



Arab Economic Integration: An Awakening to Remove Barriers to Prosperity

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Outline

- **Challenges of post 9-11 world and wars on Afghanistan and Iraq**
- **Economic Integration: concepts, building blocks,**
- **Evidence of Non-Integration of the Arab Countries**
- **Colonialism, Geography & Logistics**
- **Barriers to Prosperity**
- **Building blocks for regional integration: infrastructure, institutions, policies**
- **Arab Regional Integration Agreement (ARIA): the Awakening**



Concepts of Economic Integration

- **Cross border transactions:**
 - **International trade in goods & services**
 - **Factor market integration: cross-border services, capital**
 - **Labour migration**
 - **Banking & Capital Markets integration**
- **Shallow versus Deep integration**
- **Viner: Trade diversion vs. Trade creation**
- **Static vs. Dynamic aspects of economic integration: economies of scale & scope, overcome small size of markets**
- **Regional Economic Integration & Regional Public Goods**



Building Blocks Regional Integration

- Enabling framework for private sector
- Investment in physical infrastructure
- ‘Deep integration’: laws, institutions, regulations, norms & standards, not just trade in goods
- Financing and compensation mechanisms
- Public-Private Partnership



Evidence of Non-Integration of the Arab Countries

Globalization



Trade



Labour



Capital Flows & FDI





Arab countries weakly 'globalised'

A.T. Kearney Index

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

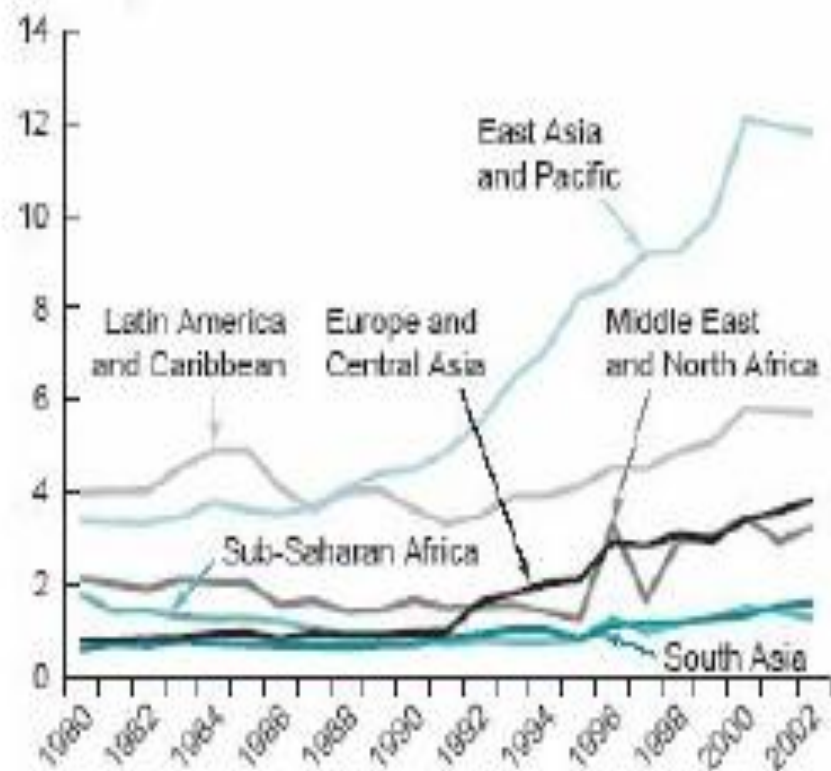
Source: AT Kearney http://www.atkearney.com/shared_res/pdf/2004G-index.pdf



Evidence of Non-Integration of the Arab Countries: “Stylised Facts”

- Arab countries missed out on globalization wave of 1980s & 1990s: lack of international integration → lack of Arab integration
- Foreign trade of the Arab countries remains limited (2.7% of world trade) with non-energy exports totalling US\$80 bn in 2003 about the size of Finland’s exports.
- Natural resource intensive/low VA exports are highly concentrated (73% are energy/mining) and imports (79% are manufactures)
- Direction of trade mismatches Asia = 52% of exports, Europe = 50% of imports

