A STUDY ON THE SIGNIFICANCE OF REGIONALISM WITHIN THE (MENA) REGION AS A VEHICLE OF ACHIEVING ECONOMIC INTEGRATION

By

Haytham Mohammed Abu-Zeid

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

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Committee in charge:

Professor Jong Bum Kim, Supervisor

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ABSTRACT

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Along the path of global economic integration, the world regions did witness a variety of enabling factors toward better and more suitable consolidation within the world economy. On one hand, the multilateral framework under the General Agreement on Tariffs and Trade (GATT) and its successor World Trade Organization (WTO) have provided a traditional empowerment factor especially for developed regions. Moreover, through Foreign Direct Investment (FDI), global multinational corporations have played a major role in fostering global economic integration via the creation of international production networks and global supply chains. Besides, improving physical and digital infrastructure investment have reduced trade and logistics costs, thus encouraging the emergence of clusters of manufacturing firms and supplier networks.

On the other hand, regional integration has recently been tackled by several regions as an attractive alternative path towards economic integration both intra-regions and extra-regions as well. The acknowledgment of the link among gradual trade liberalization, regionalism and economic prosperity has stimulated most regions to become more engaged in regional integration.

While there is huge heterogeneity on this front, a combination of both economic and political considerations has been dominating behind regional integration in many (most) parts of the world. Regional integration is considered as a major factor of the Middle East and North Africa region (MENA) trade strategies. Movements to integrate regionally could be traced back as earlier than many other developing regions in the world.

Accordingly, the paper research question is about *"How significant is regionalism within the (MENA) region as a vehicle of achieving economic integration?"*. It aims at examining how feasible is regional integration in terms of its achievements, ongoing efforts and the way ahead. The paper views regionalism as an alternative instrument –among others- of enabling the region to get integrated. Moreover, the paper assumes that any consideration of regional integration should navigate through the existing patchwork of analysis regarding this phenomenon.

In this regard, the paper is organized in three main parts, where part one provides a broad overview of economic integration in general and regional integration in particular. Part two discusses the main distinct features of the (MENA) region regional integration process. Building on the findings of the preceding parts, part three lists the main concluding remarks and suggestions for better utilization of regionalism.

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Table of Contents

List of Tables

List of Figures

Preface:

As the impact of economic integration is now occurring so rapidly that national barriers are increasingly becoming so artificial. This process of globalization within the economic domain has not always proceeded smoothly, nor has it always benefited all whom have been affected. However, despite occasional interruptions such as those following economic crises or during war times, the degree of economic integration among different countries around the world has generally been rising.

It has been argued that three fundamental factors have affected the process of economic globalization, and are likely to continue driving it in the future. First, improvements in the technology of transportation and communication have reduced the costs of transporting goods, services, and factors of production, enabling communicating economically useful knowledge and technology. Second, the tastes of individuals and societies have generally, but not universally, favored taking advantage of the opportunities provided by declining costs of transportation and communication, through increasing economic integration. Third, public policies have significantly influenced the character and pace of economic integration, although not always in the direction of increasing economic integration.[1]

The objective of the first chapter is to depict one of the most rising features of the context of economic integration, .i.e. the growing landscape of regionalism. In doing so, we firstly, try to highlight the different forms (stages) of economic integration. Secondly, a brief updated comparison is provided between

[1] Michael Mussa, *Factors Driving Global Economic Integration*, p10-11, 2000.

past versus current economic integration waves. Thirdly, an elaboration of Regional Trade Agreements' (RTAs) trends and characteristics is listed. Fourthly, a realistic analysis is provided regarding the incentives (motivations) underpinning a country's decision to enter a (RTA) when a multilateral free trade agreement is available. Finally, the chapter ends up by trying to answer the question of whether regionalism is a "stumbling block" or a "stepping stone" to multilateralism.

Chapter One: Economic Integration Between Theory and Practice

In the most general sense, economic integration (sometimes referred to as trade or market integration) denotes the process whereby the economic barriers between two or more economies are eliminated. To a great extent, it involves specific policy decisions by governments designed to reduce or remove barriers to mutual exchange of goods, services, capital and people, whereas other studies treat it as emanating from the natural forces of proximity, income and policy convergence.[2]

The economic integration process is often represented as a staged process, going from a preferential trade area to a full economic union. The most obvious example of this process is the European Union (EU), which has evolved from a collection of autarkical nations to become fully integrated. Although it is relatively rare that relationship between countries follows such a precise pattern, the market forces set in motion at one stage will properly create spillover effects to the next stage.

[2] United Nations University, Programme for Comparative Regional Integration Studies, Introducing Regional Integration. See Web site: http://ocw.unu.edu

1.1 Forms (Stages) of Economic Integration:

(a) Free Trade Area (FTAs)[3]

The first level of formal economic integration is the establishment of free trade area (FTA) or preferential trade agreement (PTA). (FTAs) eliminate import tariffs as well as import quotas among signatory countries. These agreements could be limited to a few sectors or could encompass all aspects of international trade. (FTAs) can also include formal mechanisms to resolve trade disputes. The North America Free Trade Area (NAFTA) is an example of such an arrangement.

Aside from a commitment to a reciprocal trade liberalization schedule, (FTAs) place few limitations on member states. Although (FTAs) may contain provisions in these areas if the signatory countries agree to do so, no further harmonization of regulations, standards and economic policies are required, nor are the free movement of capital and labour necessary parts of a free trade agreement. Moreover, (FTAs) signatory countries also retain independent trade policy with all countries outside the agreement.

However, in order for an (FTA) to function properly, member countries must establish rules of origin for all third-party goods entering the free trade area. Goods produced within the free trade area (and subject to the agreement) may across borders tariff-free, but rules of origin requirements must be met to

[3] Lecture Notes, Professor Jong Bum Kim, Understanding FTA Policy: Theory and Practice, Summer Course 2007, KDI School of Public Policy & Management.

prove that the goods were in fact produced in the exporting country. In the absence of rules of origin, third-party countries seeking trade access to the (FTA) will choose the path of least resistance – the country where they face the lowest opposing tariff- in order to gain effective entry to the entire (FTA) region.

(b) Customs Union (CU)[4]

A customs union (CU) builds on a free trade area. Additional to removing internal barriers to trade, it also requires participating countries to harmonize their external trade policy. This includes establishing a common external tariff and import quotas on products entering the region from third-party countries, as well as possibly establishing common trade remedy policies such as anti-dumping and countervailing measures.

A (CU) may also preclude the use of trade remedy mechanisms within the union. Members of a (CU) also typically negotiate any multilateral trade initiative such as the World Trade Organization as a single bloc. Countries with an established (CU) no longer require rules of origin, since any product entering the (CU) area would be subject to the same tariff rates and/or import quotas regardless of the point of entry.

The elimination of the need for rules of origin is the main benefit of a (CU) over an (FTA). Maintaining rules of origin requires extensive documentation by all (FTA) member countries, as well as enforcement of those rules at borders within the (FTA). This is a costly process and may lead to

[4] Rolf Mirus and Nataliya Rylska, *Economic Integration: Free Trade Areas vs. Customs Unions*, Western Centre for Economic Research, 2001.

disputes over interpretation of the rules as well as other delays. A (CU) would result in significant administrative cost savings and efficiency gains.

In order to gain the benefits of (CU) member countries would have to surrender some degree of policy freedom, specifically the ability to set independent trade policy. By extension, because of the increased importance of trade and economic measures as foreign policy tools, (CU) place some limitations on independent foreign policy as well.

