.3.1. Internal Economies of Scale

Economic integration leads to the opening the markets of the internal economies towards the products of the other economies, this increase of the size of the economies measured by the aggregate demand of GNP. By the increase of the market as the result of the economic integration, the industries that have a decreasing cost could increase the production in away that the cost of producing a unit of product is going to less than the previous one.

---

<sup>8</sup> see source (5)

### **2.3.2. External Economies of Scale**

Internal economies of scale represent the decrease in the costs of producing certain product as the result to the technical characteristics of the mentioned product which could be summarized as the cost curve is decreasing one. The external economies scale is the result of the different improvements out side the industry leading to the down movement of the demand curve.

### **2.3.3. Comparative Advantage**

It's seen by come economists that the economic integration between countries increase their influence effect in dealing with the other economies of the world, in a way that will improve their level of comparative advantage. The comparative advantage is the rate of dividing.

### **2.3.4. Use of Economic Resources**

Trade lead to the increase in production and turnover, consequently lead to the level of efficiency in resource allocation in the countries which perform the integration. The freedom of movement of the production factors also tend to increase surplus of goods and investment. The integration increase level of cooperation on the level of development planning and investment which will prevent double planning for producing same products, so that a better source allocation will be achieved.

### **3.4. Factors of Economic Integration**

The huge technology development, development in telecommunications, the immense development of the information, specially the Internet made it possible to surpass the obstacles that stand in the way of the international trade. The world in one way or another in a need of some kinds of economics relationships and exchange of capabilities and experience. This could be insured through organizing the legislative of some kinds of mutual or collective basis.



Specialization or reallocation of the available economic resources together with the rapid development in production and distribution led to the formation of an international atmosphere specially between the developed and the underdeveloped countries. In reality there is unperceptable unwillingness to cooperate between the Arab countries. A quick look to the economies of the Arab world, we notice 95% of their trade is out side the Arabic frame work. The political will of the Arabic political system can play an important role to surpass the existing obstacles and barriers. The basic factors of the economic integration between the Arab countries has special feature and is generated from the peculiarity of the Arabic reality. This together with that matter that, the Arabic world constitutes a complete geographical unity. It's considered the present borders as only the result of the colonial system, which in one way or another could be overcome. The economic unity can be viewed as the fundamental to form the over all unity.

The basics of the economic integration between the Arab countries can be explained as follows:

- 1) Human factors
- 2) National factors
- 3) Financial factors
- 4) Moral and Historical factors

### **3.4.1. Human factors**

The importance of the human factors in the economic integration can be seen from 2 aspects, quantitatively and qualitatively. This importance does not stop only to the level of being a factor of production, but also extend to be the final goal of production. We can look this factor in respect to:

- a) Size of the population
- b) Growth of the population
- c) Distribution of the population
- d) Movement of the population

#### a) Size of the population

The population of the Arabic countries is 250 million and represent 4% of the world's population. The density to the squared km is varying from one country to another. It's also exists a huge variation between the distribution of the population and the reality of the national income. Exist some areas with abundance of population and on on hand while on the other hand exist only few number of population concentrated in certain areas. The density of population in the Asian part is higher than that in the African part in the absolute measures.

The economic integration seems enough to solve the imbalances in the density of population in Arabic world, that is because it opens the doors for the movement of the working force from one country to another according to their needs. The matter that will enhance the development in one hand and solve the problem of higher concentration on the other hand. More precisely that is to say to redistribute the Arabic population to suit every country's need (A clear example is the resettlement of Egyptian farmers in Iraq.)



Table no. 6

Name: POPULATION OF MEMBER COUNTRIES (in millions)

COUNTRY	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
JORDAN	4,90	4,76	4,60	4,44	4,29	4,14	3,99	3,84	3,70	3,47	3,11
EMIRATES	2,94	2,78	2,62	2,48	2,41	2,28	2,08	2,01	1,91	1,84	1,74
BAHRAIN	0,67	0,64	0,62	0,60	0,58	0,56	0,54	0,52	0,51	0,50	0,49
TUNISIA	9,44	9,33	9,22	9,09	8,96	8,78	8,60	8,43	8,26	8,10	7,93
ALGERIA	29,31	28,91	28,49	28,10	27,79	27,28	26,78	26,29	25,81	25,33	24,62
SAUDI ARABIA	21,33	20,67	20,00	19,35	18,80	18,14	17,50	16,88	16,29	15,71	15,27
SUDAN	30,33	29,50	28,70	27,93	27,18	26,38	25,61	24,87	24,14	23,44	22,30
SYRIA	16,11	15,60	15,10	14,62	14,19	13,73	13,39	12,96	12,53	12,12	11,72
SOMALIA	9,50	9,41	9,31	9,22	9,13	9,04	8,95	8,86	8,78	8,68	8,48
IRAQ	22,30	21,80	21,31	20,83	20,36	19,90	19,45	19,01	18,56	18,08	17,50
OMAN	2,33	2,29	2,26	2,21	2,13	2,08	2,02	1,89	1,73	1,63	1,56
QATAR	0,56	0,54	0,52	0,51	0,49	0,47	0,46	0,45	0,43	0,42	0,39
KUWAIT	2,26	2,27	2,21	2,09	1,96	1,62	1,46	1,40	1,36	2,13	2,04
LEBANON	3,53	3,40	3,29	3,16	3,04	2,92	2,81	2,70	2,61	2,55	2,54
LIBYA	5,30	5,17	5,04	4,92	4,80	4,68	4,56	4,45	4,34	4,23	4,05
EGYPT	62,01	60,71	59,45	58,23	57,02	56,18	54,97	53,81	52,61	51,41	49,98
MOROCCO	29,36	28,78	28,22	27,67	27,12	26,59	26,07	25,55	25,02	24,49	23,95
MAURITANIA	2,57	2,49	2,42	2,35	2,28	2,22	2,16	2,10	2,04	1,98	1,93
YEMEN	17,68	17,07	16,48	15,92	15,37	14,87	14,34	13,83	13,34	12,86	12,20
TOTAL	272,40	266,10	259,87	253,71	247,90	241,86	235,75	229,84	223,96	218,97	211,80

Source: Arabic monetary fund

## b) Growth of the population

An average annual growth is about 3%, compared to the world's average is considered to be very high, it's also higher than in the other underdeveloped countries. The growth varies between the Arab countries themselves, where the Gulf countries have a high percentage of growth as the result of immigration because of the oil production while the levels are very moderate in the other countries. It's because of the improper growth of population and the amount of the sources available is the basic devise for seeking a solution of the problem of the rate of growth.