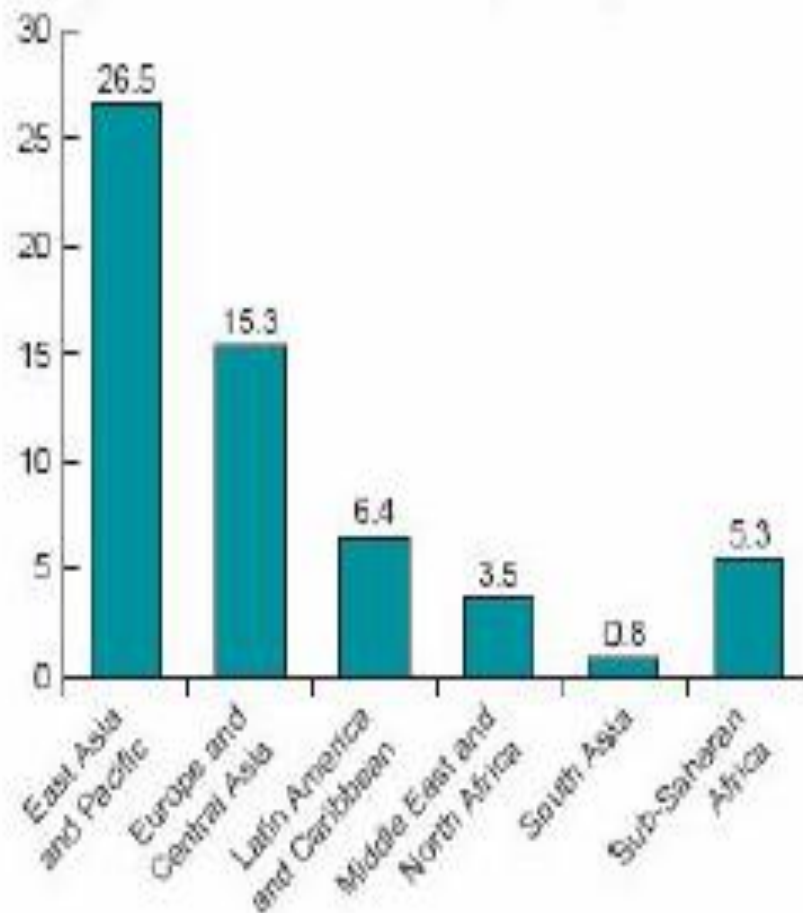
Regional exports as share of world exports (percent) (all excluded)



Note: Data obtained from GTAP release 5.4 up to 1998, the following years are projected from 1998 using regional growth rates calculated from COMTRADE

Sources: GTAP 5.4 and COMTRADE

Intra-regional trade as a share of GDP (percent), 2002



Source: COMTRADE



Evidence of Non-Integration of the Arab Countries

Labour

- Labour movements and remittances flow appear to be the exception to the lack of regional integration. The intra-Arab labour flows are from the resource poor but labour rich countries (Lebanon, Egypt, Jordan) to the resource-rich but labour poor countries.

Capital Flows & FDI

- MENA region has not been able to attract FDI or other forms of capital flows. Out of FDI flows to the developing countries of US\$135 billion, total FDI flows to the MENA region did not exceed US\$2 bn in 2003, (Less than Finland at US\$2.9 bn)!
- FDI represented about 2% of investment in the region.