(c) Common Market (CM)

"A common market represents a major step towards significant economic integration. In addition to containing the provisions of a (CU), a (CM) removes all barriers to the mobility of people, capital and other resources within the area in question, as well as eliminating non-tariff barriers to trade, such as the regulatory treatment of product standards". [5]

Establishing a (CM) typically requires significant policy harmonization in a number of areas. Free movement of labour, for example, necessitates an agreement on worker qualifications and certifications. A (CM) is also typically associated with a broad convergence of fiscal and monetary policies due to the increased economic interdependence within the region, and the effect that one member country's policies may have on other member countries. This necessarily places more severe limitations on member countries' ability to pursue independent economic policies.

The principal advantage of establishing a (CM) is the expected gains in economic efficiency. With unfettered (free) mobility, labour and capital can more

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[5] Stages of Economic Integration, From Autarky to Economic Union. See Web Site: http://library.thinkquest.org

easily respond to economic signals within the (CM), resulting in a more efficient allocation of resources.

(d) Economic Union[6]

On the scale of economic integration, while an (FTA) represents the lightest degree of integration, an economic union embodies the deepest form. An economic Union adds to a (CM) the need to harmonize a number of key policy areas. Most notably, economic unions require formally coordinated monetary and fiscal policies as well as labour market, regional development, transportation and industrial policies. Since all countries would essentially share the same economic space, it would be counter-productive to operate divergent policies in those areas.

An economic union frequently includes the use of a common currency and a unified monetary policy. Eliminating exchange rate uncertainty improves the functioning of an economic union, by allowing trade to follow economically efficient paths without being unduly affected by exchange rate considerations. Moreover, supranational institutions would be required to regulate commerce within the union to ensure uniform application of the rules. These laws would still be administrated at the national level, but countries would abdicate (give-up) individual control in this area.

- ### *General Remarks:-*

  - ✓ **Since countries are free to negotiate economic integration agreements as they believe fit, in practice, formal agreements**

[6] Ibid.

rarely fall neatly into one of the above mentioned forms (stages). A situation which may lead to some confusion regarding both the terminologies and the conditions of economic integration.

- ✓ **For example, in the case of Canada the country is part of an (FTA) with the United States and Mexico. However, the North America Free Trade Agreement (NAFTA) also includes provisions that partially liberate the flow of labour and capital in the region – a primary characteristic of a (CU). In addition, Canada has in the past pushed to curtail (restrict) the use of trade remedy measures within North America. While this would represent a desire to advance one aspect of North American integration, the next formal step – a (CU) - does not appear to be a policy priority at that time.**
- ✓ **A further more supporting example comes from the European model of economic integration, it has been argued that the European Economic Community (EEC) skipped the first formal stage of economic integration – namely (FTA) – and started directly as a (CU).**

1.2 Past versus Current Global Economic Integration

Some analysts argue that the remarkable economic changes that we do observe currently are being driven by the same basic forces, and are having similar effects as in the past. Perhaps, most important, technological advances continue to play an important role in facilitating global integration[7]. For example, dramatic improvements in supply-chain management, made possible

[7] Ben S. Bernanke, Thirtieth Annual Economic Symposium, Wyoming, August 2006.

by advances in communication and computer technologies, have significantly reduced the costs of coordinating production among globally distributed suppliers.

The critical role of government policies in supporting, or at least permitting, global economic integration, is another similarity between the past and the present. Progress in trade liberalization has continued in recent decades -though not always at a steady pace- as the recent Doha Round negotiations demonstrate.

Moreover, the institutional framework supporting global trade, most importantly the World Trade Organization, has expanded and strengthened over time. Regional frameworks and agreements, such as the North American Free Trade Agreement (NAFTA) and the European Union's "single market," have also promoted trade. Government restrictions on international capital flows have generally declined, and the "soft infrastructure" supporting those flows has improved, in part through international cooperation. [8]

A further similarity in current pattern of economic integration in paralleling with past one is the social and political opposition to rapid economic integration. As in the past, much of the current opposition is driven by the distributional impact of changes in the pattern of production, but other concerns have been expressed as well, such as the effects of global economic integration on the environment or on the developing countries.[9]

On the other hand, taking into consideration the latest economic changes worldwide, we could identify some distinctions between current economic integration waves compared with past ones. First, in terms of the scale and pace,

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[8] Ben S. Bernanke, Thirtieth Annual Economic Symposium, Wyoming, August 2006.

[9] Ibid.

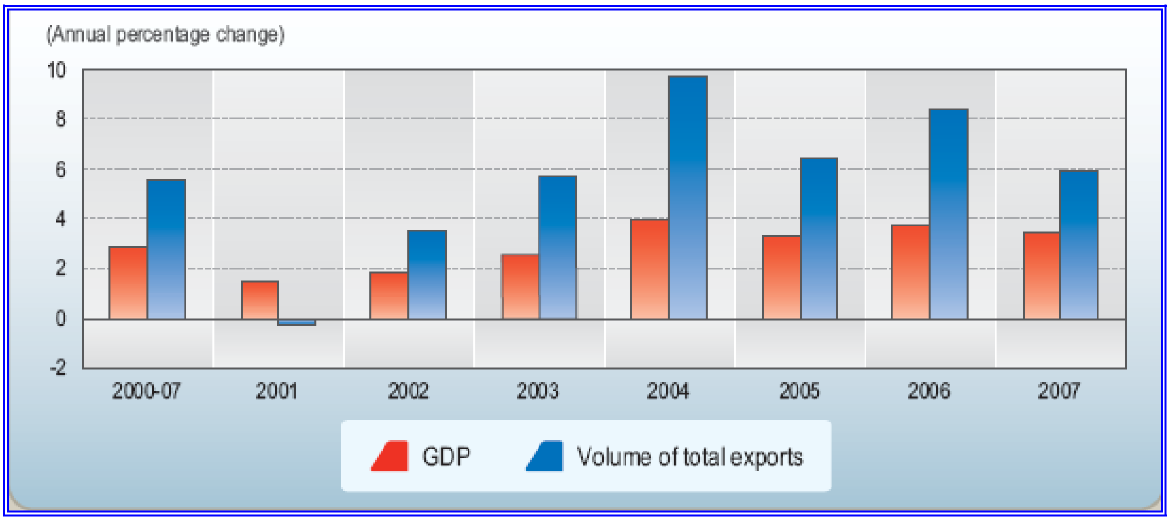
today's economic integration pattern is one that characterized as unparalleled or unprecedented.

For example, in recent years, global merchandise exports have been above 20 percent of world gross domestic product, compared with about 8 percent in 1913 and less than 15 percent as recently as 1990.

The following figure (figure no.1) shows that world merchandise exports recorded annual percentage changes of (6.5%, 8.5% and 6%) for years (2005, 2006 and 2007) respectively, compared with annual percentage changes of (3%, 3.5% and 3.5%) recorded by world GDP for the same three years. During the period (2000-2007), exports on average increased by (2.7) percentage points faster than real gross domestic product.

(Figure no.1)

Volume of World Merchandise exports & Gross Domestic Product, 2000-2007



Source: International Trade Statistics-2008, World Trade Organization.

