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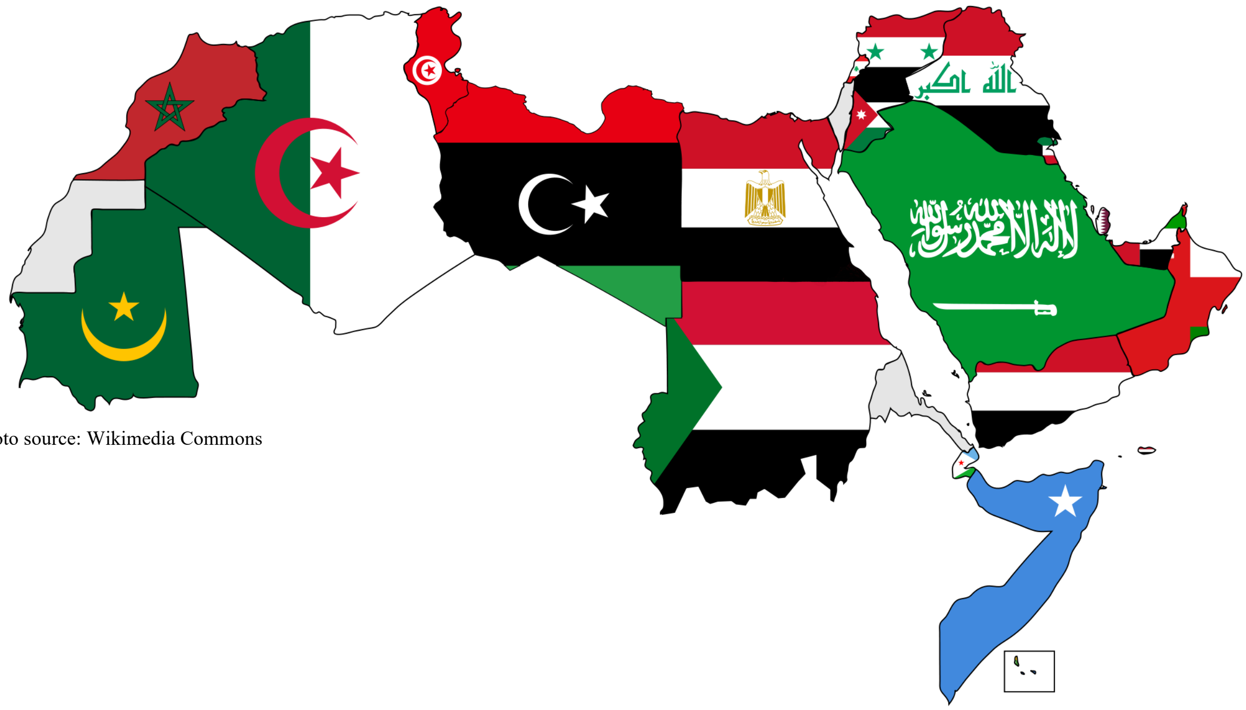

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Why did not the Arab League Succeed in Implementing a Deep Integration?

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ASFARI INSTITUTE BLOG

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The Asfari Institute for Civil Society and Citizenship is a regional hub of a dynamic community of academics, practitioners, policymakers, activists, and members of the general public interested in exploring traditional and innovative forms of collective actions, locally-grounded policy debates and in advancing realistic solutions to the obstacles to effective civil society and citizenship in the Arab world.

In doing so, the Institute provides training workshops and programs beside regular teaching at AUB, encourages and provides evidence-based research in areas related to political participation, accountability and good governance, produces policy/practice recommendations to improve citizens' engagement and civil society roles in mediation, deliberation and self-organization. It also promotes public awareness of civil society and civic engagement best practices in the region through its monthly meetings and seminars and stimulates fruitful dialogue among the region's varied publics through its programmatic activities of workshops, conferences, blog and publications.

The Asfari Institute is a research center based at AUB since 2012 and is a solid partner in consolidating AUB commitment to serve, educate and engage the Lebanese society. The Institute is mobilized to develop a new minor program on civil society and collective action with relevant AUB faculties. Among its new activities is the consolidation of three new lines of work: Civil Society Law and Governance, Culture as Resistance, and Civil Society in Conflict and Post Conflict Setting.

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Why did not the Arab League Succeed in Implementing a Deep Integration?