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

Source: World Development Indicators database, August 2004

¹ Year 2002 Figures, ² Year 1999 Figures



Barriers to Integration & Prosperity: Colonialism, Geography & Logistics

- **Legacy of Socialist & Non-Market Economic Policies**
Protectionist Trade Policy regimes favoured inward-oriented measures during 60s, 70s & 80s ➔ Delayed entry into GATT/WTO
- **Politics, Wars, violent conflicts, Sanctions & Trade Embargoes affected patterns and extent of trade**
- **Similar factor endowments leading to little product diversification and / or complementarities (HOS)**
- **Small size limited product diversification by limiting economies of scale and scope**

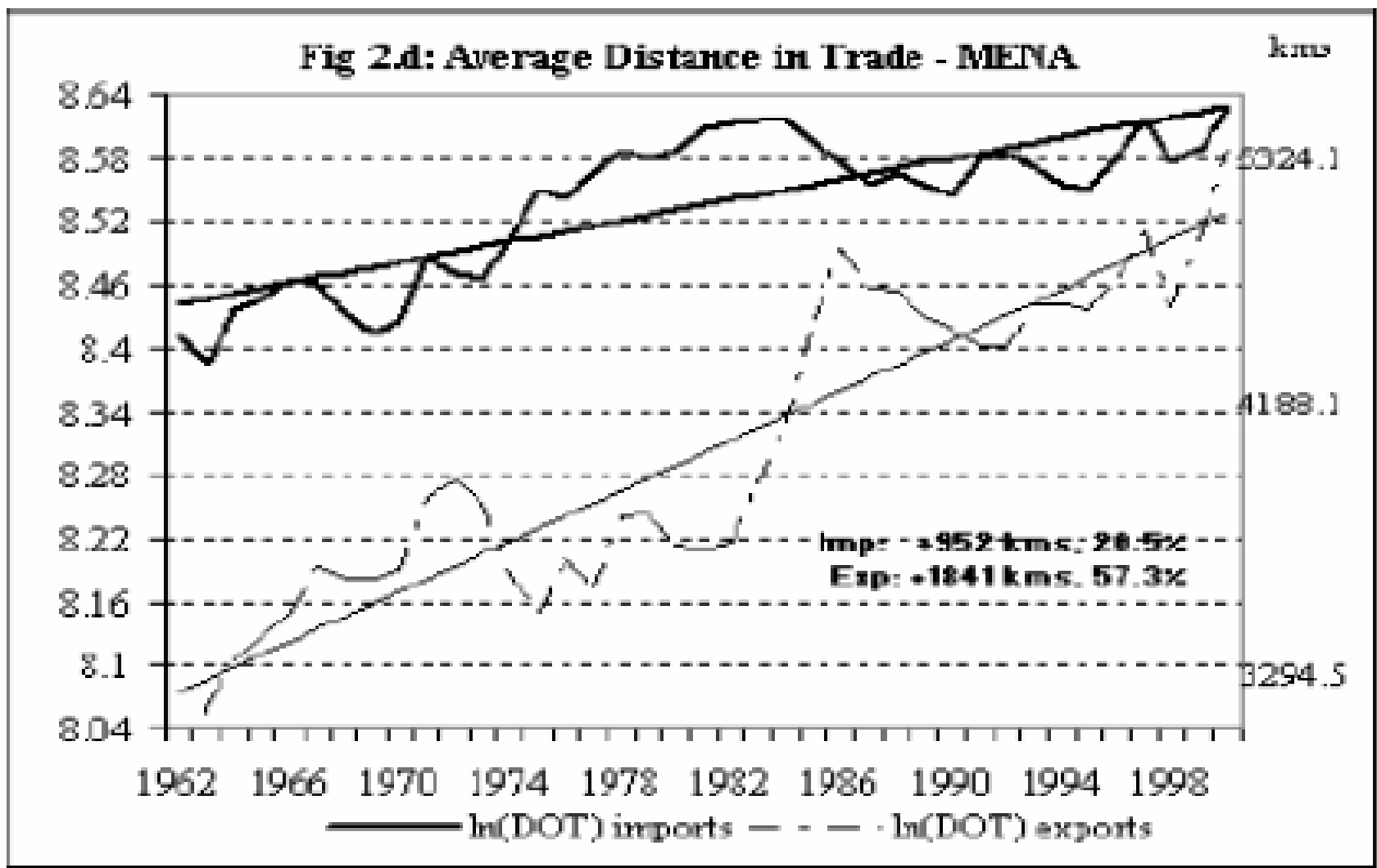


Barriers to Integration & Prosperity: Institutions & Transactions costs

- **High cost of doing business & high trade logistics costs negatively impact trade, integration & competitiveness**
- **Increasing Distance in trade index evidencing the weight of logistics and regulatory barriers**
- **Natural resources: a curse damaging institutional and governance quality**
- ***But: language, culture, geography, history all favour Arab economic integration***