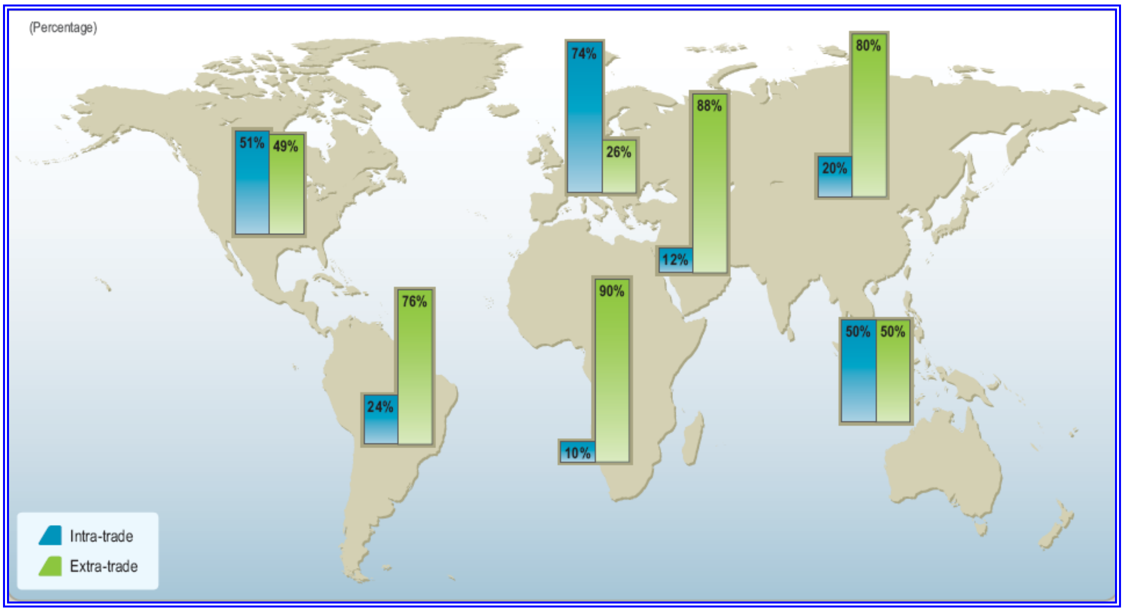
A second distinctive characteristic of current waves of economic integration might be the increasing intra-trade (within regions) share of world

trade over extra-trade's share (between regions). Since 2000, intra-trade's share of world trade has fluctuated between (55% - 58%).

However, the following figure (figure no.2) shows relatively large differences have occurred in the growth of trade within regions, with North America and Asia showing a relative balanced growth between intra and extra-regional trade. Europe's intra-trade is much faster than its external trade due to the deepening of its economic integration, while South and Central America, Africa and Middle East have recorded higher growth in extra-regional exports than in intra.[10]

(Figure no.2)

Intra- and Extra Regional Merchandise exports, 2007



Source: International Trade Statistics-2008, World Trade Organization.

A further remarkable difference between current versus past economic integration is that the traditional distinction between the core (hub) and the periphery (margin) is becoming increasingly less relevant, as the mature

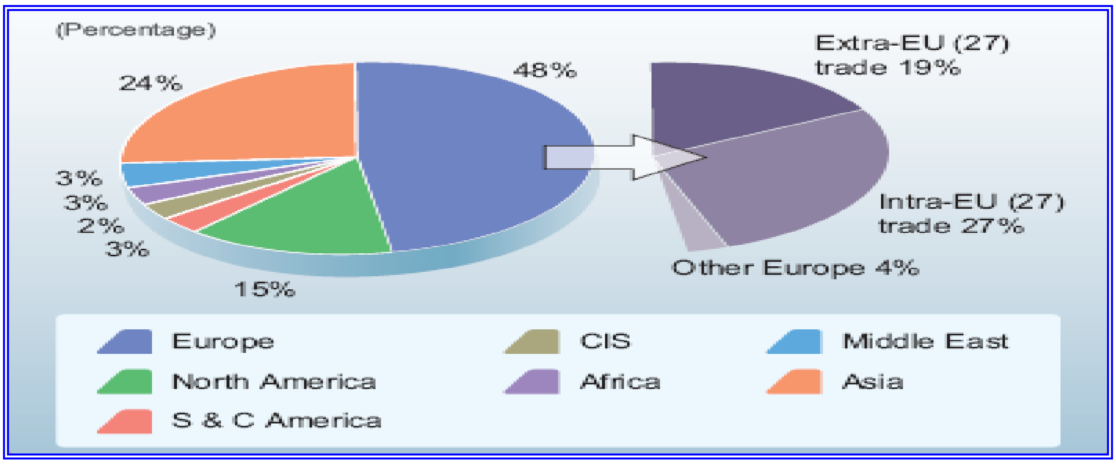
[10] International Trade Statistics -2008, World Trade Organization.

industrial economies (mainly North America and European Union) and the emerging-market economies (China, India and Brazil) become more integrated and interdependent. Notably, the sixtieth, the seventieth and the eightieth patterns, in which the core exported manufactures to the periphery in exchange for commodities, no longer hold, as an increasing share of world manufacturing capacity is now found in emerging markets.[11]

The latest development within trade in services has also distinguished current waves of economic integration compared to past ones. In 2007, the value of trade in commercial services increased at a faster rate (18%) than trade in goods (15%) for the first time in five years. This was mainly due to the expanding international supply of many services and to the increase in transportation prices[12]. The following figure (figure no.3) shows that trade in services in 2007 was highly concentrated in North America, Asia and Europe capturing (15%, 29% and 50%) respectively of total trade in services.

(Figure no.3)

Total Commercial Services Trade, 2007



Source: International Trade Statistics-2008, World Trade Organization.

[11] International Trade Statistics -2008, World Trade Organization.

[12] Ibid.

1.3 Regional Trade Agreements' Trends and Characteristics

Regional Trade Agreements (RTAs) are preferential trade agreements between/among two or more nations within certain area (region), in order to reduce tariffs and other trade restrictions. (RTAs) come in different forms such as (FTAs), (CUs) and Partial Scope agreements. The legal frameworks for such arrangements rely mainly on GATT Article (24) XXIV –for agreements related to trade in goods- and GATS Article (5) V – for agreements related to trade in services. Moreover, a wide range of preferential arrangements finds its legitimacy within the Generalized System of Preferences (GSP), which became part of the 1979 "Enabling Clause".

Those frameworks ensured to a great extent the transformation (movement) of international trade disciplines away from the umbrella of multilateral trading system (GATT and its successor WTO). Moreover, and most importantly, those legal frameworks of preferentiality have marked an explicit forego (waive) over the heart of the GATT, which is the principle of "Non-Discrimination". This principle is best characterized by both the Most-Favoured-Nation (MFN) clause and the National Treatment provisions, principally embodied in Article 1.

The (MFN) clause was regarded as the central organizing rule of the (GATT and WTO). It holds that the best tariff and non-tariff conditions extended to any contracting party of the GATT had to be automatically and unconditionally extended to every other contracting party.

Yet nearly five decades after the founding of the GATT, (MFN) is no longer the rule; it is almost the exception. Certainly, much trade between the

major economies is still conducted on an (MFN) basis. However, what has been termed the "Spaghetti Bowl" of (FTAs), (CUs), (CMs) and an endless assortment of preferential trade deals has almost reached the point where (MFN) is an exceptional treatment. Certainly, the term might now be better defined as (LFN), Least-Favoured Nation Treatment. [13]

Turning to the causes of such transformation from multilateralism towards regionalism, the sluggish progress in multilateral trade negotiations under the Doha Development Round appears to be the most recent common plausible justification accelerating the rush to forge (RTAs). Moreover, the proponents of (RTAs) set a variety of justifications for action outside the multilateral system. Frequently, the motivations that drive governments toward bilateral or regional arrangements reflect clear frustration with the multilateral atmosphere.