1. Introduction

During the last League of Arab States (LAS) summit in Amman in 2017, Arab leaders agreed on the fact that they will mandate the Economic and Social Council to prepare an action plan to boost intra-Arab trade, implement a customs union and promote a dynamic private sector in order to create more job opportunities. This statement is relatively similar to the announcement in 1945 when the Arab League was founded to improve coordination among its member states at the political, economic and social levels. Yet, until now, it has received criticism for failing to promote Arab-Arab cooperation in a context of disunity and poor governance. While this was partially the case at the political level, it was more obvious at the economic level. Indeed, the Greater Arab Free Trade Agreement (GAFTA) was declared within the Social and Economic Council of the Arab League as an executive program to promote trade and development in 1998. Yet, intra-Arab trade, investment and persons' mobility remain significantly low when compared to other regions as a result of shallow integration. The latter implies tariff reductions at the border, but not 'deep' integration with changes behind the border, such as common competition rules or common products standards. Hence, the Arab League led to a shallow integration characterized by the following: stunted intra-trade in goods and services, low levels of investments in high added-value sectors and weak mobility of labor.

Subscribing to the above overview, the Asfari Institute organized a workshop to contribute to the ongoing discussion on how the Arab League can be reformed to deepen the economic integration among Arab countries. Hence, the primary objective was to initiate discussions among a handful of international experts, as well as academics and activists from the region. This consulting meeting group was organized around five main sessions: Session 1 was dedicated to a general introduction to the consultation meetings, as well as a general overview of the Arab League project. Session 2 addressed non-tariff measures in the Arab region (by Mondher Mimouni from the International Trade Center). Session 3 presented the main FDI bottlenecks in the Arab region (by Mina Sami, the American University in Cairo). Session 4 was dedicated to labor mobility and migration (by Ibrahim Awad, the American University in Cairo) and the final session discussed the main policy recommendations for the future of the Arab League.

This policy brief is organized as follows: Section 2 explains why Arab integration is important; Section 3 displays the main challenges facing Arab integration; and Section 4 concludes with the way forward and offers some policy recommendations.

2. Why is Arab economic integration important?

The literature on economic integration is abundant, and has reached several clear conclusions. First, the majority of large economies have been seen fit to become part of larger entities in order to allow management of globalization in a more competitive world (ESCWA, 2014). In fact, while integrated regions were not enclosed, larger entities had a heavier weight in political and economic negotiations at the world level, which helps them consolidate relations with other regional groups.

Second, the common heritage, language and history of the Arab people survived the failure of political and economic integration. Hence, the human capital fit to be a foundation for integration is unquestionable since popular solidarity across the region has created new channels of communication and interaction despite political and economic tensions.

Third, there is a bilateral connection between political and economic interests. Indeed, the higher the economic interests were, the more stable political relations became, and vice-versa. This is why deepening the Arab economic integration is likely to strengthen political relations and alleviate political tensions that currently characterize the relations among Arab countries.

Fourth, at the economic level, there have been several untapped opportunities. Indeed, economic integration implies larger markets and consequently more benefits at the trade, investment and welfare levels. Yet, integration in the Arab region is the lowest at the world level as intra-trade level sits at 12-13%, which is lower that other regions. In order to boost Arab integration, there are arises the need for more diversification, a higher complementarity and lower trade frictions. This will help boost intra-Arab trade and help utilize trade potentials (estimated at 26 billion USD). One of the reasons behind this low level of integration is non-tax procedures. The good news is that Arab leaders and institutions have been aware of untapped opportunities for business and investments since Amman 2017. Yet, a lot of efforts are needed in order to reach such a goal.

This is why it is important to identify the factors that hinder a deeper economic integration, aside from political factors, in order to address them efficiently.

3. What Hinders Arab Economic Integration?

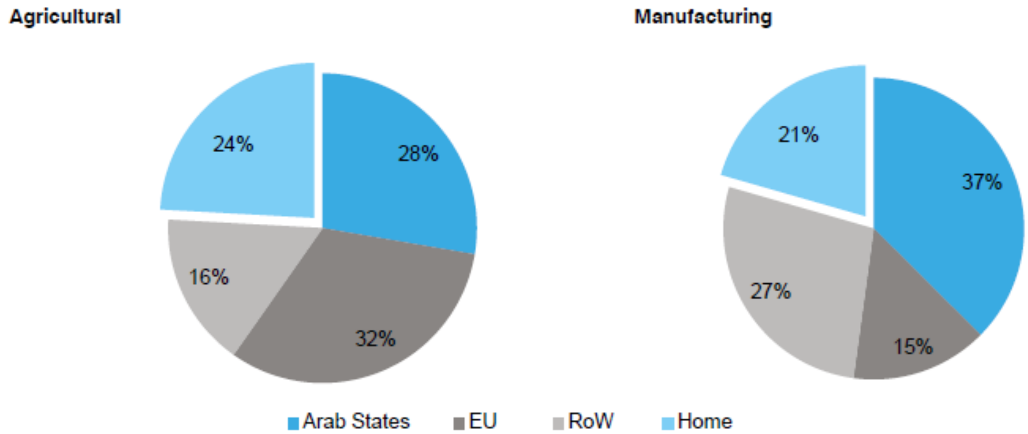
There are several economic problems that hinder an Arab economic integration. Yet, it is important to note that since integration is first and foremost, a political process, there is no room for a deeper integration unless there is a political will. Moreover, bearing in mind that the legitimacy of ruling regimes is an issue in the Arab region, it is difficult to have a real integration. Aside from the political dimension, there are also several economic impediments as follows:

