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Trade Integration and Development in Arab Countries

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Preamble

Given the Arab countries membership in the League of Arab States, which represents a form of confederation among its 22 member states, and considering the shared language, borders, historical, cultural, and social elements, as well as the growing trade interactions between southern nations, the need for integration has become essential to strengthen the competitiveness of these countries in global markets in recent years. Through regional economic integration, Arab countries will be able to combine their capabilities, natural resources, and assets to foster productivity, development, transformation, job opportunities, and increased investment. This is achieved by minimizing distortions, expanding markets, and instilling confidence in economic and political reforms. Over the long term, the objective of establishing a trade zone and customs union is to attain an Arab economic union that operates with comprehensive economic, monetary, financial, social, and sectoral policies. This union aims to ensure economic development and growth, thereby enhancing the region's position in the global economy and strengthening its integration into global value chains.

Within this context, the endeavor to establish a connection between intra-trade and development in the Arab world necessitates shedding light on the performance of economic integration within the region. It also entails examining the advantages and disadvantages of liberalizing intra-trade, and its impact on the development of Arab countries. Given the prevailing conflicts among regional countries and their unprecedented levels of fragmentation, particularly in Iraq, Libya, Syria, and Yemen, it may not be politically opportune to propose the notion of achieving comprehensive regional integration at this time. Hence, it becomes necessary to put forward alternative solutions appropriate to the context.

The fundamental question that this study seeks to address arises from this situation. It aims to determine whether the trade agreements established within the framework of the Greater Arab Free Trade Area and the subsequent reduction of customs barriers among regional countries have indeed facilitated the enhancement of internal exports and imports. Furthermore, it explores whether the different stages of intra-trade liberalization have resulted in increased real GDP growth rates. Within this context, it is essential to evaluate the implications of joining the World Trade Organization, the Greater Arab Free Trade Area agreement, the Gulf Cooperation Council, the Arab Maghreb Union, and various bilateral trade agreements. Were these measures effective in attracting investments that drive the process of growth and development? Has the removal of trade barriers between countries and the promotion of trade and growth reached the desired level?

Hence, the following sub-questions are raised:

To what extent are bilateral, interregional, and regional economic integration agreements prevalent in the Arab region? How effectively do these agreements impact inter-Arab trade?

To what extent have these agreements proven effective in fostering the development of local economies? How can the tools of Arab economic integration be enhanced to further promote economic integration?

This research seeks to examine the effectiveness of Arab economic integration and its impact on development. Its primary objective is to crystallize an alternative perspective, distinct from the conventional neoliberal viewpoint, for the upcoming phase. The significance of this study lies in its emphasis on economic integration, which has been rapidly advancing in recent years, as a crucial element in the process of development. Understanding its role in reducing unemployment rates, promoting equality, and alleviating poverty in member states of the integrated region is essential.

Consequently, the research aims to achieve the following objectives:

1. Identifying the reality of economic integration in the Arab region.
2. Clarifying restrictions and obstacles facing Arab Economic Integration.

3. Linking economic integration and development.
4. Elucidating the effects of economic integration experiences on development in the Arab world.
5. Evaluation of the integration path.

First: Reality of economic integration in the Arab region

Despite the efforts made towards Arab integration, starting from the establishment of the Arab League in 1945 to coordinate cooperation among Arab nations, followed by the proposal of the Greater Arab Free Trade Area (GAFTA) in 1997, and the conference hosted by the Arab Monetary Fund on regional financial integration in March 2019, the impact of regional trade agreements has remained limited. Observing the diverse impacts of inter-trade agreements, it becomes evident that the Gulf Cooperation Council (GCC) has emerged as the most successful endeavor, characterized by the establishment of a customs unit and a shared electric power network. However, it has faced challenges in aligning the tax system and implementing a unified currency. Undoubtedly, the imposition of a blockade on Qatar by Bahrain, KSA and the UAE had a significant impact on the region[1].

Trade Complementarity Index

In the context of assessing the level of trade integration among countries, and drawing on the insights of Drysdale (1967), studies have revealed the presence of significant theoretical integration among Arab nations. This is determined by measuring the extent to which the export patterns of one country align with the import patterns of another country. The greater the level of integration between these two components of two countries or a group of countries, the higher the potential for trade exchange between them.[2]

As indicated in the provided table, there is “a level of integration that surpasses the global average when considering the exports of Arab countries and their imports by other countries within the same group, excluding mineral fuels. The integration index value surpasses the global average of 50 percent, signifying those Arab nations have the potential to expand market coverage for Arab goods and products, benefiting from the Greater Arab Trade Agreement”.[3]

Table 1: Foreign Trade Integration Index Between Arab Countries, Excluding Mineral Fuels

Index	Foreign Trade Integration Index in Arab Countries (%)				
	2016	**2017**	**2018**	**2019**	**2020**
Foreign Trade Integration Level Index	67.0	71.0	76.7	59.7	63.3

Source: World Trade Organization, UNCTAD, (2022), “Trade Map”.

The progression of economic integration in the Arab world can be summarized into several stages. It begins with preferential agreements and the establishment of the Greater Arab Free Trade Area, then advances to the customs union, followed by the common market, the (process of) economic integration, and ultimately culminates in a monetary union.

Overview on Integration in the Arab Region

While the European Union tops the list of major global economic blocs[4], according to the globalization index compiled by ESCWA for the years 2018 and 2016, the GCC countries remain the most globalized nations in the Arab region. This is despite the efforts made by Arab states to achieve economic integration through the signing of numerous agreements, summarized as follows:

1. Agreement on Facilitating and Developing Inter-Arab Trade (Greater Arab Free Trade Area), to strengthen economic integration among Arab nations through trade. This is achieved by eliminating or lowering customs tariffs and minimizing the use of nontariff measures. The Economic and Social Council of the League of Arab States approved the executive program and its timetable for establishing an Arab Free Trade Area under its decision No. 1317 D/59, dated 19/2/1997 AD. Sixty-four years before the entry into force of the WTO Agreement on Trade Facilitation on February 22, 2017, the Agreement on Facilitating and Developing Trade began on January 1, 1998, with a 10% annual reduction rate. Eighteen Arab countries have completed the required main procedures, particularly customs-related ones. "Although the Greater Arab Free Trade Area (GAFTA) aims to liberalize investment and trade policies in services, including the reduction of nontariff barriers among its members, no significant progress has been achieved in these areas[58]." Despite the decrease in the average unified tariff equivalent for all customs duties (ad valorem and specific) from around 15% to 7% in 2016, changes in border protection were not accompanied by any changes at the level of customs administration and the business climate.[6]

2. The Gulf Cooperation Council (GCC): The GCC achieved the best results in promoting trade integration among Arab trade and economic communities during the period of 2014-2018. The contribution of intra-GCC exports to total exports ranged between 2.1% and 2.6%, with a noticeable decline in this percentage since 2017. As for commodity imports, the contribution of intra-GCC imports in this group of countries ranged between 9% and 11.7%. Despite the decline in the share of intra-GCC trade, it remained significantly higher than the intra-trade of the Agadir Agreement countries or the Arab Maghreb Union countries.[7]