Therefore, our purpose here is to list the main trends and characteristics of both (RTAs) in force and under negotiation. Besides, it is worth noting that while we are trying to examine the landscape of (RTAs), it is important not to lose sight of the fact that it is not necessarily the number of (RTAs) in which a country participates that is of significance, but the proportion of world trade that such (RTAs) cover. In other words, an agreement between two large economies is likely to account for a much larger share of world trade than several (FTAs) among small or less developed economies. [14]

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[13] Thomas Cottier, *The Erosion of Non-Discrimination*: *Stern Warning without True Remedies*, Journal of International Economic Law, 2005.

[14] Jo-Ann Crawford and Roberto V. Fiorentino, *The Changing Landscape of Regional Trade Agreements,* World Trade Organization, Discussion Paper No.8

1.3.1 Main Trends:

According to (Jo-Ann Crawford & Roberto Fiorentino),[15] since early 2005 four main (RTAs) related trends are apparent as follow:

I) Countries across the world, including those traditionally reliant on multilateral trade liberalization, are increasingly making (RTAs) the centerpiece of their commercial policy. For some countries (RTAs) are on par with multilateral trade objectives. However, for many others (RTAs) have become the priority.

II) (RTAs) are becoming increasingly complex, in many cases establishing regulatory trade regimes which go beyond multilaterally agreed trade regulations.

III) Reciprocal preferential agreements between developed-developing countries are on the increase pointing to a decreasing reliance by some developing countries on non-reciprocal systems of preferences. Relevantly, the emergence of preferential agreements among key developing countries may be a strong evidence of a strengthening of the so called "South-South Trading Patterns".

IV) (RTAs) dynamics show a general pattern of expansion and consolidation, where on the one hand we are witnessing a proliferation of cross-regional (RTAs) accounting for a large proportion of the total increase in (RTAs). On the other hand, regional trading blocks on a continent-wide scale are in the making.

The surge in (RTAs) has continued unabated since the early 1990s (figure no.4). A sum of 421 (RTAs) have been notified to the GATT/WTO up to December 2008. Of these, 324 (RTAs) were notified under Article XXIV of the GATT 1947 or GATT 1994; 29 under the Enabling Clause; and 68 under Article V of the GATS. At that same date, 230 agreements were in force.[16]

Verifying the compatibility of (RTAs) notified under (GATT) Article XXIV and (GATS) Article V with the existing (WTO) rules on (RTAs) is

15 Ibid.

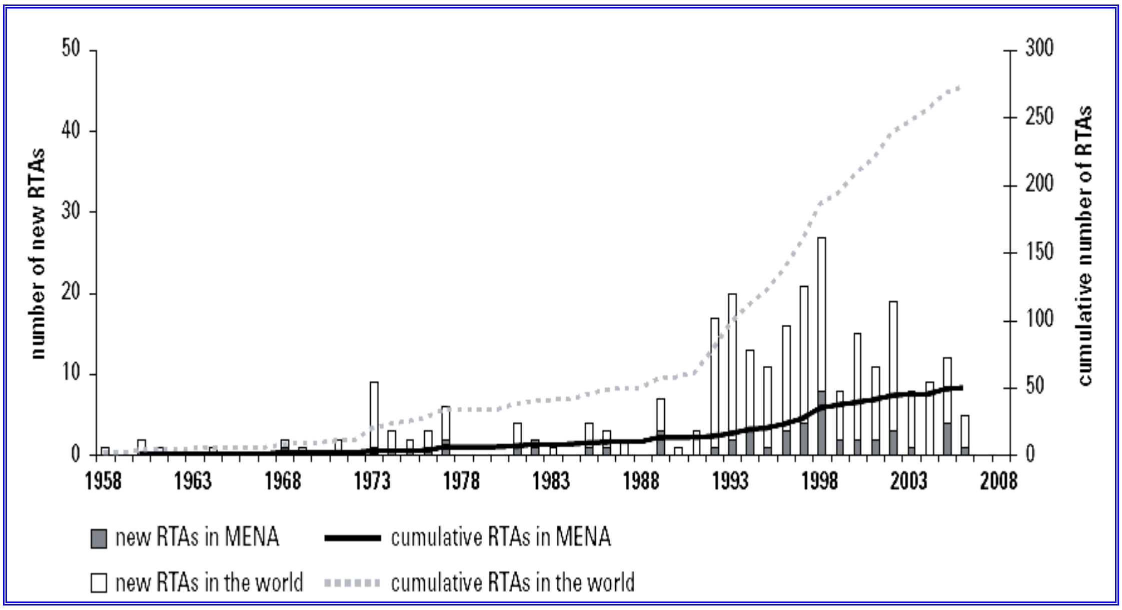
16 World Trade Organization, Trade Topics, RTAs Gateway, www.wto.org.

assigned to the Committee on Regional Trade Agreements (CRTA). However, the committee did witness limited achievement so far in examining the consistency of the (RTAs) notified to the (WTO), due to various political and legal obstacles. Moreover, the (CRTA) has also been unable to carry out effectively its functions of reviewing and appraising the implementation of (RTAs).

If we take into account (RTAs) which are in force but have not been notified, those signed but not yet in force, those currently being negotiated, and those in the proposal stage, we arrive at a figure of close to 400 (RTAs) which are scheduled to be implemented by 2010. Of these (RTAs), free trade agreements (FTAs) and partial scope agreements account for over (90%), while customs unions (CUs) account for less than (10 %).[17]

(Figure no. 4)

Growth in the number of regional trade agreements, 1958–2007



Source: World Bank, Economic Development and Prospects 2008.

[17] Ibid.

1.3.2 (RTAs) Characteristics[18]

According to (Crawford & Fiorentino 2005) the predominance of (FTAs) over (CUs) is properly due to the fact that they are faster to conclude and require a lower degree of policy coordination among the parties, since in an (FTA) each party maintains its own trade policy vis-à-vis third parties. (CUs) on the other hand, require the establishment of a common external tariff and harmonization of external trade policies, implying a greater loss of autonomy over the parties' commercial policies and longer complex negotiations and implementation periods.

Furthermore, "*the majority of (FTAs) are concerned with strategic market access often unbound by geographical considerations, while in (CUs) geographical considerations play a pivotal role in defining the objective of economic integration among parties concerned. As for membership in partial scope agreements their limited trade coverage, poor implementation record and scarce visibility, makes them much less attractive to countries, including developing ones, which are committed to comprehensive trade liberalization*"[19].

In terms of their scope and depth, (RTAs) differ considerably with some providing for the exchange of tariff preferences on a limited range of products, and others being highly comprehensive in coverage and including wide range of trade regulatory regimes. Given the requirements prescribed by the (WTO) provisions on (RTAs), partial scope agreements falling under the legal cover of

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[18] Jo-Ann Crawford and Roberto V. Fiorentino, *The Changing Landscape of Regional Trade Agreements,* World Trade Organization, Discussion Paper No.8

[19] Ibid.

the Enabling Clause concern exclusively agreements among developing countries and in most cases they tend to have limited product coverage.

(FTAs) and (CUs) falling under the legal cover of GATT Article XXIV and/or GATS Article V for trade in services, are comprehensive in scope and especially the most recent agreements often go beyond the (WTO) regulatory framework to include provisions on investment, competition, intellectual property, environment and labor among others. As noted in a recent study by the World Bank [20], the inclusion of such provisions is especially marked in (RTAs) among developed and developing countries, perhaps reflecting the interests that developed economies place in such issues.

Moreover, it is worth noting that the so called "Singapore Issues" [21] which were rejected at the (WTO) Ministerial Conference in Cancun in 2004 are being included in many preferential agreements, including those between developing – developed country partners.