Table no. 7

Name: ANNUAL GROWTH RATES OF POPULATION (IN PERCENT)

COUNTRY	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
JORDAN	3,03	3,39	3,51	3,57	3,67	3,66	3,88	3,86	6,72	11,48	3,67
EMIRATES	5,84	5,79	5,85	2,82	5,75	9,46	3,58	5,34	3,52	5,98	6,10
BAHRAIN	3,58	3,22	3,67	3,63	3,76	3,72	3,66	2,17	0,99	2,65	4,26
TUNISIA	1,18	1,28	1,39	1,46	2,04	2,03	2,04	2,03	2,04	2,13	2,06
ALGERIA	1,39	1,45	1,41	1,09	1,87	1,87	1,87	1,87	1,87	2,91	4,04
SAUDI ARABIA	3,24	3,32	3,39	2,89	3,66	3,66	3,65	3,63	3,68	2,91	8,92
SUDAN	2,81	2,77	2,77	2,77	3,01	3,00	3,00	3,01	3,00	5,10	-6,39
SYRIA	3,29	3,29	3,29	3,05	3,31	2,52	3,36	3,42	3,42	3,38	3,35
SOMALIA	1,00	1,00	1,00	1,01	1,00	1,01	1,02	0,91	1,15	2,36	1,92
IRAQ	2,30	2,30	2,30	2,30	2,30	2,31	2,31	2,42	2,65	3,31	1,45
OMAN	1,66	1,42	1,85	3,89	2,65	2,87	6,66	9,36	6,33	4,29	4,00
QATAR	3,34	3,26	3,37	3,27	3,16	3,27	3,15	3,25	3,11	6,91	-8,64
KUWAIT	-0,70	2,81	5,49	6,89	20,93	10,88	4,66	2,42	-35,86	4,17	4,19
LEBANON	3,70	3,37	4,02	4,01	4,00	4,06	4,07	3,45	2,35	0,39	-0,78
LIBYA	2,51	2,52	2,52	2,52	2,56	2,56	2,56	2,56	2,55	4,45	5,99
EGYPT	2,15	2,11	2,09	2,12	1,50	2,20	2,16	2,28	2,33	2,87	2,40
MOROCCO	2,00	2,00	2,00	2,00	2,00	1,99	2,04	2,12	2,16	2,25	2,31
MAURITANIA	3,01	3,02	2,98	2,93	2,88	2,87	2,91	2,90	2,88	2,54	1,63
YEMEN	3,54	3,57	3,58	3,55	3,35	3,70	3,70	3,70	3,70	5,41	2,52
TOTAL	2,37	2,40	2,43	2,34	2,50	2,59	2,57	2,62	2,28	3,39	2,03

Source: Arabic Monetary Fund

## c) Distribution of the population

People living in the country side represent 65% of the total population. Only 3 Arabic countries (Egypt, Morocco and Iraq) represent 50,9% of the total Arabic population. About 10 countries represent 91,2% of the total population.

The percentage of the active population out of the whole no. Of population is very low. Arabic working force has the feature of being underdeveloped as with respect to the quantitative structure where diminishes the role of women and diminishes the number of people working in the industrial sector.



### 3.4.2. Natural Resources<sup>9</sup>

The Arabic world is full of the natural resources that exist in the land or the water. Since the economic integration is a means for achieving an economic development, so these resources could be considered the principal factors for development. Studies proved that the amount of these resources is more than elsewhere in the world. On the other hand not even one of these countries is able by itself to exploit all its existing natural resource to reach a welfare or even to be a recognized economic power. Geographically the natural resources are scattered unevenly between the Arab countries. We find one of these resources is concentrated in few countries, while another source is in other different countries. So it's of importance for the Arab countries to integrate to reach the welfare, for example the automobile industry in the Arab world will need the raw materials of iron, energy, glass, petrochemical in addition to the capital and work force. These conditions for establishing the automobile industry can not be fulfilled by one country alone, rather it could be developed through an integration as the capital can come from the rich gulf countries producing the petrol, while the experience the qualified and the unqualified workforce would be found in the Arabic countries which lie in the African continent. The same could apply on the textile and petrochemical and other strategic and consumption industries.

#### 1) Mineral resources

Some of them are principal and other are auxiliary

a) oil and natural gas

The importance of the petrol wealth can be summarized in to the followings points.

#### I) High level of oil reserves

Arabic world is considered to be the biggest oil reserves in the world. Statistics say, they own about 68,7% of the worlds oil reserves. These reserves are also considered to be of a high quality.

---

<sup>9</sup> Bisat, Amer and Mohamed – El-Erian (1966). *Investment and Growth in the middle East and North Africa*, IMF working paper 96/124 Warhington DC



The oil is of a great importance cause it represent the largest portion of the national incomes for the oil producing countries. This importance is not only lies on the high revenue generated from the oil, but the possibility of transferring the crude oil in to deferent industries which could double the value of the oil.

The oil industry is a multi-level industry as the result of the multi-use of its derivatives.

II) The role of oil can be observed as

- a) It contributes of 33,9% of the world's production
- b) The oil represent 93% of the export in the Arabic oil producing countries and the non-oil represent only 7%
- c) most of the oil exports are only crude

III) The oil could be used to fulfill the following aims:

- 1) oil revenues can be used as a political weapon (1973 war)
- 2) to ensure lasting source of wealth
- 3) to investment the oil revenues to reduce the backwardness (underdevelopment)
- 4) to make oil exports as a means of adjusting the trade imbalances by varying export
- 5) to build strong industrial ground to absorb the oil production
- 6) to cooperate the oil policies between the Arab countries to affect the international market of the petrol for the benefits of the Arabic countries

## Other Mineral Resources

Exist a number of other mineral resources which help to make different kinds of industry, these are:

### 1) Phosphate

The total production of the territory is 10 million tones/year which represents 35% of the world's total production (2<sup>nd</sup> in the world). The territory also owns 3,4% of the world's reserves (1<sup>st</sup> in the world). Despite the huge production, but arabic countries import phosphate fertilizers most of the production comes from Morocco, Tunisia and Jordan.



## 2) Iron

The total production is about 8,7 million tons which represent 3% of the world's production, its the 10<sup>th</sup> of the world rank and constitutes 12% of the world's trade. Iron is produced by Mauritania, Algeria, Egypt and Morocco.