By measuring the degree of integration between exports and commodity imports in the GCC countries, it is evident that "the index has increased in 2019 compared to 2007, although the percentage remained below 50%. UAE exports are considered closest to the imports of the GCC countries."[88]

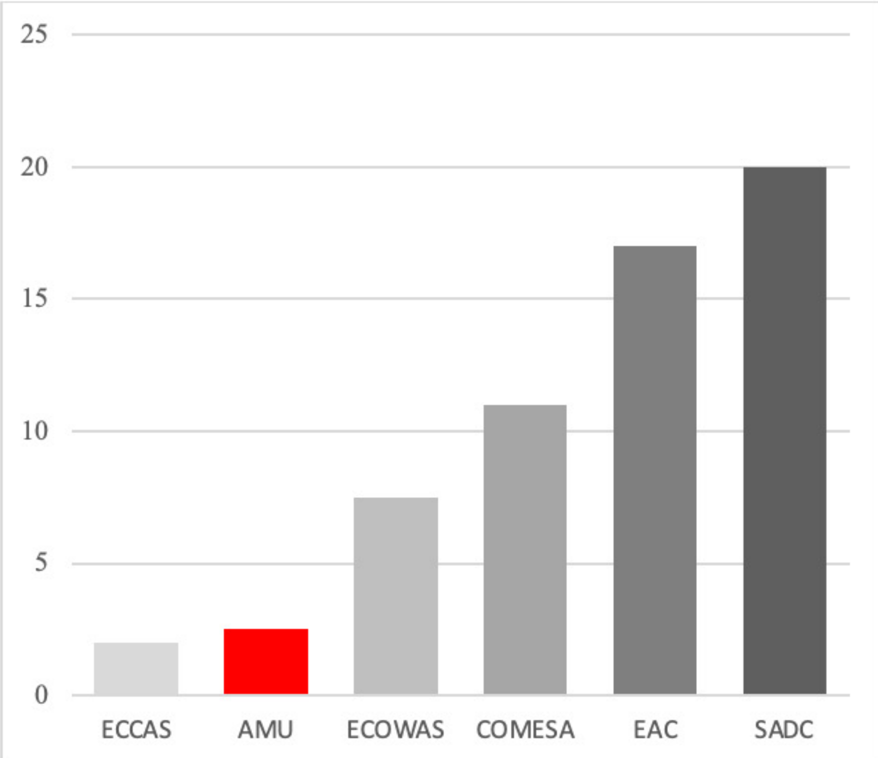
Table 2: Foreign Trade Integration Index Between GCC Countries Excluding Mineral Fuel (%)

	(%) Imports												
	Coun-tries	**UAE**		**Bahrain**		**KSA**		**Oman**		**Qatar**		**Kuwait**	
		2007	**2019**	**2007**	**2019**	**2007**	**2019**	**2007**	**2019**	**2007**	**2019**	**2007**	**2019**
(%) Exports	UAE			53.8	77.1	48.4	52.1	46.9	57.0	44.7	56.1	51.1	54.2
	Bahrain	41.9	58.8			41.7	55.6	34.4	59.1	24.2	53.4	42.2	56.7
	KSA	42.9	45.5	56.1	56.1			28.8	36.0	24.9	32.3	34.8	34.0
	Oman	50.9	53.0	67.2	67.2	39.5	47.9			34.7	47.6	42.2	49.6
	Qatar	40.2	45.9	56.5	56.5	32.1	37.2	27.8	40.9			33.8	38.9
	Kuwait	43.7	50.0	60.5	60.5	32.3	37.6	30.9	42.5	28.1	41.2		

Source: Calculated based on WTO data, UNCTAD, (2022), “Trade Map”.

3. The Arab Maghreb Union: The establishment of the Arab Maghreb Union was announced in February 1989 in the city of Marrakech by five countries: Morocco, Algeria, Tunisia, Libya, and Mauritania. Despite the emphasis on the positive implications of increased integration among Maghreb countries economically, and in light of expectations from the International Monetary Fund (IMF) suggesting that increased integration would have positive economic repercussions, including a regional market of nearly 100 million people[9], the Maghreb region [10]has only achieved a weak performance compared to the GCC countries (10.7 percent) [11] Trade exchange rates among its countries are among the lowest in the world. "The lack of economic integration in the Arab Maghreb region has been a lingering issue for a long time, which can be attributed to the hostility between Algeria and Morocco and logistical constraints, such as trade protectionism, that make it difficult for companies in the Arab Maghreb to conduct business across the region."[12] (In addition to the unstable situation in Libya over the past decade) In this context, Moroccan researcher Mohammad Al-Arabi Al-Massari points out three main reasons for a stumbling Maghreb integration experience: rooted mistrust among the Maghreb countries, uncertainty about the feasibility of the Maghreb project, and tack of communication manifested in various phenomena such as border closures, formal disputes, and declining inter-economic cooperation..[13]

Figure 1: Trade Exchange among countries in African Regional Economic Communities out of Total Trade Exchange within Each Group in 2019



Legend
ECCAS: Economic Community of Central African States
AMU: Arab Maghreb Union
ECOWAS: Economic Community of West African States
COMESA: Common Market for Eastern and Southern Africa
EAC: East African Community
SADC: Southern African Development Community

Graph designed by:
Brookings Doha Center
Data source:
UNCTAD

Data source: The United Nations Conference on Trade and Development [12]

4. <u>The Arab-Mediterranean Free Trade Area (Agadir Agreement):</u> In the implementation of the Agadir Declaration signed by Jordan, Tunisia, Egypt, and Morocco on May 8, 2001, the agreement on the establishment of a Free Trade Area among the four Arab Mediterranean countries, namely, Tunisia, Morocco, Egypt, and Jordan, was signed on February 25, 2004, in Rabat. This agreement aims to increase trade exchange between these countries, with a transitional period starting from the signing date until January 1, 2005. The agreement seeks to achieve industrial integration among the countries while attracting foreign investments to benefit from exports to the European Union without customs duties.

5. <u>Arab Customs Cooperation Agreement:</u> Qatar, Saudi Arabia, Jordan, Palestine, and Egypt signed the Arab Customs Cooperation Agreement, which was approved by the Economic and Social Council of the Arab League in Cairo on September 3, 2015. However, only one country, Palestine, ratified it. This agreement has not come into effect due to a lack of ratification by at least seven countries, as stipulated in Article 25. This indicates the reluctance of most Arab countries to implement this agreement,[14] seven years after its approval by the Arab Economic and Social Council.

From Trade Liberalization to Integration under Free Trade Agreements

In the context of updating Free Trade Agreements (FTAs) in the post-COVID era, the European Union is striving to enhance and broaden FTAs by fostering economic integration among countries in the Middle East and North Africa as well as promoting value chain integration.