Accordingly, it should be clarified that although those agreements (among developing – developed country partners) are often referred to in the literature as (WTO) plus agreements, such categorization should not necessarily be interpreted in a positive light. For example, while agreements restricting the imposition of anti-dumping measure on intra-(RTA) trade may be considered as (WTO) plus, the same cannot be said for agreements containing provisions on intellectual property which are more restrictive than what is provided for under the (TRIPS).

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[20] See " The World Bank Annual Report- Global Economic Prospects 2005: Trade, Regionalism and Development 2005".

[21] Trade Facilitation, Investment, Government Procurement and Competition.

1.4 Regionalism versus Multilateralism, Incentives and Motivations [22]

When it comes to identify why countries do seek regional trade agreements, a wide range of motivations and considerations would appear as a realistic applicable justification. Some countries see (RTAs) as providing underpinnings to strategic alliances, while others (especially smaller countries) view (RTAs) with larger partners as a way of obtaining more security for their access to larger countries' markets (as in the Canada – U.S. Free Trade Agreement).

Analysts argue that some countries use regional (beside multilateral) agreements to further support their domestic policy reforms (as Mexico in North America Free Trade Agreement, NAFTA). Another group of countries use (RTAs) as potential influence towards subsequent multilateral negotiations rounds. This part aims at highlighting the various incentives and motivations behind countries objectives to undergo (RTAs).

1.4.1 Traditional Trade Gains

It seems to be that the most conventional objective behind a country's decision to tackle any trade negotiation is the idea that, enhancement in market access for all interested parties would further be achieved through reciprocal exchanges of concessions on trade barriers. The inspiration of reaping trade benefits induced by regional integration was a major determinant behind the foundation of the European Community (EC) in the late 1950s, although clearly not the central objective.

Analysts argue that the justifications for participating in a regional negotiation rather than any other type, including multilateral, that the chances

[22] John Whalley, "Why Do Countries Seek Regional Trade Agreements?" 1996

of success are seen more higher than any other type due to the limited number of negotiating parties, in addition to a proper prior history of frustrated negotiation rounds on the multilateral level. However, according to (Viner 1950) it should be noted that traditional trade gains resulting from concluding (RTAs) or (CUs) may not be fully utilized by signatories, as trade diversion losses may overshadow trade creation gains; that is, trade may also be diverted to higher cost, less efficient suppliers within the integrating area.

1.4.2 Strengthening Domestic Policy Reform

A much common objective among countries' objectives in seeking either bilateral (regional) or multilateral negotiation, is the idea of strengthening domestic policy reform. It has been argued that such objective was the centerpiece behind the Mexican negotiating team on (NAFTA). Accordingly, the Mexican delegation did show a little concern to ensure reciprocal concessions between them and their counterpart.

On the other hand, the Mexicans were much more interested in offering one-sided concessions to superior negotiating partners with whom they hold partial negotiating influence as part of the bilateral negotiation. This objective stakes to the idea that a regional agreement could support domestic policy reform and make it further achievable, that is by binding the country to the masthead of an international regional agreement, any potential setback of domestic policy reform turns out to be more difficult to occur.

1.4.3 Increased Multilateral Bargaining Power

The idea of this motivation was shared by the countries involved in the formation of the (EC) in the late 1950s. The rationale behind that was European

countries separately would pose inadequate influence in a negotiation with the United States on the multilateral level. However, opportunities to raise European countries' leverage seem more attainable, if they would act cooperatively in adopting a common trade policy.

Moreover, evidences show that Latin American arrangements, especially (Mercosur), have been targeting regionalism for the purpose of increasing negotiating power, where the thought has been that clusters of countries do hold more influence in accession negotiations to (NAFTA) than would independent countries do. Similar views have also been there in Eastern European Countries during the early 1990s, where the argument was that a preceding regional talks among Czechoslovakia, Poland and Hungary would greatly increase their leverage in their accession negotiations to (EC).

1.4.4 Guarantees of Access

A further recent objective spotted in small – large country trade negotiations, is the use of (RTAs) by smaller countries to ensure market access to larger countries' market within the designated region. Referring to (NAFTA), Canadians were so keen about securing sustainable market access for their products, by ensuring certain forms of exception from the use of anti-dumping and countervailing duties by the US producers. Canada also sought special bilateral arrangements that would limit the application of (US) safeguard measures to Canada, embodying a typical form of escaping from the principle of (MFN).

1.5 Is Regionalism a "Stumbling Block" or a "Stepping Stone" to Multilateralism?

Based on the above listed analysis, in addition to the recent implications in the arena of international trade, I do believe to a great extent that trying to answer the previous question would lead us partially outside the pure domain of international trade policy theories. In other words, great deals of political economy approaches have been conducted trying to tackle the same question.

This question was first raised by (Jagdish Bhagwati)[23]. In his writings, he has provided several reasons why regionalism might not lead to global free trade. Arguments leading to Bhagwati's conclusions on this issue have been formally modeled by (Levy-1997) and (Krishna-1998). (Levy-1997) found that bilateral agreements between countries similar in endowments result in the subsequent blocking of multilateral trade agreements. He also concluded that bilateral agreements can never increase the political support for multilateralism.[24]

(Krishna-1998) addressed the same issue in a political economy set up where profits get a much higher weight than other components of welfare in the government's objective function (political – support function approach). He found greater political support for trade – diverting bilateral agreements (regionalism) than for trade – crating ones. Such agreements can also make previously feasible multilateral agreements politically infeasible.

[23] Jagdish Natwarlal Bhagwati (born July 26, 1934) is an Indian-American economist and a University Professor at the School of International and Public Affairs at Columbia University. He is well known for his research in International Trade and for his advocacy of free trade.

[24] Devashish Mitra, Political Economy of Trade Policy, The Maxwell School, Syracuse University, 2005.

Besides, (Albertin-2008) used a similar perspective to conduct a political economy analysis of the incentives underpinning a country's decision to enter an (RTA) when a multilateral free trade agreement is available. Furthermore, (Albertin-2008) highlighted the implications of embracing regionalism for the incentives to pursue multilateral trade liberalization. The paper developed a model through which a country has to distinguish between entering a regional trade agreement or a multilateral free trade agreement. Assuming that the policymaker setting his/her trade policy taking into consideration not only aggregate social welfare, but also the pressure applied by industrial interests group, the paper formalized the choice between the two alternative trade agreements.[25]

The analysis depicted a situation through which the policymaker faces a trade-off in his/her choice of trade policy, since industrial interest group will provide political contributions to enter the regional trade agreement, while a higher aggregate social welfare could be achieved under the multilateral free trade agreement. Accordingly, a formal condition was derived under which the regional trade agreement will be preferred to the multilateral free trade agreement, showing that the policymaker's choice is a political equilibrium that balances pro-regionalism and pro-multilateralism forces.

Moreover, (Albertin-2008) pointed out that policymaker will choose to enter the regional trade agreement if the political contribution the interest group is willing to provide at least offsets the loss in the aggregate social welfare. In particular, the paper showed that if the distortions in the policymaking process are sufficiently strong and trade barriers against non members are sufficiently

[25] Albertin Giorgia. Regionalism or Multilateralism? A Political economy choice, IMF Working Paper WP/08/65, March-2008.

low, the regional trade agreement will be preferred to the multilateral free trade agreement. Therefore, the paper concluded that a country's decision to enter a regional trade agreement when a multilateral free trade agreement is available is driven by the extent of distortions in the policy making process, the lobbying activity of the organized industrial group, and the extent of trade barriers.

Chapter Two: Regionalism and (MENA)'s Economic Integration

After trying to examine the various features of global economic integration, in the light of the growing phenomenon of regionalism and their consequences over international trade, it would be of greater importance to zoom in more over a specific prospect of regionalism to view how dose the situation look like on a narrower scale.