## 3) Lead

The annual total production of the Arabic countries is 187 ton and this amount is equal to 5,4% of the world's production and is produced by Tunisia, Morocco and Algeria.

## 4) Manganese

They produce 100 000 annually representing 1,1 of the world's production in Morocco, Egypt and Sudan.

## 5) Chromate

The production is distributed between Mauritania, Morocco and Algeria.

There exist also other kinds of mineral such as Mercury in Algeria and Morocco, Nickel in Morocco, Silver in Morocco and Tunisia, Zinc in Morocco and Algeria, Gold in Sudan.

These minerals are concentrated in the Arabic countries a part from the oil producing countries like Morocco and Mauritania. This distribution is a base of a cooperation between the Arab countries and could be considered as a factor for integration and a better utilization of resource to build strong industrial zones.

## 2) Agricultural Resources

Agriculture is one of the important issues of the competent economies, the increasing importance comes as the result of being the petrol is an exhausted source, which one day is going to deplete.



Agriculture is of great importance for the Arabic countries, since they are agrarian ones, even though the agriculture is very underdeveloped. This underdevelopment stands in the way of developing other sectors, hence it may threaten the course of the economy. The improvement of the agricultural sector has its position in the development programs (planning) specially after the pressure that comes from the increasing demand for agricultural products. So without a concrete development planning these countries are going to find themselves in a food gap. The agricultural products are also the raw materials for industry. This together with the absorption of the work force whether from the same sector or from the industry. The main feature of the agricultural sector are as follows:

- 1) Decrease of the percentage of the used areas for agriculture compared to the total available for agriculture. The unexploited area which is available for agriculture is about 97 535 thousand hectare and concentrated mainly in Sudan, Morocco, Somalia, Algeria and Iraq represent 59,63% of the total.
- 2) Small amount of production as the result of the lower density of population and the primitive means of production.
- 3) Not fully exploiting the water resources despite the existence of the great no. of rivers, due to the primitive styles of irrigation as most of the countries use the water rains.

This variation shows as one of the points that necessitates the Arabic integration in agricultural schemes through the relationship of the factor of land and the human factor. In addition to the climate which can be considered another factor for integration which lead to the variation of the agricultural outcomes of vegetables and fruits.

The mentioned above features constitute a natural causes for agricultural economic integration. These factors are supported by the human factors as its estimated that 63% of the working force in the Arabic countries are employed in agriculture.

### **3.4.3. Financial factors**

Arabic countries own a huge financial sources as the result of exporting the petrol, unfortunately most of this wealth is concentrated mainly in the Gulf are a while the other non-



producing countries are suffering almost chronic trade deficits in their balance of payments and other balances. So from this point we can generate that its of a great necessity to integrate the Arab countries in a trial of better utilization of these financial resources. The problem is of the misuse of these resources. Financial resources can be viewed from the following aspects.

a) The amount of the Arabic financial resource

Most of it comes from exporting the oil It heavily depends on the long-term contracts which has been signed between the producing countries and the consumer together which the oil pricing system.

The oil production is not isolated from the surrounding factors such as the price fluctuation, which affect the demand and supply of the petrol. Based on the above mentioned factors, its very difficult to estimate the real figures of the revenues from the oil of the Arab countries, only some indications can be derived for the future. Indicators show that revenues are accelerating as the result of increasing demand for the Arabic crude oil.

There exist different criteria to describe the Arab countries in regard to their financial ability, generally the Arab countries can be divided in to four groups, these are as follows:

- 1) The group of countries which their revenues from the oil exceed the capital needed for their internal development. These are Saudi Arabia, Kuwait, Emirates, Qatar, Libya, Oman and Bahrain.
- 2) The group of countries which their revenues equates the capital need for their present and future development. These countries like Iraq and Algeria.
- 3) The group of the new oil-producers like Sudan and Yemen. These are countries, where oil constitutes a major items in their trade balance, but still the revenues generated are not enough to make the enough capital needed for their development.
- 4) The countries which do not rely on the oil revenues, rather they refer to the foreign debts to finance their development. These are Egypt, Jordan, Lebanon, Somalia, Mauritania, Tunisia, Syria and Morocco.

The accumulation surplus of the Arabic financial resources and the misuse of these resources are caused by the following reasons:



- 1) uneven distribution of the oil resources between the Arab countries
- 2) absence of the Arabic integration, which help of better utilization of these resources
- 3) absence of the development plans and policies in some Arab countries. This explains the phenomenon of wasting these sources, because they are directed to non-productive sectors or schemes
- 4) abnormal dependence of the Arabic economies on the foreign economies
- 5) most of the Arabic countries specially the oil producing ones are not able exactly define their needs for development

The financial resources could be better utilized as loans for development purposes for the less developed countries and investment.

#### **3.4.4. Demographic factors**

Besides the mentioned above factors, exist other factors such as the geography, common language, traditions, culture, religion, history, common interest and common inherits.

##### **Geography**

The Arab world represent a huge landscape of similar topography. The existing borders could be considered some what artificial. The climate is also identical in the most of these countries.

##### **Others**

Nationally with its components of common language, common history, common interest is possible to be considered as a supporting factor for integration. History expresses solidarity through time. Most of the population believes in Islam, which dictate them their social, political, economic life etc. The Arabic language contributes to unity Arabs all through their history. It's very important bond, which connect them to each other.



### 3.4.5. SWOT<sup>10</sup> among Arab countries

#### Strengths

- Arab have strong historical, religious, cultural and language affinities
- Common and unique values and moral standards
- There are capital, intellectual, labor and skills
- There is a great threat facing them
- Privatization and liberalization

#### Weaknesses

- Lack of trust and commitment
- Lack of technology and technological infrastructure
- Lack of a healthy investment environment and capital market
- Economic and political independence on Western Countries, e.g. USA
- Identity problem and crisis
- Conflicts between Arabs
- Tussle between "the Bs" – business and bureaucracy
- Lack of statistics and dependable demographic studies
- Lack of experimental science and technology
- Existing trade barriers
- Restrictive ownership rules
- Close financial markets

These weakness create obstacles to free trade among the Arabs.