In light of the lack of parity in trade relations between the EU and partners in Euro-Mediterranean Partnership (EMP) Agreement, the EU enjoys a favorable position as the primary trading partner for all countries (excluding Jordan and Palestine) and for the entire region. The EMP Agreement region accounts for only 4% of EU foreign trade[15]. In terms of development, it has been found that the gains achieved by EU partners in the EMP Agreement remain extremely limited (with figures not surpassing 4% of the GDP in Jordan and reaching 5.1% of the GDP in Tunisia). These limited results can be partially attributed to diminished FTA trade flows under the EMP Agreement, as the EU simultaneously concluded several FTAs with neighboring countries (and others) at the same time. This approach has led Southern countries to adopt the export of products with similar compositions and manufactured goods with low to medium technology, hindering the trade complementarity index (TCI) and undermining intra-regional flows as a result.[16]

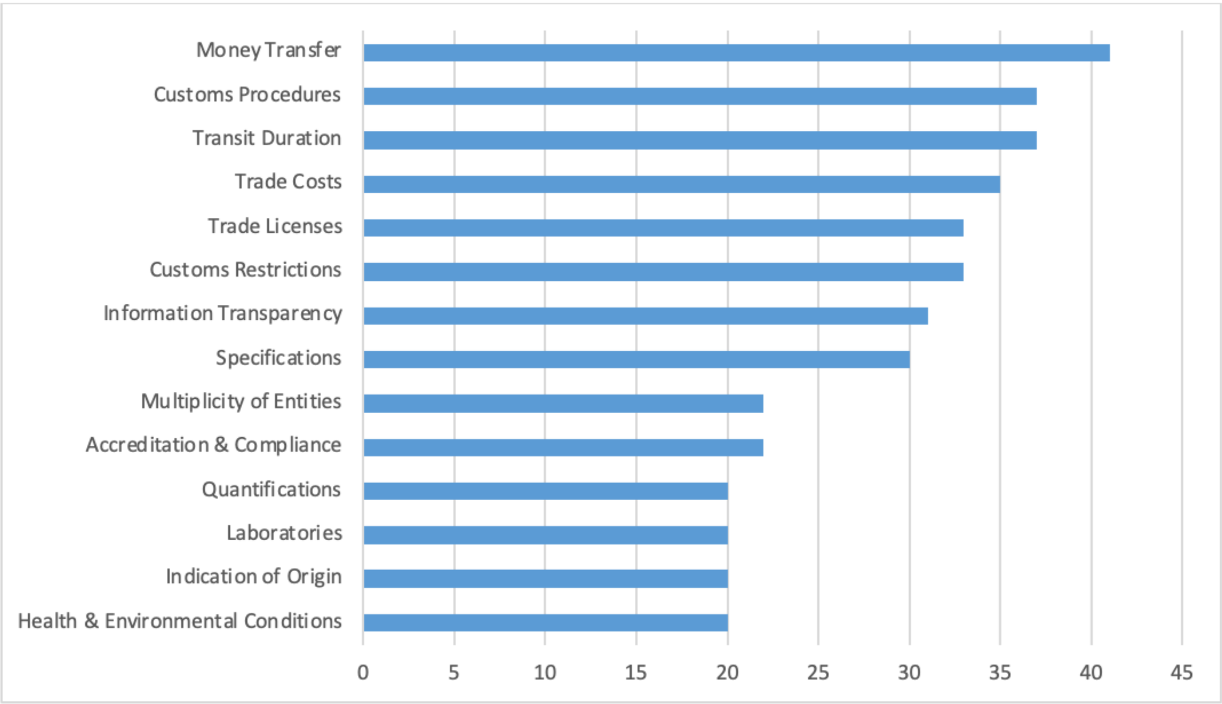
In a parallel direction, and in regard to the ongoing negotiations on Deep and Comprehensive Free Trade Areas (DCFTAs), reports suggest that pursuing the latter “may not be the most viable choice at this point”. As a result, experts are advocating for a more incremental approach that relies on sector-specific agreements in the short to medium term. This would result in an economic integration model that bears similarities to the DCFTA model.[17]

Given this reality, an alternative solution would involve a gradual focus on specific sectors within partnership agreements, under the condition that there is a shared interest among all parties to diminish both customs and non-customs trade barriers. Such an approach would bolster interregional integration, particularly in accordance with the desired local economic reforms advocated by the EU. Addressing food security, recovering from the COVID pandemic and investing in the region's abundant oil and gas resources are pressing priorities for which immediate solutions must be sought while waiting for the appropriate time to contemplate the comprehensive dimension.

Second: Restrictions & Obstacles Facing Arab EconomicIntegration

The exports of Arab countries face numerous customs restrictions, nontariff measures, and application procedures that hinder their access to global markets. These difficulties include the weakness of e-commerce and the lengthy customs procedures in terms of border crossing duration, among other reasons, as illustrated in the following figure:[18]

Figure 2: Ranking of restrictions on inter-Arab trade



Source: Joint Arab Economic Report 2019.

Customs Restrictions

On average, among all the member states of the Arab League, the average customs tariff applied to agricultural food products is 0.6%, based on a tariff advantage of four (4) percentage points compared to the average imposed by member countries of the Arab League on other countries worldwide. In the manufacturing sector, [19]Arab League members are subject to a customs tariff rate of 0.3% for cross-border trade within the region on average, with a tariff advantage that surpasses the global average by 3.1 percentage points.[20]

The customs tariff average decreases to nearly zero across all member countries of the "Arab League", while intra-regional exports stabilize at a share of 33% of total exports, which is less than half the level achieved in Europe.

The intra-regional imports are limited to a proportion of 12% of the total imports, which is less than a quarter of the intra-regional imports observed in the vast majority of other regions. However, levels of integration vary sharply across countries and different sectors.

Table 3: Customs tariffs in a number of Arab countries

Country	Simple Average, 2018	
	Highest rate	**Customs tariffs applicable as per the MFN approach**
Jordan	**16.2**	**(2017) 4.4**
UAE	**14.4**	**4.4**
Bahrain	**34.8**	**4.3**
Tunisia	**57.9**	**(2016) 9.3**
SAR		**(applied 2013) 14.2**
Sudan		**(applied 2013) 21.2**
Oman	**13.8**	**1.7**
Qatar	**15.6**	**3.7**
Kuwait	**97.8**	**4.8**
Lebanon		1.1
Egypt	**36.8**	**8.2**
Morocco	**41.3**	**(2017) 3.9**
KSA	**11.1**	**(2017) 4.8**
Yemen	21.2	(2017) 5.0

Source: World Trade Organization, Trade Profiles 2019 (Geneva, 2019)

The customs clearance process includes a set of administrative procedures, with the most prominent one being the payment of customs duties. While tariff barriers witnessed a significant reduction worldwide, with the average applied tariff rate in the world being around 2.1% in 2006, the average tariff barriers between developing countries remained higher than in global trade. The average applied tariff rate in trade among the Global South at that time was 4.3% (such as tariffs imposed by one developing country on exports from another developing country)[21]. The intra-country export shares vary across different countries, ranging from 1% in Mauritania to 72% in Libya. There is a 54% share in the agricultural sector, which decreases to 31% in the manufacturing sector

