**Economic integration : The situation in Middle East and African countries**

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Introduction :

Economic integration is a feature of economic development and an aspiration to economic unity .Usually , it is associated with sufficiency in production through the joint exploitation of human and material resources within an economic zone .

The call for economic integration has been expanded and its importance has increased in the late twentieth century and at the beginning of the twenty-first century .

Number of countries , that adopted the economic integration policy , has been increased in the world , whether these countries are developed or developing countries .

Economic integration is an arrangement to be made between two or more countries in which all barriers of business transactions and factors of production are moved among them ; in addition , it ensures coordination of economic policies , division of labors among member countries in order to increase productivity and provision of equal opportunities for each country .

It is a persistent socio-economic and political process meant to establish proportionate integrative relationships by means of creating mutual economic interests and earning joint revenues through increased amalgamation among its socio-economic structures. Economic Integration is initially based on the revocation of all customs and non-customs barriers among a group of countries. It involves coordinating political, monetary and fiscal policies in a way as to create new economic groupings supplanting national economies in the integrated region.

The success of economic integration entails meeting a set of conditions, which most importantly are:

1-Geographical proximity, which is extremely important for the success of economic integration. It facilitates the movement of goods, services, and laborers within the integrated region, in addition to reducing transport costs.

2-Political will is necessary for fulfilling obligations that ultimately result in achieving economic integration involving the process of setting limits on the freedom of national action, which are not accepted by any country, except if it becomes certain that it is economically advantageous to join a regional economic bloc in order to precipitate economic development.

3-Deficit and surplus:

 Any country willing to join an economic grouping must have either a deficit or surplus in its economy , providing that integrated countries proportionately compensate the deficit and dispose of the surplus.

4-Homogenity of integrated economies, meaning that integration should take place among homogenous and identical structures in such a way that prevents economic differences and/or the dominance of an economy on the other.

5-Availability of telecommunications and transport means in the integrated countries. Indeed, the unavailability of these means would restrict commercial expansion and productive specialty among these countries. It also makes it difficult for these countries to market their own products and set up big industries which raise transport costs that imply prolonging economic distances.

6-Proportionality of social and cultural values. Economies with proportional, uniform values and systems are able to easily attain economic integration.

7-Coordination of national economic policies and the conditions permitting manufacturers to produce goods and services under natural circumstances. This coordination has to deal with customs tariffs, trade policies towards the countries located outside the integration region, social conditions, and investment policies. Economic legislation and policies should also be coordinated, while ,at the same time, establishing specialized bodies and institutions wielding a variety of powers necessary for following up action in light of the changes to economic policies and economic requirements.

**Part 1-Arab Economic Integration**

**1-Introduction**

Arab countries have long been working towards the achievement of economic integration. Efforts at achieving this objective started in the late 1950s viz , earlier than in other regional groupings. In addition, Arab countries reached a number of agreements to restrict barriers to interregional trade that rests on preferential bases. However, such accords didn’t yield tangible results, and the countries involved were moving at slow pace in terms of honoring the agreements, let alone the recurrent setbacks to such endeavors, which are attributed to a variety of reasons that were debated in several reports.

Most analyses focused on the reasons behind failure of integration among Arab countries and on the issue of intra-regional trade in goods .

The reports concluded that the level of Arab intra –regional trade in goods is “ very low “ ; this means that the expected benefits of the Arab regional integration will be low , therefore , the incentive to achieve this integration would be low .

Other technical reports concluded that economic disparity among the Arab countries , that shows GDP per capita ( less than $ 2000 in Yemen and more than $70000 in Qatar ) , should generate incentives for Arab countries to engage in intra-regional trade based on product differentiation that respond to the differences in income and options .

There is a prerequisites for the expansion of intra-regional trade, which is the reduction of trade barriers such as non-tariff barriers , real costs of trade and cost of services inputs .

It is worth mentioning that economic integration dialogue is a biased dialogue according to the two points below:

First : It focuses on the commodities market only to assess achievement , in the Arab integration field which might be misleading .

On one hand , this perspective involves making no progress ( vicious circle ) , in the sense that the integration among Arab countries fails because there is little intra-regional trade due to the absence of effective regional integration .

On the other hand , and more importantly , the trade integration in goods markets is not the only form of economic integration and not a precondition for other forms of integration .

Integration in service sector , labor market and capital may move independently in integration in goods market .

The available evidence indicates that it is possible to achieve significant gains when there is market integration in the Arab region.

It is supposed that this will provide an incentive for policies makers in order to enhance

regional integration , especially that it is possible for the economic integration to have an important impact in the area of service sector , labor markets , and capital more than intra-trade in commodities .