#### Opportunities

- Effective use of resources by improving the quality of their human and capital resources
- Be strong enough to be more global competitive union
- Economic Integration and Arab Common Market
- Creating incentives for Arabs abroad to return to their lands and help their countries

---

<sup>10</sup> General Union of Chambers of commerce, Industry and agriculture for Arab countries – Arabic economic Report January 2000

### Threats

- The existing economic and political blocs and globalization
- Lack of vision
- Lack of clear and well-defined banking and monetary systems and procedures
- Foreign economic blocs
- Heavy foreign debt
- The current tension situation between Arabs and Israel
- Internal competition among Arab countries
- Fundamentalist and radical movements

The heavy intervention of foreign sources to evaluate the region's economic significance



# Chapter IV.

## 4.1. Existing forms of Agreements of Economic Integration between the Arab countries

### Forms of integration agreements

There are different forms for Arabic integration agreements among them, these agreements are of the following characteristics:

- a) mutual agreements
- b) collective agreements

### 4.1.1. Mutual Agreements

A number of agreements concerning commerce and means of payments are signed between the Arabic countries. The main reason was to enhance the commercial exchange between these countries by the way of adjusting the accounts of the commercial operations. These agreements state that, adjustments of the debts within a certain deadlock is considered as loans. These agreements started in the year 1951 between Jordan and Egypt. In the year 1953 another agreement is signed between Jordan and Iraq, later between Iraq and Syria. The agreements are continued to be signed in the following years between Iraq and Kuwait, Libya and Egypt. Libya and Sudan and last but not the least Sudan and Egypt.

The mutual agreements are the means of the economic cooperation between the Arabic countries as its a basic principle has been started in the Arab league is the close cooperation on the economic and financial matters, which started early years of the CD's and passed through different stages. This experience was subject to different forms of success and failures. Special committee was assigned – within the framework of the Arab league, to discuss the ways of this cooperation.

### 4.1.2. Collective Agreements

On the base of the meeting of the Arabic economic council arose 2 kinds of agreements, these are agreements to ease the exchange of goods and services, and method of payment and movement of the capital.



## 4.2. Existing forms of integration in the Arab world

### 4.2.1. North African countries Union<sup>11</sup>

The economic cooperation between the North African Countries dates back to the year 1963 in Rabat (Morocco), where the ministries of foreign affair of the countries of Algeria, Morocco and Tunisia gathered to discuss the matters of trade and economic cooperation between them. The Ministries of Economy of the mentioned above countries met the following year and agreed on the mentioned below points:

- 1) to put together the economic cooperation in to practice
- 2) to arrange a list of the goods that should be exchanged without custom duties
- 3) study the possibilities of cooperation in the industrial sector
- 4) common policy toward the EU

In the year 1966 Tunisia is selected to be the permanent location of a committee to harmonize their activities.

The basic notion that govern this cooperation is based on what they called "Economic Distance", which implies that the trade and specialization within a union (or place) tend to increase with the diminishing distance between the members. This distance means the cost of transportation, taste, traditions and habits of the inhabitants. The cost of transportation means the difference between the price of a commodity when reaches a destination, in this sense, it means transportation, insurance, interest rates and the other relevant costs. The work African Countries are aiming to cooperate between themselves to reach and economic unity.

### 4.2.2. Gulf cooperation council<sup>12</sup>

This council was established in March 1981 in Riad (Saudi Arabia). The member is only limited to the 6 countries members which are United Arabs Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait.

---

<sup>11</sup> Saad Hassan Jasim, *Arabic Economic Integration, present and future*, Dar Alarabia Publishing and Distribution, Baghdad 1999

<sup>12</sup> Jarmil Mata: *Arabian Regional System, Institution for arabic unity*, Beirut, third edition 1993



The council is based on the specific and common similarities and the similar political systems. It has been stated that the members countries feel the need to establish an entity that will help in their cooperation in different fields specially in the economic and the social ones and that they believe in their common destination and unity of goals, so they agreed on an organization aims for strengthening the ties between its members. They formed a similar systems in the following fields: economy, finance, education, culture, social, science, immigration, travel and transport, commerce, customs, legal affairs and legislative.

#### 4.2.3. Arabic Common Market

It's the realization of the decision made by the council of the Arabic union to form the Arabic common market as and expression of putting in to practice, and to accumulate the efforts to achieve the best conditions to utilize the resources, raising the standards of living and to improve the working conditions. It's planned to achieve the following goals:

- 1) free movement of workers and capital
- 2) free exchange of goods
- 3) freedom of economic activities, freedom to stay and work
- 4) freedom of transport, use of means of transport, use of civil airports

The Supplement specify

To minimize the custom duties and other tariffs on industries, to cut down the administrative barriers to enhance export and to ease payments between the member countries.



# Chapter IV.

## 4.1. Analysis and Evaluation of the Arabic economic integration

Increasing homogenization of tastes and attitudes, deregulation and eliminating of physical, fiscal, financial and technical barriers, rapidly scientific and technological innovation and predictive uncertainty, are some factors that underlay the importance of emerging new economic integration approach and relationships among bloc of countries. The main reason is that most countries and organizations cannot always have the resources or know-how to cope with increasing by complex global environments from internal resources alone. Thus, the traditional thinking about the special intensity of competition and marketing activities as well as the old nature and boundaries of countries and organization become less and less useful in organizing economic activities. In effect, an economic alliance or network based on cooperation, collaboration, flexibility, adaptation, risk and cost reduction, shared interest and objectives, closeness, openness and a commitment between different countries on an integrating on going – basis has been emerged as a more effective approach to meet the new global environmental challenges and opportunities. The nature of this economic integration relationship usually results in achieving synergy effect.

As the new century approaches, there has been a discernible shift in the economic and political equation. Groups are coming together all over with the idea of defending themselves economically against the incursions of the other blocs in to their areas. These groups also want to increase their influence in their own areas as well as outside it.

Indeed, governments through out the world are revitalizing their economies – some by drastic reforms and others by enacting laws that streamline existing systems. Arab economies, on the other hand, are not being charged quickly enough. They have not participated fully in the drive to liberalize trade and so have not derived the benefit they might have by doing so.

As regards the Arab / Islamic World there have been several attempts for economic integration. Yet these attempts have not given any positive results- unless a serious movement towards regional economic integration, Arab countries are under threats from the global market economy. This global economy now sets the rules for the economic policies which should be adopted by the regions countries.



Arab countries can integrate and this integration does not mean any conflict with Western countries. It should not be different than these integration forms adopted in Europe, Asian or in Latin –America, etc.