In an international environment where customs tariffs are decreasing, the Council of Arab Economic Unity (CAEU) approved a strategy for Arab economic integration, under Resolution No. 1150 of 2001. It also approved several focus areas in the fields of trade, investment, technological development, and joint Arab development. One of the most important themes is the establishment of an Arab customs union that encompasses the elimination of all customs and non-customs restrictions imposed on inter-trade among the union countries. At this juncture, the customs union intersects with the free trade area. The member states of the Union strive to reduce joint tariffs as much as possible, in order to reinforce intra-Arab and foreign trade. The most notable results of reducing or eliminating customs duties are manifested in increasing the export capacity of existing industries and encouraging the establishment of new industries that rely on exports, benefiting from economies of scale. This provides a real opportunity to replace foreign industries with Arab industries[22]

While economic integration projects and trade openness are not limited to the removal of customs duties on trade, customs revenues remain the cornerstone of tax revenues in many Arab countries. Hence, concerns arise about the side effects on the economies of many Arab countries that heavily rely on customs revenues for their income.

Furthermore, some comprehensive economic policies aimed at reducing or even abolishing tax duties pose a serious threat to small and medium-sized enterprises in other countries. This becomes evident when government policies result in unfair and unequal competition due to the direct and indirect support provided by some countries to their domestic industries and products.

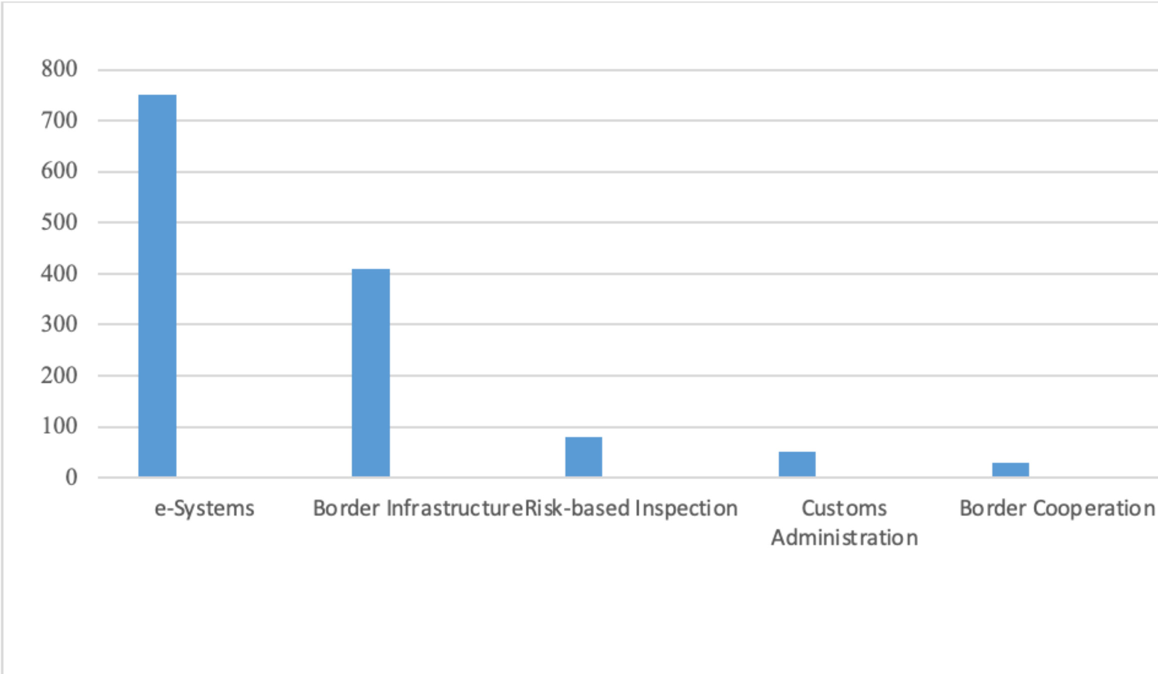
Single Window for Facilitating Trade in the Arab Region

Intra-trade in the Arab region faces many barriers that we have mentioned earlier, notably nontariff barriers. Hence, the need to consolidate and automate procedures and leverage and use IT in ports, airports, and international borders through the Single Window System that gathers all the external trade traders' documents and data in one point of entry.

The trade facilitation Single-Window System includes a complete set of trade, transportation, and logistics measures; all border crossings and shipping forms are enlisted within the Single Window System in order to electronically exchange all documents, licenses, permits, and main trade payments between the public and private sectors, via one central point of entry. "The National Single Window" includes in its final form all the information that is exchanged between traders, government departments (including Customs) and sea, air, land, and railway transportation systems, etc..."[23]

The Doing Business 2018 report indicated that continuing the implementation of e-systems for Single Windows and e-exchange of customs data, which is an important part of the Trade Facilitation agreement according to Clauses 1, 5, 7 and 10 thereof, will lead to a reduction of the time required to process customs clearance by 742 hours overall for each transaction[24]

Figure 3: Impact of Trade Facilitation Agreement Reforms on Customs Clearance Operations Time Reduction



Source: Available at https://www.doingbusiness.org, Doing Business 2018, World Bank.

In this context, progress and readiness for the Single Window System in the trade integration process at regional level shall be measured in order to answer the following questions:

1. Does the Single Window (if existent) realize its desired outcome, by providing the necessary platform and processes to achieve paperless exchange (i.e. e-exchange) of trade information between traders, via a one-stop-shop?
2. Is there a general scheme and/or roadmap that is suitable for the region to implement Single Window Systems in the Arab countries?

Nontariff Barriers

Among the main nontariff barriers that face trade integration are logistical costs, which are the trade logistics of the necessary activities related to goods transportation from producers to consumers, such as transport and storage, customs clearance, and funding and payment systems.

It is a large concept that includes diverse fields, such as:

- All operations related to the physical transportation of goods from seller to buyer, which are represented by high transportation costs and technical barriers that increase cross-border trade costs, such as infrastructure;
- Lack of common criteria;
- Customs clearance bureaucratic hurdles and regulatory procedures;
- Human resources and the enactment of

protectionist economics policies with an exclusively inward-looking view;

- Lack of transparency and clarity;
- Lack of using trade-related risk assessment methods;
- Lack of updating customs and agency systems;
- "Ambiguous" security considerations.