In this regard, regionalism has been considered as a major component of the modern history of the Middle East and North Africa (MENA) region's economic integration process. Many literatures argue that the (MENA) region preceded several areas –both developed and developing ones- in tackling economic integration as a unique path towards its evolution. Moreover, economic integration within the (MENA) region experienced a wide range of approaches ranging among regionalism, multilateralism and bilateralism.

Analysts argue that the (MENA) region do pose many precious determinants for a successful realistic economic integration. In other words, the similarity in cultural aspects (religion–language–habits), the availability of natural resources and the strategic location are believed to be further facilitating past, present and future plans of economic integration.

However, taking into consideration the progress achieved so far, many literatures agree that the (MENA) region do lack serious improvements within

its economic integration path to further become more effective in the international arena in general and the world trade in particular. Such literatures –generally- stake to the slow motion adopted by the (MENA) region countries in fulfilling their mandates of economic integration. Moreover, the region is experiencing one of the most unbalanced developments among its various blocks. Besides, the existing policies within the region reveal tangible barriers towards true liberalization of international trade.

Accordingly, this chapter aims at capturing as much analysis as possible over regionalism and economic integration processes in the (MENA) region. In doing so, a descriptive evolution is listed regarding the different stages (phases) of the region's economic integration via regionalism, then an analytical assessment is listed regarding the region's opportunities and challenges.

2.1 Main Characteristics:

The World Bank's definition of the (MENA) region includes: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza and Yemen.[26] From this list Malta will be excluded, which has been a member of the EU since May 1, 2004; Turkey, that focuses its economic integration efforts on Europe; and Iran due to unavailability of information. On the other hand, Israel might be included from time to time during the analysis due to its involvement in some of both applied and ongoing regional integration; this is despite the obvious barrier to regional integration posed by the ongoing Arab-Israeli conflict.

[26] See World Bank Website, http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT.

2.1.1 Background (Overview):

Economic integration within the (MENA) region in general and Arab countries in particular has been on the agenda of the region's policy makers and intellectuals for more than fifty years. Generally speaking, the region did share other parts (areas) of the world a wide range of reasons (forces) leading to the launch of its economic integration process. For the Arab countries, there has been a common belief that the creation of an allied Arab economic bloc would support the region bargaining power in an increasingly polarized world. Moreover, Arab economic integration was highly perceived as an enabling mechanism for the region's internationalization; increasing interaction with the world economy. [27]

During the last five decades the Arab countries had witnessed a period of trials and errors in creating a truly united, economically integrated area. However, after fifty years of attempts Arab economic integration remains elusive. On the contrary, the European economic integration, which began nearly around the same time, succeeded in translating the vision of its members into reality.

2.1.2 Basic Economic and Development Indicators:

The (MENA) region is characterized with a clear variation among its economies in several aspects, the relative sizes of the national economies range from Djibouti's 0.8 Billion US$ and Jordan's 16 Billion US$ to Algeria's 134

[27] Ahmad Galal and Bernard Hoekman, "Arab Economic Integration between hope and reality" Egyptian Center for Economic Studies, 2003.

Billion US$ and Saudi Arabia's 375 Billion US$, with several steps in between.[28] Moreover, variation also extends to include the region's (GPD) per capita distribution, from very high (UAE – 49,116 US$, Kuwait – 46,638 US$, Israel – 24,405 US$, Saudi Arabia – 22,053 US$) to low (Djibouti – 1,965 US$, Yemen – 2,262 US$, Morocco – 3,915 US$, Egypt – 4,953 US$, Jordan – 4,654 US$).[29]

These disparities in themselves demonstrate the low degree of existing regional economic integration. Moreover, it is important to note that none of the (MENA) states are classified by the (UNDP) as Low Human Development states, with only Djibouti and Yemen are classified as Least-Developed Countries.[30]

A major economic feature of the (MENA) region is the abundance of natural resources, where most of the oil reserves are concentrated in Arab gulf countries; Saudi Arabia alone accounts for almost one-quarter of the earth's oil resources. However, the region's economies don't share the same feature of oil and gas abundance. Consequently, the region is divided into major oil-exporters, in which more than 90% of total exports are energy resources such as gulf countries, and oil-importers such as Jordan and Morocco.[31]

Accordingly, such features are believed to be core determinants in many movements of economic integration within the region, where oil-exporters became heavily dependant on oil revenues, leading to an increasing vulnerability towards dramatic changes within energy market (oil prices), while oil-importers became more worried about securing the needs of their development goals. Thus,

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[28] GDP data is from 2007,based on World Bank, Middle East and North Africa Region, 2008 Economic Developments and Prospects: Regional Integration for Global Competitiveness, 2009.

[29] UNDP, Human Development Statistics available on the UNDP Website at http://hdr.undp.org/en/statistics.

[30] Fakhri, Images of the Arab World and Middle East: Debates about Development and Regional Integration Sept. 2007.

[31] BP Statistical Review of the World Energy, 2007. http://www.tsl.uu.se & www.bp.com/statisticalreview

both parties perceived economic integration as an urgent resort for their prosperity.

On the other hand, a major developmental feature of the (MENA) region is the high rate of population growth, where the region witnessed an influx increase from an estimated 100 million people in the 1950s to almost 300 million today. However, a further distinction within the region should be between labor abundant economies and labor-importing economies. A distinction which also believed further facilitated and encouraged several forms (movements) of economic integration in the region.

2.2 Regionalism in the (MENA) Region:

2.2.1 Regional Economic Integration (Origin and Evolution) [32]

Traditionally, the Arab League, founded in 1945, has been the main entity for handling inter-Arab cooperation. Regionalization of economic relations could easily be identified within the Arab League's mandate. The purpose of the Arab League was "to draw closer the relations between member states and coordinate their political activities with the aim of realizing a close collaboration among them", in addition to the purpose of a close cooperation in economic and financial matters, including trade, customs, currency, agriculture and industry. [33]

The (MENA) region witnessed several attempts of economic integration under the umbrella of the Arab League. However, such attempts are argued to fail in clearly translating its objectives into outcomes, which would

[32] Broude, Tomer. "Regional Economic Integration in the Middle East and North Africa Region", Jan 2009.
[33] Article 2(a) of the Pact of the Arab League States.

eventually result in either an Arab Free Trade Area or an Arab Common Market (ACM).

The first attempt took place in 1950 under the Treaty for Joint Defense and Economic Cooperation, where both security and political concerns at that time are said to overweight economic ones. In 1953, the second initiative was launched under the Convention on the Facilitation of Trade Exchange and the Regulation of Transit Trade. It included some custom-free commitments relating to specific livestock and agricultural products and limited preferences on specified industrial products.[34]

Analysts argue that the creation of the Agreement on Arab Economic Unity (AAEU) was a major step along the evolution process of economic integration within the (MENA) region. This agreement was approved by the Economic Council of the Arab League in 1957. It was signed in 1962 and entered into force in 1964. Moreover, it is argued that the ambitious language held by the (AAEU) aimed at the establishment of a complete economic union among the Arab League members on a gradual basis, where the free movement of both persons and capital to play an effective role.

The creation of the Council of Arab Economic Unity (CAEU) in 1964 was the starting point towards the fulfillment of the (AAEU) goal. As a traditional common step the (CAEU) managed to promote agreements on the avoidance of double taxation and other cooperative economic agreements among its members.