The integration of Europe is a result of the common factors and behavior (e.g. flexibility, adaptations, trust and commitment) among these countries. The Arab countries too have common factors, e.g. religion, language, customs, traditions, etc. But they are yet not able to integrate in order to create a balance in the globalization area.

Arab countries as well as Western countries would benefit from Economic Integration. Such integration expected to improve the terms of trade with the rest of the world and create a better global economic and political balance. As a result, Arab countries could be treated as an equal partner in our today's global world. They will not feel that they are merely weak partners who are subject to exploitation by other economic and political blocs.

Although some major factors and conditions for integration do exist among Arab countries, there are enormous differences among them. Some Arab countries were/are socialist, some monarchies, some republics. Some take their legal heritage from the Napoleons code, some from the Ottoman Empire and some from the British common law, and all are influenced by Islam.

A number of distinctive cultural features give the region a unity and justify the use of the term Arab Middle East. A major advantage to integrate among the Arab countries is the region's stable and homogeneous culture compared to many other areas of the world. Arabs are much more capable of making distinctions between cultural and religious purposes on the one hand and economic realities on the other than is generally assumed.

The Arab world has the intention and the means to take on a new role on the global scene. This new role implies a change in the relationships among them and also between them and other industrialized nations. In order to fully realize this new role, new forms of cooperation and alliances will have to be found. Ideally, these types of cooperation and alliances require quick and flexible response and operations. But because the present Arab conflict situation and relations, they could not yet realize this economic cooperation or



integration. Thus, we suggest that a successful alliance or integration has to go through different stages on its life cycle.

International economic integration means full economic union among a group or groups of countries. Frequently this is also called "total" economic integration in distinction of some other international arrangements involving closer economic cooperation or some degree of integration such as free trade areas, customs unions, and common markets.

The Arab League was the first to call for agreements for economic cooperation among Arab countries. It made the proposal some forty years ago before most of the international economic cooperation projects now underway were even mooted. But the Arab politicians paid not enough attention to economic cooperation and integration and began to talk about political and military cooperation. Economic cooperation was thus omitted from their agenda. The Arab League has never been able to grasp the importance of the economy as a means of realizing political goals. Business and commerce were things that Arab politicians looked down on. They considered them the effects, not the causes, of political action. But now, with the emergence of various international blocs, the issue no longer needs to be argued.

However, reviewing all attempts of cooperation, alliances or integration among Arab or Islamic countries in the last four decades we find big projects at the beginning and very little or nothing was left at the end. Some of these projects are:

- The emergence of new centers of development and investment finance
- Arab fund for economic and social development
- Kuwait Fund for Arab Economic Development
- Abu Dhabi fund for Arab economic Development
- Council of Arab Economic Unity
- Gulf Cooperation Council (GCC)
- Arab Bank for Economic Development in Africa
- Arab Maghreb Union: Algeria, Libyan, Mauritania, Morocco, Tunisia (AMU)
- Arab Monetary Fund (AMF), 1976
- Arab Trade Financial Program (ATFP)
- Arab Common Market, 1964
- Arab Free Trade Zone



Of course, we can not exclude the possibilities of achieving some success for schemes of partial economic integration on a limited scale, say between some regional countries such as GCC. Fortunately, the Gulf countries, led by Saudi Arabia, have realized the importance of creating a free trade bloc. Even more importance the reforms undertaken by the Gulf countries to strengthen their financial systems and diversify their investments in other resources besides pure oil production. Even though these steps are considered small when compared to other non-Arab countries, they are a step forward. The next important move is to focus on creating the regional trade zone. It is going to be hard, but evidence is ample that free trade zones are growing even among the world's poorest countries, as in South America and Africa, despite their existing political problems. An even bigger trade region could also be formed with other non-Arab Asian or European countries to create a stronger alliance with a GDP big enough to support the members competency against other trade economic blocs.

Indeed, Arabs have all now woken up to certain basic realities. All of them have realized the fact that the world has been transformed into economic blocs which carry political weight. They are even at last admitting the failure of political and military cooperation. In the same way, they have realized that the idea of the Arab Common Market forgotten by themselves has become a focus of interest to others who have proposed a Middle East Market project with parameters being drawn by alien hands.

Libyan leader Moammar Gaddafi has several time calls for Arab political, economic unity and argues that his country would open its porters to the other Arab countries to ties the social and economic relations among the region and to cooperate to achieve the social, political and economic stability. President Mubarak of Egypt stresses the importance of Arab countries achieving an Arab economic bloc operating in a world order based on balance and equality. The Emir of Qatar emphasized the importance of comprehensive development through regional cooperation and integration. The recent progress achieved by some of the Arab countries in forwarding economic reform, strengthen the role of the private sector and increasing the industrial products will contribute to the success of the expected agreement of the Arab Free Zone. It is not expected that all the Arab countries will sign the agreement, due to the disparity between economic systems in the Arab world. Those countries that are going to sign the agreement are the ones that have achieved more progress in economic reform programs. The other countries will be able so sign later, which will help develop the bilateral economic relations between the Arab countries. The problem with the Arab common market



has never been a theoretical one. Sudan could be the bread basket of the Arab region, the Gulf its oil reservoir, Egypt its labor force, Syria its farm and Morocco a great market. All these were and still are known facts. But what have been missing is the plan, the determination, and the operationalization of that plan. And they are still missing. The mutual trust, commitment and the spirit of cooperation are also missing.

Increased commerce and investment among the Arab countries will diminish the mistrust that has long divided governments and prevented private sectors from working together for their mutual benefit and that of other societies. The economic independence or interdependence in form of cooperation and integration instead of merely competition, is the today's most important issue for Arab prosperity and development. There could also be products manufactured in different parts of the region and marketed for the whole region. For example, a car assembled in Syria, with the engine manufactured in Egypt, plastic parts manufactured in Saudi Arabia, furniture in Morocco etc.

Arab world is still suffering from a state of fragmentation and disruption. They have to rearrange their Arabic House from the inside to help their nation to stand on its feet and to launch it with full vigor along the path of progress and prosperity. One of the most important issue for Arab countries to help its Arabic house to recover its health is to review their present conditions and problems with honesty and candor, as they proceed from their faltering present to a future fraught with challenges and opportunities. They have to realize that the way they deal with these challenges and opportunities is bound to have a direct impact on their nation's destiny and the kind of future that awaits them.