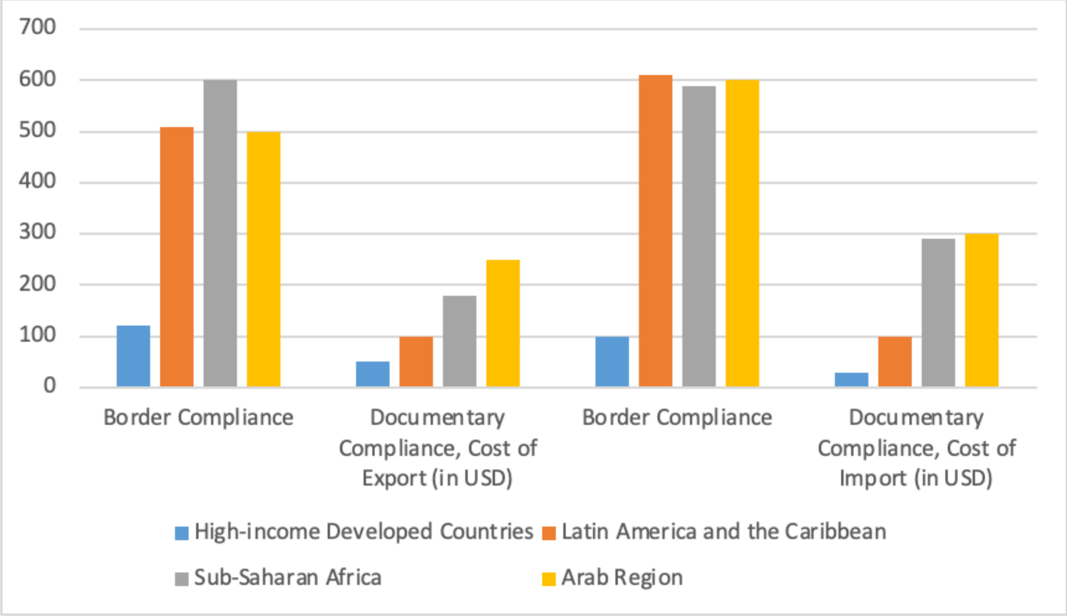
In addition to the trade-related cost rate in the Arab region being one of the highest in the world, there are large disparities between Arab countries in national customs efficiency and preparedness to roll out the launch of any customs union, whether between Arab Free Trade Area Member States or even with countries outside the region. This disparity was shown in assessment databases and studies. Thus, it is important to tackle all the causes for weak customs efficiency in many Arab countries, since they limit the scope of building and using trade Single Window Systems and weaken the ability to exchange customs data electronically, an exchange which helps improve National Customs efficiency, update its potential to keep pace with the ramifications of international trade and address customs clearance at the lowest financial costs for companies and in the shortest possible time.[25]

The assessment of customs clearance efficiency in Arab countries and the level of adaptation among customs outlets within member states of the Greater Arab Free Trade Area has unveiled significant disparities in the requirements of the customs union. Certain member states achieved top rankings globally, while others remained at the lower end of the ranking. Disparities can be attributed to various factors, including the lack of e-systems for customs data management, such as unified customs operation platforms and electronic data exchange platforms among countrie[26]s

Based on the Logistics Performance Index of the World Bank[27], the UAE secured the top position among Arab countries in terms of logistics performance. It is observed that numerous countries in the MENA region face elevated logistical costs due to inadequate logistical performance.

Hence, the crucial question revolves around

Figure 4: Average Customs Clearance Cost (in USD)[59]



Source: [Digital and Sustainable Trade Facilitation: Global Report 2019] (2019), United Nations. Digital and Sustainable Trade Facilitation Agreement Implementation in the Arab Region: Global Report 2019, ESCWA.

understanding how and to what degree trade logistics impact the level of economic growth achieved in the region. Investing in logistical infrastructure results in an augmentation of the state's logistical capacity, thereby enhancing the efficiency and effectiveness of provided logistical services. Consequently, this leads to an increase in added value through reduced costs of logistical services, shortened transit time, and the creation of favorable conditions for business.

In summary, the aim of implementing nontariff barriers is to introduce a series of measures that can enhance the logistical performance of trade in the studied countries. This, in turn, will foster competition and mitigate costs. These measures include:

- Implementing trade facilitation measures in accordance with the procedures outlined by the WTO;
- Minimizing all nontariff restrictions on trade;
- Promoting investment in transportation infrastructure by executing plans to enhance the maritime and land transport sectors;
- Expanding the establishment of logistic centers within Member States and enhancing the quality of services offered in these centers.

Arab Integration in the midst of Political Division

One of the key pillars of economic integration involves formulating a joint development plan alongside coordinated economic planning projects. This serves to reinforce the dialectics of politics and the economy. Undoubtedly, the lack of political and security stability in the Arab region and the absence of favorable political and economic conditions to realize Arab trade integration influence the entire economic environment, as international competition for interests emerges in light of the international conflict between the US, Europe, Japan, and their allies on the one hand, and China and Russia and their allies on the other[28]

The interdependence between political factors and economic conditions for joint Arab action is so strong that it is hard to separate them or neutralize their impact on each other. Arab countries struggle with a crisis of trust, to put it mildly, and they are facing profound challenges at the level of mutual trust. Indeed, what integration can be achieved amidst the discord, ongoing wars, and armed conflicts in the Arab world, notably in Syria, Yemen, Libya, and Iraq, the rise of the Axis of Resistance led by Iran in the face of Israel, and the GCC countries' fear of the repercussions of Iran's power in the region?

This is why the workshop conducted at the Arab League headquarters in Cairo on Arab economic integration[29] emphasized the significance of attaining political and security stability as a prerequisite for achieving Arab integration and economic unity, with a focus on the necessity and importance of linking the issue of integration with development[30]

A fundamental challenge in the Arab political economy lies in addressing the reform of corrupt rentier economic systems that resist change, thereby hindering economic development[31]

An illustration of a significant hindrance to enhancing the effectiveness of economic integration among the countries of the Arab Maghreb Union is the presence of internal disputes between these nations. These disputes primarily revolve around various matters, such as the differences between Algeria and Morocco regarding the Western Sahara issue, and the competition for regional leadership. Today, the region faces common challenges regarding foreign policy alignments and stances towards Israel, including the concept of normalization. Some countries align themselves with the resistance axis, firmly opposing any form of normalization with Israel.

Third: Desired Outcomes/ Interrelationship between Integration and Development

Undoubtedly, economic integration significantly influences the levels of development in relevant countries. Despite the challenges in accurately assessing the direct effects of trade integration and economic integration on growth, due to limited data and analyses, as well as the presence of numerous other diverse influencing factors, it is evident that trade integration has a "substantial and favorable impact on promoting growth and enhancing living standards"[32] . While unregulated liberalization of the economy and trade can impose significant burdens and adjustment costs on the countries involved, it is evident that a well-studied, fair, and equitable trade liberalization among Arab countries generally has a positive effect on development. This highlights the need for liberalization to be accompanied by the formulation and implementation of suitable plans and policies that take into account distinct national and regional circumstances. According to a study conducted by a UNCTAD team, at the level of the Maghreb countries, the Continental Free Trade Area is widely recognized as a crucial catalyst for fostering economic growth, promoting industrialization, and facilitating sustainable development across Africa[33]

Regarding the influence of trade integration on poverty levels, the previously mentioned study, involving the International Monetary Fund, the World Bank, and the World Trade Organization[34] , found that trade integration contributes to significant growth in average income, subsequently resulting in poverty reduction. "For instance, the study observed that the income of the poorest 20 percent increased proportionally to the overall income growth in developing countries between 1993 and 2008... Similarly, eliminating or reducing customs tariffs imposed on imported goods results in lower prices for consumers. Considering that a significant portion of regional trade in the Maghreb involves commodities primarily consumed by low-income individuals, the impact of regional integration on the well-being of the poor, resulting from the abolition of tariffs, is expected to be highly favorable."[35]

Thus, the achievement of economic development remains dependent on the extent to which countries are able to adapt their local economies to the regional environment with the aim of achieving economic integration through thoughtful integration and organized liberalization of fair intra-regional trade.