In 1964, under the (CAEU) Egypt, Iraq, Jordan, Kuwait and Syria agreed to establish an Arab Common Market, an initiative which was supposed to

[34] Ibid.

gradually remove quantitative restrictions and tariffs toward the accomplishment of a common market during the 1970s. However, such an initiative encountered limited effectiveness due to autonomous exceptions and consecutive extensions of transitional periods. [35]

2.2.2 Sub-Regional Economic Integration

Taking into consideration the failure of the large scale regional economic integration initiatives under the umbrella of the Arab League, parallel alternative waves of sub-regional initiatives were launched during the 1980s.The failure of the early attempts of regional economic integration within the (MENA) region may be attributed to both political and economic reasons.

For instance, the (ACM) was further weakened by a provision allowing member countries to list products to be exempted from the tariff and quota liberalization measures. Moreover, Egypt's membership of both the (CAEU) and the (ACM) was suspended when the country signed the "Camp David Accord" with Israel in 1979. In addition, borders among some countries were also closed from time to time due to political frictions.[36] **Besides, lack of economic incentives, political rivalries, absence of leadership interest and weak institutional frameworks appear to be considerable justifications.**

In this regard, the (MEAN) region did witness several sub-regional initiatives among its countries during the 1980s. These initiatives were created among countries which had either geographical proximity and/or

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[35] For a detailed description of the (ACM) early years, See Hershlay, "The Economic Structure of the Middle East" 1975, pp. 193-194.
[36] Rania S. Miniesy & Jaffery B. Nuget and Tarek M. Yousef, Trade Policy and Economic Integration in the Middle East and North Africa, Intra Regional Trade Integration in the Middle East P.42, 2005.

economic similarity, and were strongly related to share security concerns. Moreover, it is worth mentioning that a common motivation for almost all sub-regional economic integration initiatives within the region was the perception that both former and exiting trade flows at that time were below what would normally be expected.

2.2.2.1The Gulf Cooperation Council (GCC)

One of the most outstanding features of sub-regional initiatives within the (MENA) region was the creation of the Cooperation Council for the Arab States of the Gulf (GCC) in 1981. At that time, the Head of States of Saudi Arabia, United Arab Emirates, Oman, Kuwait, Qatar and Bahrain announced their strong desire to further develop, extend and enhance their economic ties on solid foundations. A primary interesting feature of the (GCC) economic integration model, is that it embodies a typical implementation (reflection) of the theory of economic integration; in other words the (GCC) model started by the (FTA) in 1983, passing through the (CU) in 2003, reaching the common market (CM) in 2008.

Empirical studies show that a package of economic objectives was highly dominating the creation of the (GCC); it includes stimulating trade relations among member states, maximizing member states' market size, achieving better allocation (utilization) of resources, elimination of transaction costs and risks associated with flexible exchange rates.

On the other hand, a wide range of both political and strategic purposes appears to be further strong justifications for the creation of the (GCC). Such purposes contain the coordination integration and inter-connection between its

Member States so as to achieve unity among them; the deepening and strengthening of relations between their peoples in various fields; and the formulation of "similar regulations" in economic, educational and cultural fields. The (GCC) Charter established an unremarkable intergovernmental institutional structure, in which all substantive decisions require unanimity, and disputes are referred to an ad hoc Commission that refers its recommendations or opinions to the (GCC) Supreme Council which may act as it deems appropriate.[37]

In 1983 the (GCC) launched the first formal form of its initiative, i.e. (FTA). The (GCC-FTA) was mainly featured by exempting the industrial, agricultural goods and natural resources of the (GCC) States from customs duties and other similar duties, subject to presentation of a certificate of origin issued by the competent government authority in the exporting country. The (GCC-FTA) continued for almost twenty years until the end of 2002, when it was replaced by the (GCC-CU). Throughout the (FTA) period (1983-2002), the volume of Intra-(GCC) trade increased from less than US$ 6 billion in 1983 to some US$ 20 billion in 2002. [38]

Establishing the (GCC-CU) on January 1st 2003 was a second outstanding shift along the (GCC) economic integration model, the (GCC-CU) was basically based on a common external tariff of 5% for all products from non-GCC countries, elimination of trade barriers, uniform import/export procedures and treatment of the geographical territory of the six member States as a single customs territory. Though the creation of the (GCC-CU) was a little

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[37] See Article 4 of the (GCC) Charter.
[38] See Article 10 of the (GCC) Charter.

bit late initiative, yet it was deemed as an advanced union in its legal terms and provisions, as Article (1) of the (GCC) New Economic Agreement - signed at Muscat Summit in December 2001- outlined the following basic principles of the (GCC-CU):[39]

a)A Common External Tariff
b)A Common Customs Laws
c)Uniform customs procedures
d)Single entry point where common duties are levied
e)Intra-GCC movement of goods without tariff or non-tariff barriers
f)National treatment of GCC goods

Aiming at reaping the whole benefits provided by complete progressive economic integration, In January 2008, the (GCC) launched the (GCC-CM. It aimed at fulfilling the required procedures for the concept of "Economic Nationalization", through achieving equal treatment among (GCC) nationals in the following, but not limited to, economic and social fields:

1. Movement and residence
2. Work in private and government jobs
3. Pension and social security
4. Engagement in all professions and crafts
5. Engagement in all economic, investment and service activities
6. Real estate ownership
7. Capital movement
8. Tax treatment
9. Stock ownership and formation of corporations
10. Education, health and social services

2.2.2.2 The Arab Maghreb Union (AMU)

The Arab Maghreb Union (AMU) includes the following five states: Algeria, Libya, Mauritania, Morocco and Tunisia. The idea for the (AMU) could be stretched back by year 1964, when the conference of economic ministers of the

[39] The Gulf Cooperation Council, formal website, see: http://www.gccsg.org

Maghreb countries in Tunisia led to the creation of the Maghreb Permanent Consultative Committee (CPCM). Despite the ambitious promising plans intended by the (CPCM), to further strengthen economic ties among its members, such plans failed to meet real response for more than 20 years. [40]

It was only until February 1989 when the (AMU) was agreed upon among the five Maghreb states. The (AMU) aimed at further liberalizing trade relations among its members through free movement of persons, good, services and capital. Moreover, the (AMU) future plans were to establish a (CU) in 1995 and a (CM) in 2000. However, political tensions among member states during the early 1990s stood as a major obstacle against the fulfillment of such promising planed objectives. [41]

2.3 Recent Developments at the Regional level

Following the above listed sequence of economic integration pattern within the (MENA) region, and referring to the varies difficulties faced previous attempts at both the regional level and the sub-regional level, recently the (MENA) region in general, and the Arab economic agenda in particular, witnessed a double revival attempt at the regional level along its economic integration path. Such an attempt could be identified through two main initiatives, the Greater Arab Free Trade Area (GAFTA) and the Agadir Agreement.

The (GAFTA) is an Arab League framework, its primary objective are mainly concerned with intra-regional- looking. Moreover, it aims at the inclusiveness of Arab League states beyond the (MENA) region. On the other

[40] Ibid.
[41] Ibid.

hand, despite the fact that the Agadir Agreement being also formally open to accession of all Arab League states that are (GAFTA) members, it is more concerned with the Euro-Mediterranean field, where an additional accession requirement is the existence of an (FTA) with the (EU).[42]

2.3.1 The Greater Arab Free Trade Area (GAFTA)

Figure no. (5)
(GAFTA) Members

The origin of the (GAFTA) could be stretched back to year 1981, when the Arab League states adopted an Agreement to Facilitate and Develop Inter-Arab-Trade (AFDIAT). The (AFDIAT) was designed to liberalize trade exchange among Arab countries from various charges and restrictions imposed on it.[43] However, some analysts argue that the (AFDIAT) was somehow vague in its language, and most importantly it didn't set a clear determination mechanism regarding the selection of covered products.