Although there is a great interest for Arab cooperation and integration, it would be quite ironical to talk about immediate successful schemes for economic integration among Arab countries. Some reasons are the greed of many Arab nations in becoming the leaders in every thing without realizing their areas of strength and weakness, the high illiteracy rate of many Arab countries, and the territorial disputes between many Arab countries which result in conflicts that interfere with economic planning. The example of Arab common market is quite enough in this respect. I Arabs like just to talk about their dreams and hops without taking serious actions towards first rearranging and rebuilding the Arab house from the inside, I strongly believe that this will never happen in the near future.



It is quite strange that actually, a great part of the world is cooperating and integrating to achieve more developments and improvements right now, but not Arabs. They still have conflicts and they are fighting between each others. There are actually conflicts between the following Arab brothers and sisters: Syria – Palestine, Syria – Jordanian, Syria – Iraq, Gulf – Gulf, Egypt – Sudan, Algeria – Morocco. Some Arab countries impose custom duties of up to 100 per cent on imports from other Arab countries. This is something, which even any other country does not do. The US-GCC (Gulf Cooperation Council) bilateral trade and other investment and business relations are strong enough more than between GCC and other Arab countries.

#### **4.2. Recommendations**

1. Arab nations have to start progressing in the technology sector
2. They also have to attract the innovative minds and to create incentives for Arab economists, academicians and scientists abroad to return to their lands and help their countries.
3. The Arabs should stop blaming others for all their troubles and worried more about their own identity, values, religion, education, experimented science and technology, sounding economic liberalization and economic integration among themselves, their economies would quickly become competitive
4. They have to admit that it is clear that the economic woes of the Arab countries stem more for their own internal policies than from the conflict with others
5. For the Arab world, it has become a matter of some urgency to develop such an economic integration in order to allow the region to move beyond the current position where inter-Arab trade presents only 8 per cent of the Arab world's total trade
6. Unless Arabs create mutual trust and commitment and learn from other nation's economic experiences, they will always remain the last in everything and ultimately the biggest losers
7. There is no substitute for mutual trust and commitment as well as for Arab common market and economic integration. Without such a mutual trust, commitment and interdependence, economic cooperation and integration will be limited and will fail to achieve its ultimate goal.



8. An Arab economic integration or real cooperation will provide better economic opportunities for all Arabs and lessen threats of Arab dependence on foreign nations particularly the West, for most of its consumer and industrial products

The economic preconditions for between the Arab countries are improving for an increasing number of countries. The key to increasing integration now lies at country level. Some countries have made considerable headway in stabilizing, reforming, and opening up their economies.

Arab countries are not taking full advantage of the opportunities that the global economy has to offer. Consequently, since the 1989 recovery in the region, real GDP growth has not kept pace with the robust growth in the developing countries as a group. More to the point, slower GDP growth and rapid population growth in the Arab countries has meant that for the region as a whole, average real, per capita income has virtually stagnated. At the same time, the Arab countries as a group have attracted very little of the private investment capital that has surged into developing countries in recent years. Furthermore, export growth has averaged only 1,5 per cent per year over the last five years. This does not come anywhere near the average annual export growth of almost 10 per cent achieved by the developing countries as a group, or the 6 per cent average annual growth in world trade.

The way forward, as most Arab governments now accept, is to pursue structural reforms and try to attract more foreign direct investment (FDI). Governments also need to adopt a trade-policy regime that fosters integration into the world economy and overcomes the projectionist tendencies of the past, to prevent further marginalization within the world economy. These efforts may well receive a boost from the process of negotiating Association Agreements between the EU and countries in the southern and eastern Mediterranean.

Successful integration efforts are more likely to come first among sub-sets of countries in the region, rather than in the region as a whole. As more countries in the Arab region progress in deregulating and liberalizing their economies, cross-links among these groupings will strengthen economic ties within the region as a whole.

The processes of sub-regional integration can already be seen in the Gulf region and on a more limited scale in the Maghreb. The Gcc(Gulf Coopeation Council), covering



Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE, was founded in 1981. It is the most successful integration in the region, both politically and economically, indeed the only one that actually works. Politically, this is because the tiny emirates need to club together to match the two regional powers in the Gulf, Iraq and Iran. Economically, Gcc states have removed all tariff barriers, but since they have no interest in buying one another's oil, this hardly matters.

The plan for more intensive cooperation in North Africa has historical roots dating back to the medieval unity of the region. The presidents of Algeria, Libya, Mauritania, Morocco and Tunisia signed the treaty of the Arab Maghreb Union in 1989, with extensive and ambitious objectives. It was designed to remove trade barriers and create a regional common market by 2000, achieve economic integration, establish common institutions (a joint consultative parliament, investment bank and airline), and as an ultimate objective, a political union. However, the five countries adopted radically different positions in the Gulf crisis of 1990, ranging from Libya's opposition to the resolution condemning Iraq, to Morocco, which sent troops against Iraq. The pace of cooperation slowed further due to political problems with Libya (the Lockerbie bombing) and internal problems in Algeria (the struggle against fundamentalism).<sup>13</sup>

Another possibility may be for sub-regional integration in the area to evolve from an initial subset of core countries, starting perhaps with the Jordanian and Palestinian economies, and broaden to include other countries in the heartland of the region: first Egypt, and then as the peace process unfolds, Syria and Lebanon, and eventually even Iraq.

Despite many attempts since World War II to promote economic integration and political cooperation among states in region, economic interactions have remained limited. Increasing attention has been focused on the region's economic potentials due to the recent progress in the Arab-Israeli peace process and the steps taken by several countries toward external economic liberalization. This attention comes at a time of renewed global interest in regional arrangements, whether among industrial countries (such as the EU), a mixture of industrial and developing countries (Nafra and Apec), or developing countries alone.

<sup>13</sup> Dr Rashid Elbarawi, *Arabic Economies*, Cairo, 1997



Any region needs a framework in which intra-regional issues — political, security or economic — can be addressed on a regular basis. Most have several overlapping regional organizations. We can identify three reasons why countries seek greater regional integration:

- to make economic welfare gains
- to increase the region's collective political bargaining power in extra-regional issues
- to achieve other non-economic national goals, such as meeting security concerns and preventing future conflict

A region is defined by several characteristics, the most basic being geography and culture. However, these two aspects say little about the extent of, or potential for welfare-enhancing regional economic interaction, which are also determined by economic and political factors. The more similar the economic and political systems of countries and the more similar their political goals, the easier it has proved to promote effective regional economic integration among them. The returns from economic integration also reflect the relative resource endowments of the participating countries, including human capital, albeit not in a unique or unambiguous manner.