The dynamic impacts of regional economic integration are also recognized as a driving force for enhancing the capabilities of local states to meet the demands of integration. Consequently, the connection between regional economic integration and development in member states becomes evident. The interdependence of markets establishes a dynamic framework that not only promotes an increase in production volume and attracts foreign direct investment, but also stimulates national production. This, in turn, expands markets for domestic products, enhances the economic capabilities of the host country, improves access to regional markets, and facilitates technology transfer.

According to a study conducted by UNCTAD, it is revealed that South-South trade liberalization will lead to more substantial welfare gains compared to North-South trade liberalization or regional trade liberalization within developing countrie[36]s . The rationale behind this is that the availability of low-cost imports for consumer goods and food allows economically disadvantaged individuals in developing countries to access goods that would otherwise be unaffordable for them.

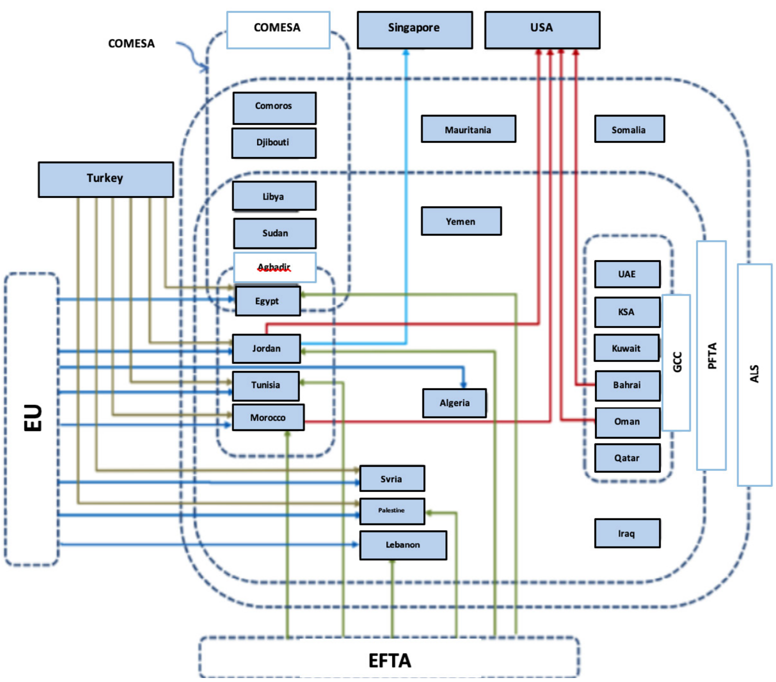
Regarding the income sector, a report published by UNCTAD acknowledges its contribution to income generation, job creation, and foreign exchange earnings, showcasing a notable growth. "In principle, the liberalization of trade in services represents a significant and unavoidable policy challenge for Arab countries. When effectively implemented, it holds the potential for substantial gains in Arab development."[37]

Fourth: Elucidating the Effects of Economic Integration Experiences on Development in the Arab World.

The introduction of bilateral and regional economic integration agreements in the Arab region reveals a facet that influences local economies and the dynamics of social and economic development in targeted countries. The approach of solely prioritizing the macroeconomy, free trade, and capital movements as the primary objectives of inter-regional and international agreements faced various challenges across multiple levels. This, in turn, resulted in a rise in social inequality within the region, primarily due to the absence of free trade agreements that address developmental and social dimensions.

In 1995, economist Jagdish Bhagwati depicted the state of overlapping trade agreements as a "spaghetti bowl," illustrating how countries often participate in multiple regional groupings and numerous bilateral trade arrangements simultaneously. The Arab region is not immune to this reality, which explains the magnitude and number of contradictions among integration agendas, which has a substantial impact on the developmental and social landscape within these countries. Rather than facilitating the establishment of a comprehensive transformation of productive human, technical and material capabilities aligned with a developmental vision at the local and regional societal level, we are faced with endeavors towards "economic integration" that overlook fundamental shortcomings in vital sectors, such as transportation, services, and banking within the countries involved. As a result, the presence of numerous preferential trade agreements that are diverse in nature creates distortions and disruptions in trade transactions. These issues can arise from inconsistencies in rules of origin, varying schedules for customs reduction, competition regulations, or other standards and rules outlined within the agreements.

Figure 5: Overlapping Preferential Trade Agreements Between Arab Countries



Source: Fath-Allah, Mahmoud (2015)

Hence, the primary concern revolves around understanding the true effectiveness of these intra-trade agreements and their influence on the development of local economies. This is why it is crucial to examine the endeavors of Arab nations, including their potential shortcomings, in addressing the challenges of economic transformation while upholding developmental aspects that are linked to the qualitative and quantitative impact on the living standards of the population in the Arab world.

Reducing Poverty

The unregulated process of trade liberalization imposes a burden on the countries waiting to benefit from it. Given the heavy reliance of many Arab nations on tariff revenue, unregulated liberalization is likely to result in significant financial losses due to reduced tariff income. To address the deficit in the current account and stabilize the balance of payments, trade liberalization may require currency devaluation, which will exacerbate the trade deficit. Consequently, it may create a cycle that necessitates either further currency devaluations or a return to trade liberalization.

The evidence from real-world situations and studies indicates that efforts toward economic integration have only served to worsen the crises related to poverty in Arab countries. Given the challenges faced by Arab economic integration and the deficiencies in pursued development policies, the outcomes have failed to meet the stated developmental objectives. Consequently, corruption has proliferated, and unemployment, poverty, and social injustice have become prevalent in numerous Arab nations. "Poverty estimates for Arab countries, employing the poverty line regression methodology, reveal that over 20% of the Arab region's population lives in poverty. Remarkably, this region stands alone globally as the one that has not made significant progress in reducing poverty rates over the past two decades. [38]

These findings have been confirmed concerning the Maghreb countries. Although their inclusion in the Continental Free Trade Area is expected to foster greater intra-African trade, the neoliberal approach of the agreement failed to consider the integration of the local and regional market, along with its mechanisms, flaws, and inconsistencies. Consequently, it fell short in initiating the necessary structural changes, promoting economic growth, and effectively addressing poverty in the Maghreb region.[39]

This is precisely why numerous experts raise doubts about the effectiveness of the African Continental Free Trade Area (AfCFTA) initiative. Notably, the negotiations did not specifically address agriculture as a separate and comprehensive agreement. As a result, some experts even went as far as predicting that the "AfCFTA would fall short of accomplishing its objectives in terms of food security and livelihood improvement. Consequently, the liberalization of agriculture could potentially have adverse effects on the capacity of impoverished households and small-scale farmers to cultivate food crops for their subsistence".[40]