Logistics costs (Devlin & Yee)

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

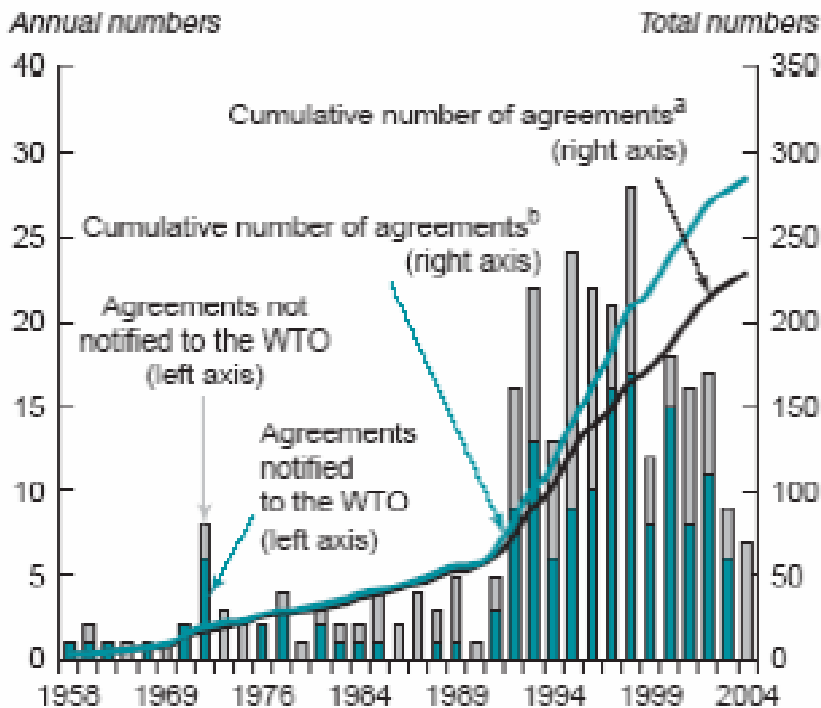


	Cost of Doing Business				
	East Asia & Pacific	Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	OECD High income
Starting a Business					
Number of Procedures	8	9	11	10	6
Duration (days)	52	42	70	39	25
Cost (% GNI per capita)	47.1	15.5	60.4	51.2	8
Min. Capital (% GNI per capita)	100.5	51.8	28.9	856.4	44.1
Difficulty of Hiring Index	20	31	44	22	26
Hiring and Firing Workers					
Rigidity of Hours Index	30	51	53	52	50
Difficulty of Firing Index	22	42	34	40	26
Rigidity of Employment Index	24	41	44	38	34
Firing Costs (weeks)	52	38	70	74	40
Registering Property					
Number of Procedures	4	6	6	6	4
Time (days)	51	133	56	54	34
Cost (% of property per capita)	4.2	3	5.6	6.8	4.8
Getting Credit					
Cost to Create Collateral (% of income per capita)	2	7.6	19.4	18.6	5.2
Legal Rights Index	5	5	3	3	6
Credit Inform. Index	1	2	4	2	5
Public Credit Registry Coverage (borrowers per 1000 adults)	33	6	85	20	76
Private Bureau Coverage (borrowers per 1000 adults)	33	6	85	20	76
Protecting Investors					
Disclosure Index	3.6	2.3	2.6	5.6	2.9
Enforcing Contracts					