Accordingly , there are key questions on the extent of integration that has been achieved in Arab countries , service sectors , labor markets and capital , as well as , the reasons that restrict the deeper integration of the non-sectoral exchange .

Secondly , political considerations play an important role in the process of regional integration in terms of facilitation or restriction.

This paper sheds light on the integration of goods and services, production markets, and some key policies and regulating factors that obstruct Arab trade exchange. In addition , it sheds light on some key political restrictions that hinder deeper integration between Arab markets .It also makes some proposals that may help boost economic integration.

**Market integration**

**Commodity markets**

The key obstacle to the issue of reaping the fruits of Arab economic integration is the relatively tiny product market in the Arab region. Furthermore, many Arab countries are relatively similar and are competing among one another over the same export markets.

Also , in comparing that with countries that have the same per capita income in the region , Arab countries have narrow industrial base .

As one of the important motives of trade is to get benefit from differences in relative advantages between trade partners ,so that , this indicates that there are limited opportunities for the possibility of achieving returns from the regional economic integration in the Arab region .

The disparity among Arab countries in terms of the per capita gross domestic production may generate incentives for trade exchange.

**Service market**

Over a decade earlier, Arab countries were more integrated as regards service trade, including manufactured product trade. Service trade exchange was very crucial for these countries , not only because it generates a foreign sector of various services, including tourism, transportation, and other trade services, but also because services were a decisive factor in promoting competitiveness among corporate companies. An expansion of service sector would generate job opportunities for skilled and non-skilled laborers, who are either jobless or working in the public sector that seeks to lay them off. In reality, the precondition for minimizing the size of the public sector is to create alternative job opportunities.



**Movement of labor**

In theory, free movement of labor enhances efficiency, and increases global income. The impact of immigration on the countries importing and exporting manpower largely varies.

Host country can get benefit from immigration in different ways , for example , immigration increases employment , and get benefit from the available capital . There are , also , potential negative effects on employments in host countries such as the reduction of wages among unskilled workers or increasing the rates of unemployment.

With regard to countries that export labors to other countries , the immigration , particularly immigration of talented labors ( immigration of brain drain ) , may reduce the level of human capital of workforces , therefore , it leads to negative impact on economic growth .

It should be noted that there may be positive effects in labor-exporting countries , most notably the remittances of foreign currency .

**Influx of investment**

The Arab region has long been the world’s least receptive to foreign capital. During the first decade of the current century, the rate of foreign capital flow against the gross domestic production averaged 1% compared to 3% in Sub-Saharan Africa, and 4% in Latin America.

East Asian countries have the lion’s share from the investment influx.

In spite of the increase of these investment recently (amounted to % 3), but the Arab region still maintains the last rank of foreign capital inflows to gross domestic production at the level of the world.

The data on flows of foreign direct investment to Arab countries are still not integrated (completely).

It can well be said that inter-regional investment is still not up to the region’s expectations despite the advantages that accrued to the countries receiving or exporting investment.

 **Achievement of Deeper Integrated Arab markets**

Several Arab countries are either tiny or relatively small, and have a good deal of flawed demand, supply and capital. Therefore, economic integration would help curb such irregularities and boost the capacity of harnessing the opportunities available at the global market.

Thus, the key challenge to a more profound integration among Arab markets is to identify and handle the major sources of market retailing that requires coordinated efforts to lay out the policies that maintain trade and reduce high operational costs, which hampers the inflow of foreign investors and entrepreneurs.

There is a wide range of factors that should be in focus. These are the rules of origin and the policies and procedures that hinder trade and investment exchange and raise their costs.

**Rules of origin**

Although the tariffs on the intra-regional trade, in most cases, have been removed, rules of origin, however, still play a role in restricting the trade exchange.

The basic rule , that is applied under the Arab Free Trade Agreement, is the value-added standard ( % 40 ) , despite the fact that the individual practice by members of this agreement applies different rules for the same product .

Within the Arab Free Trade Agreement , the origin condition was reduced to % 20 if the product is produced in two Arab countries .

Agreement on more rules of origin , like that in the European Union , has become necessary to create favorable environment for intra-regional trade among Arab countries .

The rules of origin are important , also , for trade and investment in services ; there is mechanism to address the problems relating to the rules of origin , namely the transition to customs union and the adoption of a common external tariff .

 The Arab Free Trade Agreement aims to create a custom union , however, the experience indicates that such thing would be difficult to implement because it requires not only agreement on the level of tariff , but the enacting of rules for revenues allocation and implementation mechanisms .