While geography and culture favor regional integration, the absence of political and economic prerequisites has so far limited the scale of market and institutional integration.

The region covers a contiguous geographical land mass extending from the Atlantic Ocean to the Arabian Sea. Its area of 15 million sq. km is almost equal to the EU's and three-quarters of the area of Latin America. Although it has characteristically harsh climates and limited ground water and rainfall, it is rich in a wide range of natural resources. It contains important crude oil and gas reserves, numerous non-fuel mineral and non-mineral resources, and some very productive pockets of agriculture.<sup>14</sup>

In some respects is unusually homogenous in its culture. Arabic is the main language in all countries in the region, and it is an official language in all countries. Furthermore the region is dominated by monotheistic religions, between which there are historical relations. In all countries, the population is predominantly, in most cases overwhelmingly, Muslim.

<sup>14</sup> Dr Burhan Eldujani, *Analysis of some aspects of the arabic economic relationships*, Arabic Research and Studies institut, Cairo 2000



This linguistic and religious coherence compares favorably with other regions. The linguistic coherence is much greater than in the EU, for example. Latin America has a similar coherence in language, but less diversity in religion. Apec, an emerging regional bloc seeking to establish a free-trade area by 2020, is much less homogenous in language, religion and historical heritage.

Reflecting religious and historical influences, the culture in several countries in the region gives strong backing to business activities. Nationals of the region have a well-established commercial and entrepreneurial reputation.

The region remains diverse in its political systems and governance. Democratization has not proceeded far in several countries. There has been little political commitment to regional goals. Very few of the numerous regional political initiatives have been translated into sustained and effective institutional foundations. Repeatedly, national considerations have undermined regional efforts.

On the economic front, Arab countries are remarkable for its lack of integration—in terms of the extent of economic interaction within the region, and the absence of an effective framework or institutions responsible for formulating and implementing rules and policies to influence, regulate, and supervise economic relations.<sup>15</sup>

Nonetheless, there is potential for far greater economic interaction within the Arab countries. For example:

- The region has a diverse base of natural, human and financial endowments, spread among countries in the region.
- Its high initial trade barriers suggest there is scope for trade-creating gains from regional integration.
- With an average per capita income well above that of the developing countries as a whole, and almost 5 per cent to the world's population, the region offers a large market with considerable purchasing power.
- It has well-established trade links and relatively accessible intra-regional trading routes.



- Community of language and cultural affinity should facilitate labour and tourist flows within much of the region.

Despite these potential advantages, it is often and correctly argued that the similarity of resource endowments among many countries in the region and the greater proximity of the Maghreb countries to Europe than to the Mashreq will continue to restrict intra-regional trade. Nonetheless, while countries in the region continue to trade mostly with non-regional partners, the current levels of trade within the region are below those attainable if economic relations within the region were freer. Furthermore, most types of economic interaction within Arab countries, with the important exception of labour flows, remain remarkably limited and inconsequential.

What are the causes behind the region's generally disappointing performance on trade reform and the limited success with intra-regional integration?

1. Transfers and revenues deriving from oil and gas allowed many Arab countries to postpone the reforms and trade liberalization their economies needed.
2. Short-term costs of trade liberalization erode the political will to launch reforms and execute the necessary restructuring steps.
3. Trade liberalization, within the context of formal agreements, has often been subject to extensive provisions for exemptions and lacked a clear time frame for implementation, so making it ineffectual and undermining the credibility of the participants' commitment to reform.
4. Government intervention, lack of transparency in the regulatory environment, distorted prices, non-convertibility of the local currency and other factors have continued, which discourages private investment in the tradables sectors and hampers the conduct of trade.
5. These factors have tended to produce production structures inconsistent with comparative advantages of each country. This has resulted in turn in limited complementarity in the production and trade structures of countries in the region, and hence in low levels of intra-regional trade.
6. Political tensions have hampered trade.

<sup>15</sup> Saad Hassan Jasim: *Arabic Economic Integration, Present and Present*, Dar AlArab Alarabia publishing and Distribution, Baghdad 1999



The indicators of limited economic interaction mentioned contrast sharply with the repeated efforts made by governments to implement cooperation agreements among groups of countries in the region, and with the region's economic, geographical, and cultural affinities.

As in other regions, there were three reasons behind most attempts at regional integration:

- economic welfare gains
- enhanced collective political bargaining power in extra-regional affairs
- non-economic national goals (especially, security-related ones). On paper, these reasons should be facilitated by economic, geographical, and cultural conditions that are conducive to regional integration.

Here we explore the rationale behind the potential for gains from greater regional interactions and the means of attaining them. The region requires economic-policy changes, most of which are also required if the region is to benefit from the globalization and integration of the international economic system. Indeed will attain a higher level of regional economic interaction simply by implementing the policies needed to benefit from the changes in the world economy. It is also argued that pursuit of integration within the overall context of multilateral, externally oriented policies will bring further growth to the region. However, political factors are likely to constrain the pace of integration over the next few years. Indeed, European experience confirms that such plans need time to develop.

Overall economic performance in recent years has fallen short of the potential. Per capita income has stagnated, investment and domestic saving rates are low, and the productivity of investment has been disappointing. An insufficiently diversified economic base makes the region extremely vulnerable to external shocks. The economic and financial challenges are compounded by high unemployment, rising entry into the labour force and poor social indicators.

As already noted, most countries will continue to trade mainly outside the region, primarily with Europe, the United States, and Asia. However, the volume and share of regional trade could rise significantly. This is the main reason for believing that there will be substantial economic gains from greater regional integration.



There is a wide diversity in the factor endowments, most strikingly in labour and natural resources, as well as differences in the extent of economic diversification. Much of the risk within the region is based on this diversity, with oil the main traded commodity and labour the main traded factor. Closer regional integration is unlikely to lead to much trade diversion in these commodities, but it should promote greater merchandise trading in other commodities. Apart from its effects on merchandise trade, regional integration would boost services flows and intra-regional investment. Residents hold a large share of their portfolios outside the region, with estimates of the total ranging from US\$135 billion to US\$160 billion. Given the tight economic policies in recipient countries, even a small reallocation of portfolios in favour of regional activities would make a big difference to the region's resource base for investment.