3.1. Trade flows: A lot of non-tariff measures

The International Trade Center carried out several firm-level surveys in Egypt, Morocco, the State of Palestine and Tunisia. The surveys focused on non-tax measures that governments impose - procedures that make compliance difficult, and inefficiencies in the trade-related business environment. The most important findings of this report can be summarized as follows: procedural obstacles are the most significant impediments and they increase the cost of compliance. Product quality and conformity challenges included: insufficient private-sector capacity to comply with technical regulations; difficult labelling requirements; inefficient testing and certification procedures; high certification costs; non-recognition of certificates and lack of harmony of standards; lack of transparency of foreign standards and conformity assessment procedures; and lengthy product registration and import authorization procedures.

This is why the share of barriers faced domestically (21% for manufacturing and 22% for agriculture) and in the Arab world (40% for manufacturing and 33% for agriculture) is greater than that found in non-Arab partners. More specifically, while the labelling procedure faced several issues, they can be easily solved. Hence, most of the problems can be solved either on a local level or in other Arab countries. In other words, reforms begin at home. At the sectoral level, dairy products, sugar goods and other food products face the most hindering barriers.

Figure 1: Breakdown of burdensome NTM cases reported by exporters in Arab States



Source: ITC (2015)

Addressing these NTMs would facilitate moving-up the value chain and therefore create job opportunities, especially for females. For instance, in Morocco, reducing non-tax measures and boosting intra-Arab trade could create 80000 job openings.

3.2. Limited foreign direct investment (FDI) and institutional deficiency

In general, FDI is highly concentrated in some sectors and economies. According to UNCTAD, about 80% of FDIs in 2010 were concentrated in six countries (Saudi Arabia, Egypt, Qatar, Lebanon, United Arab Emirates and Libya before 2011). At the sectoral level, most foreign direct investments are concentrated in sectors with traditional, low added-value and capital-rich sectors, namely oil and refineries and construction sector. Thus, they failed to generate jobs in Arab countries.

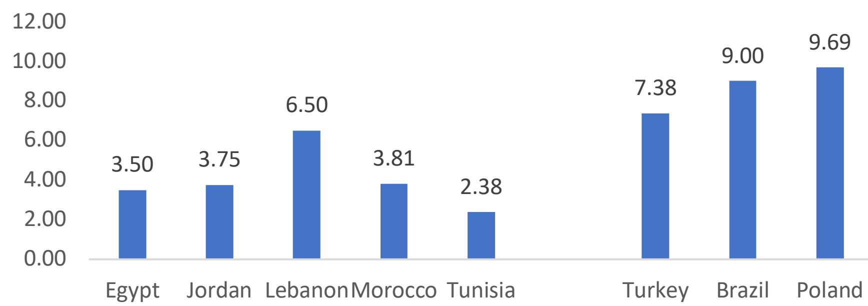
There are many explanations for why Arab countries choose to invest abroad rather than in the region:

- Protection of imported intermediate inputs.
- A high level of investment risk.
- Absence of mechanisms for protecting intellectual property rights.
- Lack of skills among production workers.
- Lack of marketing strategies that help attract FDIs to these economies.
- Regulation of services, leading to their inefficient provision.
- Lack of industrial policy-related vision.

- FDIs are allocated to low value-added sectors, and thus do not create job opportunities.
- FDIs are disconnected from SMEs, which explains the highly limited developmental effect.

Channeling FDI to sectors that generate jobs is a priority. However, this will not be an easy task given the relatively low innovation capacity of the aforementioned sectors, when compared to similar economies such as Brazil, Poland and Turkey, which in turn affects their competitiveness (Figure 2) and increase their specialization in traditional exports.

Figure 2. Capacity for Innovation



Source: Competitive Industrial Performance

3.3.Restricted labor mobility

The MENA region is the largest region in terms of labor migration; yet, intra-Arab movement flows declined significantly. From 66% in 1990-95, the flows dropped to 36% in 2000-05 and to 21% in 2005-10, and went back up to 36% in 2016.

At the country level, GCC countries received an estimated 22.8 million migrant workers/temporary contractual workers in 2013; the estimate rose to 32 million in 2015. Similarly, while Jordan hosted an estimated 600,000-700,000 migrant workers in 2015, Lebanon hosted an estimated 500,000-700,000 migrant workers (to be distinguished from refugees). As for Egypt, it is a heavy sender of workers being the origin of an estimated 4.8 million migrant workers in MENA countries. Finally, Libya, due to political instability, experienced a severe decline in numbers of migrant workers after hosting an estimated 4 million in 2010 that went down to 256,000 in 2016.