**Policies of markets’ poisoning and related commercial and operational costs :**

There are a variety of non-tariff measures that work on positioning the markets that lead to the increase of cost of trades and investments; this is achieved through the restriction of access to markets and reduction of competition .

In addition to bureaucracy, the measures of tariff clearance were more important resource than non-tariff trade costs.

Macroeconomic policies can be a serious obstacles to the intra-regional Arab trade ; there are other areas that can affect the competition within the Arab Free Trade including industrial policies , the state’s subsidies , regulation of public procurement , export , special economic zones and the incentives’ systems that have been made by different countries and that constitutes preferential treatment to investors to enable them to access to markets .

**Movement towards Deeper Integration of markets in the Arab region**

It is known that even if there is no intention for governments to use regulatory or local policies for protective goals , the governmental measures , often , have impacts that contribute in fragmenting the markets ; simply because it is different of those implemented in partner countries .

Accordingly , it imposes an additional cost on foreign products and suppliers .

The preferential trade agreements provide possible mechanism for negotiation and agreement on common specific criteria that lead to reduction of these costs.

Arab countries failed to implement the preferential trade agreement seriously because of concerns on sovereignty, distribution of profits and the costs of adaptation resulting from increased competition.

This indicates that there is a need to focus on institutional mechanisms that address the factors which hinder the strong integration.

Accordingly , it is necessary to focus on the areas of cooperation in which the issue of sovereignty is less problematic and the economic returns of joint action is relatively high , as well as , and to arrive at appropriate mechanisms to settle disputes .

Regional integration is one of the strategically important factors for Arab governments. After a long period of sluggish integration efforts, there emerged the free Arab trade agreement as well as the GCC accords as a seriously steady step to integrate Arab markets. So far, the free Arab trade treaty has centered on the elimination of trade barriers. However, it must have provided for service trade and investment, and reduction of remaining administrative and procedural barriers.

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-There needs to be institutional mechanisms to direct government aids towards supporting integration efforts.

**Briefing on economic integration in Sub-Saharan Africa**

African elites are enthusiastically willing to integrate African economies at the regional level. Many official initiatives have been set out under the ambit of the African union to establish a common regional market by 2008. Yet, the prevailing discourse never translates into reality, as African economic integration is still experiencing a slew of problems, including interlocked memberships, unfulfilled obligations, and adoption of unrealistic objectives.



**Key facts should be put in context while discussing the African economic integration:**

1-Sub-Sahran African countries have no capacity to manage development operations, let alone getting involved in intricate institutional structures that conform to the European Union’s model.



2-The role of regional leading countries in economic integration is highly critical. Yet, such countries, barring South Africa, are apparently incapable of backing the setting up of regional economic groupings, and/or securing a conducive politico-economic milieu for economic integration.





3-Some African countries are somehow willing to renounce some of their sovereignty requirements in the sense that they replace their “hard sovereignty” with a “resilient one” in a manner as to set the stage for good governance in order to achieve a modicum of economic integration. Governments are still reluctant to cede their power in favor of regional institutions and structures, hence the need for other models alternative to the European Union’s.

Still, there are five key issues that should be taken into account while debating the economic integration in the Sub-Saharan African countries:

1-The expansion of regional markets would boost dynamic economic development by raising the possibility of broadening the scope of work and related specialties.



2-There is need for the Sub-Saharan African countries to exert concerted efforts to make full use of their own capacities in order to provide public goods such as energy, finance, telecommunications and transport and then incorporate same into regional markets so as to realize the lofty objective of espousing economic integration.

3-This would streamline trade and focus on laying out laws and regulations rather than adopting the current approach to policy integration. Indeed, the method of integrating policies via official arrangements, namely customs unions and joint customs tariffs, constitutes a major challenge to the attainment of economic integration, given the conflicting industrial interests as well as the limited aptitudes to coordinate industrial policies.

4-Such dynamics sharply reduces regional leaders’ ability to push for economic integration in Sub-Saharan Africa. Therefore, those leaders ought to offer massive aid to the countries involved in regional arrangements, including by providing preferential access to their markets. This shall remain a key tough challenge, particularly if we taken into account the fact that the regional leaders, such as Kenya and Nigeria, are poverty-stricken, meaning that they are highly unlikely to offer necessary assistance to the regional economic grouping’s countries.



5-These challenges imply that a completely different approach from that of the European Union as well as the official institutional integration might be more congenial to Africa. Further, regional economic integration is not a panacea for Africa, and, therefore, the maintenance of economic integration with the north (MENA and South European countries) for the purpose of achieving socio-economic gains and increased openness remains highly crucial

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