It would encourage the right policies if the regional integration efforts were to include attempts to develop an investment code conforming to the highest international standards and practices. There would also be gains from policy harmonization, especially in reducing the cost of the currently proliferating competitive tax exemptions and concessions, which undermine the tax base.

Peace will permit gradual reductions in military spending, which is the highest in the world in terms of GDP share. It should also increase the returns on investment by reducing country risk and opening up regional projects in areas such as power generation, tourism, and water management.

Given the current outlook for the region, the policy implications of the analysis here is not that countries in the region should give economic policy priority to embarking on the complex process of creating an FTL or Nafta-type arrangement. Each country should focus first on domestic economic policy reform, and secondly on the associated process of integrating into the world economy through multilateral trade and payments liberalization. Successful liberalization will then promote regional interaction.

It is critical to continue with structural reforms aimed at deregulating and liberalizing economies, some of which are among the most protected in the world, as noted earlier. High tariff and non-tariff barriers have denied consumers access to world-quality goods and reduced the efficiency and responsiveness of the production sectors in several Arab



agreements. To be sustainable and effective, liberalization of the external trade and payments regimes will need to be accompanied by appropriate legal, macroeconomic, policies and coordination processes in domestic structural reforms, particularly those affecting investment and the labour and financial markets.

The process of integration among the economies will be strengthened if strong trading links are developed with major parties outside the region, e.g. free trade arrangements with the United States and the EU.

Domestic reforms and multilateral liberalization will be the main engines of greater economic integration, but there is also a need for measures aimed directly at regional integration. These include: reducing divergences in regulatory frameworks (including customs, movements, etc.), improving road and air transport and facilities for moving goods between countries, enhancing other communications, and developing facilities for regional export financing. These measures should be harmonized as far as possible with the best international standards and practices. Several studies point to significant opportunities for regional projects that promise high returns. These include: electricity generation (particularly better links between power grids within the region), water management, and tourism.

The absence of an advanced infrastructure to connect the Arab countries has profoundly determined constraints for inter-Arab trade and tourism. Any discussion of Arab economic integration that fails to acknowledge this serious shortcoming and to plan the necessary infrastructure developments are in place. Such developments include: a complete overhaul and updating of maritime, land and air routes. It is also imperative to integrate electricity, telecommunications and information networks, since economic progress has become increasingly dependent on access to advanced information technologies.

Developing an integrated and coherent inter-Arab infrastructure is essential in encouraging increased volumes of trade and in allowing Arab producers an edge in international markets. And for political reasons, it is here to be as a great source of economic benefits, something misunderstood as the Arab world becomes, in the end, a single, integrated economic entity.



Such direct regional cooperation would be furthered by creating an appropriate institutional framework. There is a need for a forum in which countries from the region can meet to discuss regional economic problems and work to develop solutions to them. This organization might be similar to the OECD, in emphasizing policy coordination and discussion, but extend also to having a policy-research staff dedicated to finding solutions to the problems and plans that emerge from discussions among policy-makers. There is also a need for regional public projects involving more than one country, and for financial and informational assistance to develop the private sector.

#### **4.3. Conclusion**

Increased regional interaction, particularly in outwardly oriented development strategies, can enhance economic welfare through specialization and rationalization of consumption and production activities. It can also increase the region's collective political bargaining power in extra-regional forums, and improve security considerations. These considerations go a long way to explaining the renewed worldwide interest in regional arrangements, in the Americas, Asia and Europe.

Countries in the Arabic region face important political, social and economic challenges. Meeting these becomes easier if there is economic growth rather than the economic stagnation still suffered in some countries in the region. Indeed sustained, high economic growth is required if it is to address unemployment problems, find jobs for the large numbers about to enter the labour market, and improve its social indicators. The main key to economic progress for each country is to reform of its economy, taking advantage of globalization by integrating into the world economy.

So it is not surprising to find renewed emphasis on greater regional integration involving groups of Arab economies, and through the indirect route of Association Agreements with the EU. The prospects for such integration efforts are boosted by improvements in the enabling economic environment. However, political conditions, are likely to limit regional integration efforts at this stage. What is likely to materialize is closer integration between subsets of countries in the region with potentially important, direct and indirect welfare gains for the participants.



The policy changes required for successful economic integration are the same as those needed if the countries of the region are to benefit from the more general process of globalization and integration into the world economy. This point is best illustrated by the dynamic Asian economies, where outward-oriented development strategies have been associated with intensified regional economic interaction.

There are many indications, geographical, cultural or economic, that suggest there is scope for considerable gains from greater economic interactions within the Arabic region. However, the intra-Arab conflicts, coupled with inappropriate economic policies, have kept intra-regional economic interactions at an abnormally low level in recent decades. Merely to restore these interactions to their natural levels would give an important boost to economic growth within the region.

Thus, the main problem now is not that those in charge of the project of Arab Common Market, the project of economic integration or representatives of Arab league's member countries are not showing enough enthusiasm and dreams.

## Sources:

Building on Progress: Reform and Growth in the Middle East and North Africa, Washington DC: International Monetary Fund, Middle Eastern Department, 1996.

Dr. Mohammed Abd Elaziz: Chapters on the Arabic Economics, Dar Elnahda Alarabia Publishing and Distribution, Beirut 1998

Alonso-Gamo, Patricia (1997), Globalization and Growth Prospects in Arab Countries, Imf Working Paper 97/125, Washington DC

Saad Hasan Jasim: Arabic Economic Integration, Present and Future, Dar Al Arab Al Arabia Publishing and Distribution, Bagdad 1999

Bisat, Amer, and Mohamed A. El-Erian (1996), Investment and Growth in the Middle East and North Africa, Imf Working Paper 96/124, Washington DC

Chauffour, Jean-Pierre (1998), 'Growth and Financial Stability in the Middle East and North Africa', Finance and Development, March 1998.

General Union of Chambers of Commerce Industry and Agriculture for Arab Countries Arab Economic Report – January 2000

Jamil Matr: Arabian Regional System, Institution for Arabic Unity, Beirut, third edition 1993

El-Erian, Mohamed A. (1996), Economic Reform in Arab Countries and Arab Regional Institutions, Imf Occasional Paper 87, Washington DC

Havrylyshyn, Oleh, and Peter Kunzel (1997), Intra-industry Trade of Arab Countries: An Indicator of Potential Competitiveness, Imf Working Paper 97/47, Washington DC