Regionalism

Figure 1 Regionalism spreads

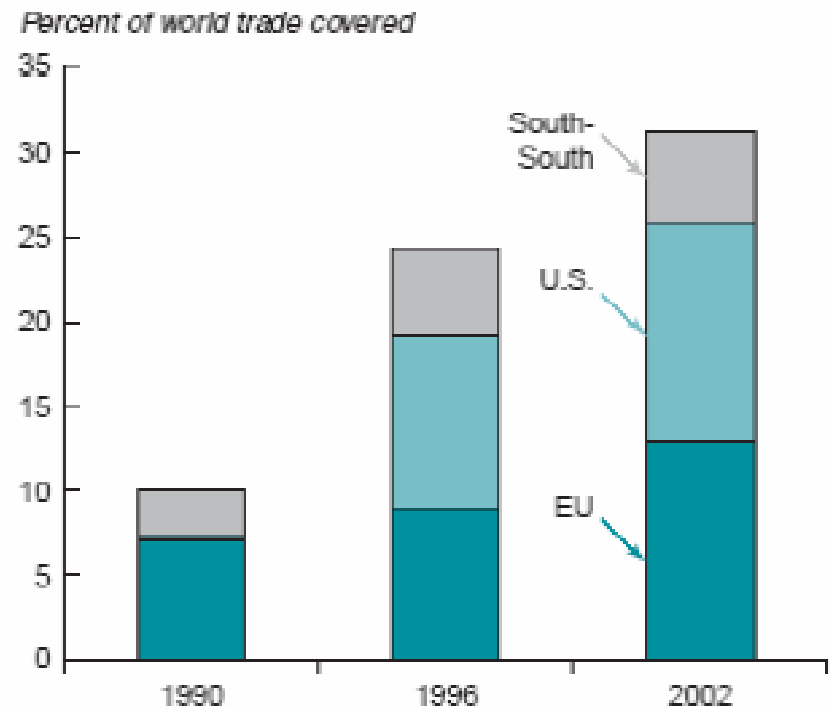
a. The number of RTAs exploded in the 1990s



a. EU-25 counted as single country.
b. EU-15 counted as single country.

Source: World Trade Organization.

b. EU and U.S. agreements were most important





Process of Arab Economic Integration I

- **Impact of AEI:**
 - **Comprehensive service sector integration gains more important than goods trade (Konan-Hoekman)**
 - **Large gains from integration ((IMF 2003)**
 - **Policy commitment mechanism**
- **Strong political leadership required; AEI champion? the GCC**
- **Develop integrating Institutions: reform regional institutions, develop “Regional Investment and Development Financing”**



Process of change & Reform

- **Regional Integrated Infrastructure is basis for Arab REI: leads to lower logistics costs, favours FDI, economies of scale & scope. ➔ Regional Public Goods**
 - **Massive investment required in networks:**
 - **Extend Trans-EuroMed Networks to the GCC: electricity, oil and gas**
 - **Road & Rail Network: ITSAM linked to GCC and EuroMed R&R.**
 - **Information and communications Arab Network: Arab Broadband Network or Arab *Info*structure**
 - **Integrated Arab Payments Network: Arab TARGET linked to European TARGET**



Awakening: building blocks

- **Renegotiate the GAFTA, encompass services and establish an Arab Regional Integration Agreement (ARIA): Political leadership for 'deep integration'**
- **Undertake massive investments in trans-national, regional integrated infrastructure & *Info*structure with private sector participation**
- **Finance economic & social policies to achieve income convergence**
- **Prioritize the development of the capital markets to set the basis for their integration.**
- **Integrated Arab payment system**
- **Establish a set of institutions to enable and support ARIA including a Regional Investment & Development Bank or Facility**



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- **'Silver lining' of September 11 and war on Afghanistan & Iraq: impetus to regional integration; tourism, services, business, investment**
- **AEI is basis for renewed economic growth, job creation and investment**
- **AEI is basis for multilateral opening up to avoid hub-spoke effects and for a 'policy commitment mechanism'**



Awakening to Remove Barriers to Prosperity

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



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***Thank you for listening to the
Call for Action***

Dr. Nasser Saidi