In order to understand these trends, two issues should be tackled: the governance of migration and the political factors behind migration. First, at the governance level, policies of countries of destination more than origin are the main determinants of volumes and status of intra-Arab labor migration. Below are the reasons behind the declining trend of migration:

- In Libya: policies are always fluctuating.
- The preference for Arab workers has waned in most of the countries of destination (compared to their Asian counterparts for instance).
- In countries of destination, the GCC specifically, the demand for Arab labor is determined by oil revenues, shortage in skilled workforce and the policies for diversifying sources of labor.
- The LAS Charter does not stipulate economic integration at the labor market level. Indeed, according to the Council of Arab Economic Integration, the 1964 Arab Labor Market Agreement: its articles aimed at establishing an Arab free-trade area, and not a common market. Moreover, the 1998 Great Arab Free Trade Area did not envisage a common market because of factors of production, including workforce.
- At the institutional level, conventions 2 and 4 of the Arab Labor Organization have not been ratified by Arab countries, which hinders labor mobility.

This is why it is important to note that integration at the labor market level cannot be carried out without the presence of a general integration. Hence, labor mobility follows rather than precede integration in other policy areas such as trade, agriculture, and research.

4. The Way Forward and Policy scenarios

4.1. Integration structure:

- First, it is important to draw on the experience of other regional blocks (ASEAN, ASEAN+3, Mercosur, African Union). It is comparative regionalism that is going to help the Arab League identify its objective and means to move forward.
- In general, there are several alternatives:
    - Since GAFTA is just an agreement, it is important to have an authority and base its jurisdiction within a deeper integration in the

Arab region. Indeed, each policy must have an institution. WTO and GATT emerge as an example for comparison here. While GATT is the agreement, WTO is the authority in charge of negotiating trade liberalization and facilitation whereby its decisions are compulsory for all its members. This holds also for integration at the labor market level. Yet, no need to create a new institution unless it has a power.

  - "*Functional integration*": this concept means that Arab integration must be directed towards specific functions/sectors whereby Arab countries can be integrated, which might increase the level of economic integration. In other words, it is crucial to agree on some sectors that are mutually beneficial for Arab economies (water, energy or processed food).
  - Annul the GAFTA agreement since it was fully enforced and still failed to boost intra-Arab trade.

4.2. General recommendations:

- The only way to advance forward is through a higher level of coordination among different stakeholders (trade unions, commerce chambers, associations, etc.) who are keen on and convinced of regional integration. Indeed, based on the experience of the European Union, the formation of the latter would not have been possible har it not been for the initiative of Robert Schuman and his colleagues who played major roles in boosting integration.
- The civil society comes atop the stakeholders. In the 1980s, the Arab countries had more non-governmental organizations than any other region. These entities had a significant political and economic role. Nowadays, however, they are fragile, subjected to close surveillance, and in general are in the hands of intellectual and political elite based in large cities.

4.3. Specific recommendations:

- Regarding non-tariff measures:
  - As aforementioned, access to markets begins at home. The upside of local problems is that they can be solved more easily than those outside a country's or region's jurisdiction. The survey's findings underscore the presence of a wide scope for tackling cross-border issues that businesses might face, using local measures.

- Transparency facilitates trade. Procedures may sometimes be complicated and lengthy on a solid base, and there are no sound reasons for them to be unclear or poorly disseminated. Moreover, provision of necessary information increases efficiency of procedures and lowers their costs, by making cross-border business transactions more predictable in terms of time and cost.
- Train companies on quality, traceability and related documentation means. Raising the capacity of Arab companies to produce high-quality products and to better document production processes and ingredients' origin and composition (traceability) would benefit trade in general, both within and beyond the region.
- It is important to also note that maintaining harmony is easier among developing countries than between developed and developing ones.

- For FDI:
    - The key to promote FDI is efficient and clear industrial policies not trade policies. In fact, Arab governments should attract these investments to the manufacturing sector in order to generate a higher added value and create more jobs. In fact, the task of job creation was dominated by low-productivity sectors in most economies in the Near East and North Africa, and especially while the employment shares of manufacturing and services sectors remained relatively low. The transfer of resources would be directed towards more productive and higher added-value sectors, which overpasses the determinants towards achieving sustainable growth that is based on higher share of labor force. This will help attract more FDI towards sectors with strong job-creating potential (EBRD, 2013).
    - Such policies are not feasible without the presence of incentives that should be performance-based and enforced along with constant independent monitoring and evaluation. Furthermore, it is crucial to improve the economy's competitive environment and underline equal opportunities among all market players.

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