Promoting Gender Equality

When discussing economic integration, it is crucial to prioritize extending the benefits to all sections of the population, without any form of discrimination. Gender equality and equity should be among the top priorities, addressing issues such as low wages for women, inadequate social protection, and unfavorable working conditions. Taking it a step further, some advocates emphasize the pivotal role of gender equality and equity in the process of regional transformation. They assert that attaining this goal necessitates placing women's rights within the realm of political rights, achievable by ensuring a range of social rights. These include equal access to social services, employment opportunities, decent work, and social protection.[41] However, international reports reveal that the Arab region continues to lag significantly behind global averages in terms of women's economic participation. Data indicates that in 2018, the average women's participation rate in the formal labor force in the region stood at 20.5 percent, while the global average reached 47.9 percent. In stark contrast, the average men's participation rate in the region was 73.7 percent (see next figure).[42] Consequently, the absence of any specific and explicit policies addressing gender within inter-trade agreements can potentially maintain or even worsen the existing deteriorating conditions.

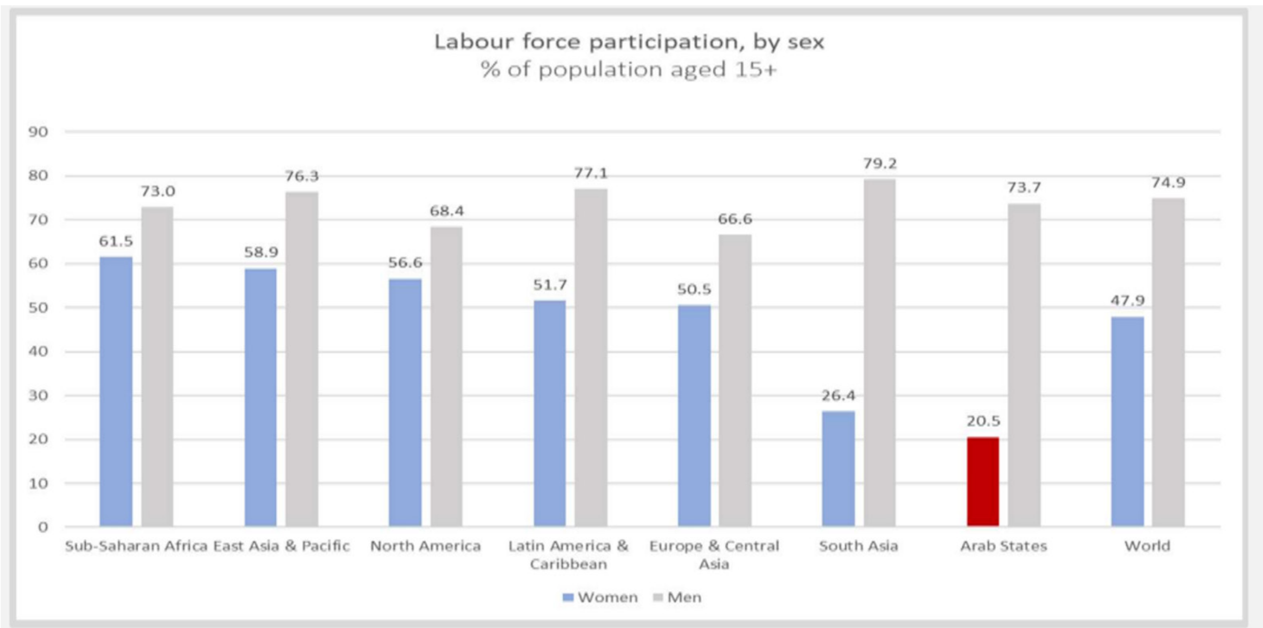
Creating Jobs

To assess the efficiency of economic integration influence on development in Arab nations, it is crucial to acknowledge the significance of economic integration and the consequences of foreign direct investment attracted by regional countries due to integration. This includes its contribution to job creation and subsequently mitigating unemployment rates. Within this framework, it is essential to differentiate between the impacts of foreign direct investment and domestic investment on unemployment. Research[43] conducted by Luis Rene Caceres on behalf of UNICE[44]F demonstrated the noteworthy influence of economic integration in decreasing unemployment rates among MERCOSUR countries.

Over the course of the period from 1975 to 2004, a study conducted by Elisa Riihimäki examined the impact of economic integration on employment in several European countries, namely Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and Britain. The study revealed that economic integration led to an implicit restructuring of labor markets.[45]

Regarding the Arab region, it is evident that unemployment rates are on the rise in Arab markets, particularly in the aftermath of the COVID-19 phase. The primary indicator for monitoring and classifying Arab integration is the movement of labor within the region, primarily from non-oil-producing countries to oil-producing countries. Economic migration among Arab nations, along with the flow of labor and remittances from workers, represents a robust form of integration in the region. Nevertheless, a significant

Figure 6: Labour Force participation, by sex



Source: UN-ESCWA (2019).

decrease in the remittances of these workers, favoring non-Arab workers, has been observed.[46] This decline can be attributed to the substantial constraints imposed on immigration and employment, which hinder the movement of individuals and the workforce among Arab countries. Additionally, challenges affecting remittances arise from increased fees for making and receiving money transfers, as well as various barriers encountered within formal and informal channels designated for remittance transfers within the Arab region. In this regard, the GCC countries have undertaken initiatives to prioritize the employment of their own citizens over Arab expatriates through policies like "Saudization" in the KSA. Such policies have significantly restricted the mobility of the Arab workforce.

The study also highlights the inverse correlation between the unemployment rate and the level of foreign direct investment. Specifically, an increase in investments in a given year results in a subsequent decrease in the unemployment rate in the following year. This demonstrates the short-term positive impact of foreign direct investment on reducing unemployment rates. Furthermore, a clear inverse correlation between the unemployment rate and the volume of intra-regional trade was observed in the previous year. This implies that an increase in intra-trade within a year result in a subsequent decrease in the unemployment rate in the subsequent year. Thus, the short-term benefits of intra-trade in reducing unemployment rates become apparent.[47]

The findings indicate a noteworthy influence of intra-regional trade and incoming foreign direct investment on the unemployment rate. However, countries engaged in economic integration must foster coordination and enhance their capabilities in a purposeful and equitable manner to achieve greater alignment and integration among them.

Fifth: Assessing Arab Economic Integration

Although there have been numerous agreements, conferences, and Arab financial funds, the efforts towards Arab economic integration have not yielded significant results when compared to achievements of other economic blocs.

