

# **The Arab Awakening – Opinion piece in Gulf Business, Dec 2013**

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When the Arab Gulf leaders came together to form the GCC in 1981, the global landscape was seemingly settled: the US and Europe dominated world output and trade, the US greenback was the global currency, the US and the Soviet Union were the two super-powers, China and India were dormant giants; the WTO, the internet, Google and Apple did not exist.

Two generations later, the landscape has morphed into a multi-polar world, the Soviet Union has collapsed, world trade has exploded with greater economic and financial integration and fewer barriers, and the emerging markets, BRICS+, are in the ascendant with China already the largest manufacturing country set to become the world's largest economy by 2020 and the Yuan a global currency by 2015.

## **GROWTH BUT LIMITED INTERNATIONAL ECONOMIC INTEGRATION**

Over the past 30 years the GCC has evolved, with growing per capita incomes and based on their plentiful hydrocarbon resources, become the economic and financial hub of the Arab world. But GCC trade continues to be largely oil-dependent with little value-added, while Arab economies did not benefit from globalisation or become integrated into global supply chains. With limited economic diversification (with the partial exception of the UAE and Bahrain) the share of non-oil

intra-regional trade remains marginal at less than 10 per cent and much of that trade is re-exporting of goods originating outside the region. The UAE with its superior trade logistics and infrastructure continues to be the top source of regional trade.

While regional multilateral trade agreements are in place under the Greater Arab Free Trade Area (GAFTA), limited benefits are visible. Despite the establishment of the Arab Maghreb Union over two decades ago, the bulk of Maghreb trade is still with Europe, cemented by Euro-Med Association Agreements that opened up export markets in the Maghreb but did not attract FDI or create jobs, as evidenced by the continuing waves of migrants from the Maghreb.

During the decades of 1960s and 1970s, the GCC had absorbed labour from the traditional labour exporting countries (Egypt, Yemen, Sudan, Lebanon, Jordan/Palestine and Syria). This was facilitated by proximity, common language, ethnic, and religious affinities. However the share of Arab labour in GCC labour markets has been falling since the mid-1970s, declining from 72 per cent in 1975 to less than half, only 31 per cent in 1996. This has continued to date, with the rate of Arab migration to the GCC lower than non- Arab migration. Arab labour has been displaced and replaced by lower wage, largely Asian labour.

With the GCC countries facing their own youth bulge and implementing labour nationalisation policies, the prospects of growing intra-Arab labour mobility looks dim, closing another opportunity for mutual benefits and specialisation. Protectionism will only lead to greater unemployment, frustration and radicalising of Arab youth, leading to more extremism.

**A CALL FOR AN ARAB AWAKENING LED BY THE**

# **GCC**

We need to do things differently! These troubled times call for an Arab Awakening, a strategic renaissance, to be embodied in a strategy of economic integration led by the GCC countries. We should not miss this strategic opportunity to create a turning point in the history of the region. The three-year-old Arab firestorm contains a silver lining of opportunity and a call for collective action, towards increased regional business, investment and integration.

Higher energy prices have generated large trade balance, capital account and fiscal surpluses in the GCC and other oil exporters, with increased liquidity leading to a boom in real estate and the region's stock markets. We should use the opportunity to break down the barriers to allow the private sector, businesses, enterprises and civil society to benefit from economic integration and the resulting expansion of markets.

A new generation of young entrepreneurs seeks to expand outside their small, national markets. On the other hand, protected sectors, in particular the state-owned enterprises and government-related enterprises, are the main lobbyists against trade liberalisation and integration, fearful of competition and liberalisation.

## **WHAT IS TO BE DONE?**

Economic integration is built on the integration of supranational infrastructure and building region-wide institutional policy capacity (the EU provides an example, though not necessarily one to be emulated). Public investments build production potential and absorptive capacity and increase the competitiveness of an economy. This in turn sets in motion a virtuous circle of higher productivity, diversification and competitiveness, which translate into higher incomes and government revenues.

In turn, increased public investment stimulates greater private investment, in a mutually reinforcing pattern, well illustrated by China's experience over the past two decades.

The recent economic history of emerging markets clearly provides examples of this positive feedback. The success stories of South East Asia, post-Berlin wall Central and Eastern Europe, Brazil, China and the GCC can be attributed in good part to greater public investment spurred by demographics and urban middle class expansion that created the conditions for increased exports and an expansion of the tradeables sector.

## **THE GCC SHOULD DRIVE REGIONAL ECONOMIC INTEGRATION**

Successful regional integration requires a number of building blocks.

First, the GCC and other Arab governments should seize the opportunity to provide the enabling framework for the private sector to act as a major unifying force and integration promoter. We need to the legal and regulatory framework for public-private participation (PPP), liberalisation and privatisation.

Second, integration requires investment in physical infrastructure to break down physical barriers, reduce transport and communication costs, and the costs of logistics. The GCC has already initiated infrastructure integration – be it the GCC electricity grid (which has been completed) or the common water grid (ongoing) or the road and railroad network integration. These have to be completed by creating a working and efficient market for infrastructure network products and services, similar to Europe and the US, where the product (e.g. electricity) can be bought and sold, with differential pricing (e.g. peak-load rates).

The next step is for the GCC is to build and extend its regional infrastructure into Egypt, Jordan and the “Arab countries in transition”. The wider Arab region is characterised by a young, growing middle class and rapid urbanisation as well as historical underinvestment in infrastructure. The time is right to embark on regional integrated infrastructure projects. The ‘Arab firestorm’ countries, which are currently going through a transition period of high unemployment, low investment and low growth, will directly benefit from infrastructure investments – this will create jobs in sectors such as construction and manufacturing, while also enhancing future competitiveness, economic diversification and growth.

Third, the GCC must move beyond the superficial (and yet incomplete) integration represented by free trade in goods, towards ‘deep integration’ and the harmonisation of institutions, laws and regulations to facilitate comprehensive economic integration.

Four, the GCC should invite the Arab countries in transition to join its free trade area either as full members (assuming they can fulfil the conditions) or through ‘economic association agreements’ that would promote trade, investment and labour mobility. This would be a major policy instrument to help restore growth and job creation.

Five, successful regional economic integration requires the creation of compensation mechanisms to overcome resistance to opening-up and economic integration. The GCC should take the lead to provide institutional financing for regional investment and development as well as social cohesion and structural funds as mechanisms to smooth the transition period.

At a time when the Arab region is in turmoil and transition, the GCC bloc should rise to the occasion of this ‘defining moment’, seize the opportunity to take a leadership role, move

the region towards greater economic and financial integration, enabling job creation and leading to more inclusive growth.

For maximum impact, the vision should be embodied in a wider, political vision where regional peace, growth and stability are considered 'regional public goods' and a geo-strategic objective of the GCC.