The majority of these agreements primarily focused on eliminating customs tariffs, and neglected to address matters pertaining to measures that extend beyond national boundaries. (Refer to Table 1 for the extent of economic integration). The limited impact of preferential trade agreements on enhancing trade among Arab nations may be attributed to this factor.[48]

Table 4: What is our current position on the scale of economic integration?[49]

	Shallow Integration	Medium Integration	Deep Integration		
	Removal of Trade Restrictions among Member States	Implementation of a Unified Customs Tariff Schedule for External Trade	Transfer of Production Factors and Policy Coordination	Adoption of a Unified Economic Policy (Financial & (Monetary	Establishment of a Fixed Exchange Rate among Member Countries or Adoption of a Unified Currency
Free Trade Zone	x				
Customs Union	x	x			
Common Market	x	x	x		
Economic Union	x	x	x	x	
Monetary Union	x	x	x	x	x

Source: UN-ESCAP (2007)

Referring to Table 5, the proportion of intra-regional trade within the Arab region, at its highest, did not surpass 16 percent of the overall foreign trade conducted by GAFTA member countries. In comparison, Africa averaged 12 percent, Latin America reached 19 percent, North America stood at 54 percent, and Europe led with 70 percent.[50]

Table 5: The percentage of intraregional trade in relation to the total trade of the Arab economic blocs during the period of 2014-2018.

Arab Blocs	(%) Intra-regional Imports					(%) Intra-regional Exports				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
GAFTA	12.8	12.6	13.2	14	13.1	9.5	12	16	16	14
GCC	9	9.4	11.4	10	11.7	6.2	5.8	7.7	1.3	1.2
AMU	3	2.4	2.2	2	2	4.2	3.5	2.6	2.2	2.3
Aghadir Member States	1.3	1.4	1.2	1.2	1.4	2.6	1.7	1.4	1.3	0.5

Source: Joint Arab Economic Report 2019[51]

In the report titled "Monitoring and Evaluation of Arab Economic Integration - December 2019" published by ESCWA, it is demonstrated that the GCC countries exhibit a relatively higher level of integration as a collective group compared to other economic or institutional groups within the Arab region”. However, despite this intra-Arab integration, these countries were unable to overcome the repercussions of external shocks, such as the decline in oil prices, which are beyond their control.

Promoting Economic Diversification and Attaining Sustainable Development

To attain sustainable development, it is essential to undergo a structural transformation that shifts economic activities and productive capabilities from a state of declining productivity to one of increased quantity and quality. This process aims to diversify the economy and stimulate economic growth, in alignment with the specific living conditions of the local population.

The success of regional integration is greatly facilitated by regional cooperation in infrastructure development and focused financial strategies. This success is attributed to the diversification of infrastructure production, particularly when combined with coordinated efforts towards extensive industrialization that draws on regional transformation and sustainable management of natural resources. Within this framework, there is a need to focus on sector-specific regional integration across multiple levels of development, with particular emphasis on health and education.

Unlike developed nations, which are actively working on diversifying their productive capabilities, Arab governments tend to prioritize vertical relationships with Western counterparts, namely the EU and USA. As a result, local economies remain largely reliant on low-skilled labor and activities that do not require significant expertise. The similarity in production and export structures undermines the essential requirements of effective economic integration. As stated by Osakwe in his 2015 paper[52] for UNCTAD, “There has been an imbalance in the attention given to productive capability development compared to the emphasis on trade liberalization in the discourse surrounding integration on the continent.” “While African countries have made significant advancements in fostering peace and security through regional integration, they have not fully capitalized on their economic potential for development. This is evident in the weak production and export structures within African nations, as well as their relatively low trade shares within the region's total trade", as noted by Osakwe.

Furthermore, through the dispersal of commodity manufacturing across multiple locations, economic integration aims to "minimize production costs, enhance competitiveness, boost profits, and redistribute benefits within the conglomerate's member nations, rather than seek external avenues". [53]Relying on comparative advantage and specialization in a particular industry leads to increased returns or economies of scale, and thus to lower costs and consumption prices.[54]

While diversification, the transformation of production structures, and capability building are necessary for development, the crucial aspect of economic transformation lies in the establishment of a discerning industrial policy. This policy ensures that investments are channeled toward strategic sectors of development. The lack of progress in strengthening and diversifying production capabilities has led to the restricted role of Arab countries and free zones, primarily serving as channels for foreign products and platforms utilized by multinational companies from outside Africa to consolidate their influence on the continent. This is particularly evident in the Maghreb region, which has predominantly directed its focus towards the European Union". [55]

Within this context, the failure to address the social and economic insecurities that impede small traders is evident. At the sectoral level, it is imperative to strengthen integration across multiple sectors in order to stimulate economic activity and establish regional value chains. This would enable Arab countries to position themselves within global value chains. Within this context, several sectors are highlighted below, in which Arab countries engage in the global value chain, including:

- Oil processing and refining;
- Textile and food industries, for exports;
- Electronics sector, for imports.

Regarding the agricultural sector, integration primarily benefits large companies and prominent agricultural exporters, while small and medium-scale farmers, workers, and women tend to be the ones who suffer the most as a result[56].

Findings and Conclusions

Undoubtedly, economic integration holds a certain degree of importance in the development of Arab countries. This study has uncovered a range of desired outcomes of Arab economic integration, while examining the challenges that hinder its impact on local development, despite the existence of numerous inter-agency agreements.

The primary conclusion drawn is that the neoliberal approach adopted in trade integration agreements can have adverse effects on poverty levels, hinder the attainment of equality, and impede efforts to reduce unemployment. Contrary to the anticipated outcomes of economic integration endeavors, inter-commitments often fall short of generating new, quality employment opportunities that offer comprehensive social protection and promote equality.

Given the severe economic crisis that the Arab world is currently facing, “it is crucial for the trade liberalization process to prioritize the challenges faced by workers, small and medium-scale farmers, traders, producers, and women's groups. These agreements should be connected to mechanisms that provide compensation for losses resulting from liberalization processes, along with extended transition periods to adapt to competition”.[57] Importantly, integration agreements should contribute to enhancing the capabilities of participating countries to offset export losses and damage to domestic production. This can be achieved by directing these capabilities toward regional integration markets and ensuring the creation of decent and equitable job opportunities.

Through the conducted study, it has become evident that economic integration and FDI play a relative role in reducing unemployment rates, alleviating poverty, and promoting the principles of equality. It is widely acknowledged that deliberate and cautious regional liberalization serves as a prerequisite for achieving trade integration. This can be achieved by enhancing the national competitiveness of involved countries, along with improving logistics services that facilitate connectivity between ports and local/ regional transportation systems. Consequently, the extensive participation of Arab countries in global trade fosters the advancement of their transportation networks by addressing nontariff barriers.

In sum, regional integration frequently encounters various obstacles that necessitate attention to prevent potential economic and social consequences. Despite Goal 17 of the Sustainable Development Goals emphasizing the need to strengthen implementation mechanisms and foster global partnerships for sustainable development, including the establishment of a multilateral trading system, the specific call for developing countries to "significantly increase" their exports did not adequately consider the significant decline in the prices of products manufactured by these countries. Hence, there is a need to lay the groundwork for regional economic integration that promotes social justice and benefits all marginalized groups. This can be achieved through the adoption of a new development model that facilitates economic integration by creating equitable and decent job opportunities. Additionally, it is crucial to stimulate Arab investment and drive the structural transformation towards more diversified economic models.

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