[42] Ibid.
[43] See Article II, Formal Text of Agreement to Facilitate and Develop Trade Among Arab States.

It was only until 1997 when the Social and Economic Council of the Arab League adopted a declaration for establishing an "Executive Program" for the (AFDIAT), which then became the formal text of the (GAFTA). The (GAFTA) required that "*all Arab goods traded among the party-states shall be liberalized in accordance with the gradual liberalization principle which shall be applied as of January 1, 1998* ", **allowing for** "*full liberalization*" **by July 21, 2007(17). In 2002, the Arab League's Economic and Social Council resolved to accelerate the gradual liberalization process, abolishing tariffs by January 1, 2005.[44] Currently, the (GAFTA) includes in its membership 17 Arab countries as follow:**

1. Jordan	7. Morocco	13. Kuwait
2. United Arab Emirates	8. Syria	14. Tunis
3. Bahrain	9. Lebanon	15. Libya
4. Saudi Arabia	10. Iraq	16. Sudan
5. Oman	11. Egypt	17. Yemen
6. Qatar	12. Palestine	

(GAFTA) is regarded as one of the most important economic achievements in the area of Arab cooperative working. It contributes to efforts toward establishing the Arab Common Market. As of January 1st, 2005, the agreement reached full trade liberalization of goods, through the full exemption of customs duties and charges having equivalent effect among Arab member countries.

The agreement provided special preferential treatment for less developed member countries, where both Sudan and Yemen had longer period of liberalization to reach full exemption by the end of 2010, while Palestine has

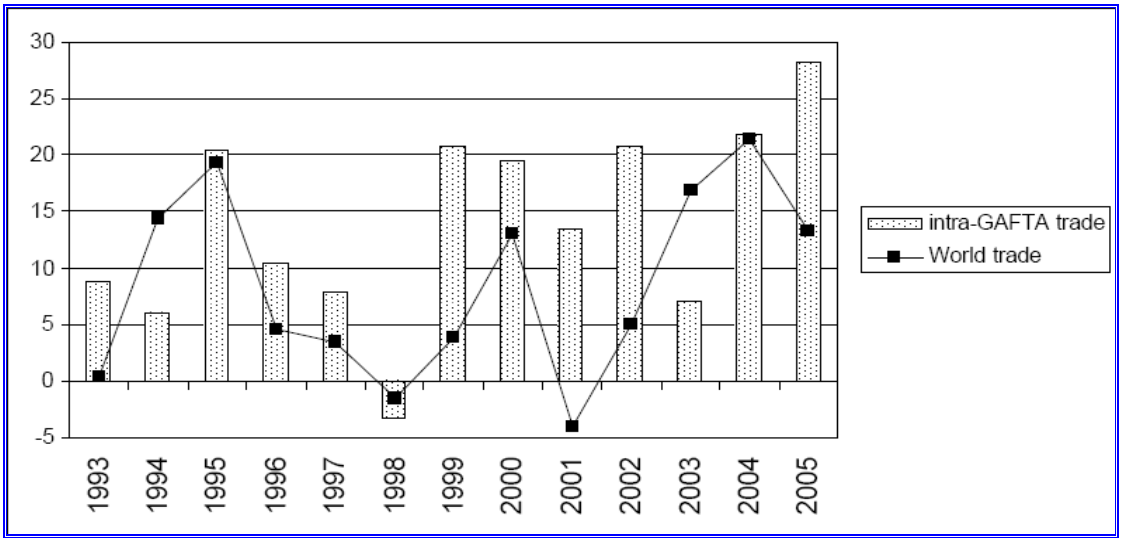
[44] See Article 2.1 of the (GAFTA).

been exempted from tariff reductions due to its geopolitical situation. Agricultural products were provided special treatment, where each country could exclude at most 10 agricultural products from the agreement during the harvest season. In addition, rules of origins were set at 40% local content of the value added.

Trade statistics show that intra (GAFTA) exports increased at a faster rate than world exports especially during the period (1997-2005). (Figure no.6) shows that intra (GAFTA) exports increased by a yearly average of (15%), while world exports increased by (8%) only.

(Figure no.6)

Intra (GAFTA) Exports versus World Exports (1993-2005)

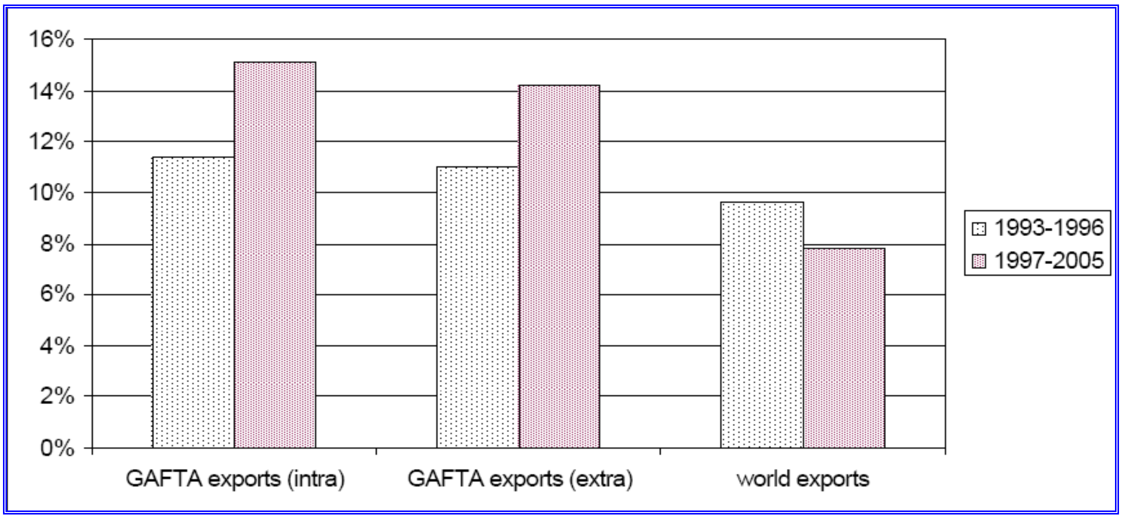


Source: United Nations (2007) and WTO (2007).

Moreover, it is striking to observe that intra (GAFTA) exports have increased slightly higher than extra-exports, where the later recorded (14%) as a yearly average growth especially during the last period (Figure no.7).

(Figure no.7)

Intra and Extra (GAFTA) Exports (1993-2005)



Source: United Nations (2007) and WTO (2007

Generally, it is also worth noting that the (GAFTA) is characterized with a high degree of trade concentration along the grouped countries level, where up to year 2005 the group of Gulf countries captured about (70%) of total intra (GAFTA) trade, whereas Mashrek countries only reached (20%) and Maghreb countries barely contributed by (10%).

Consequently, the following table (table no.1) exhibits a further major feature regarding trade balance within the (GAFTA), where up to year 2005 Saudi Arabia alone captured (36.6%) of total exports, achieving a remarkable surplus of (7,300 million US dollars). On the other hand, the UAE captured (22.3%) of total imports recording the largest deficit of (2,700 million US dollars), followed by Bahrain (1,700 million US dollars).

(Table no. 1)
Intra (GAFTA) Trade (Trade Balance- 2005)

	Exports		Imports		Exp-Imp.
	million US$	%	million US$	%	million US$
Algeria	928.1	*3.3%*	671.1	*2.4%*	257.0
Bahrein	780.4	*2.8%*	2486.8	*9.0%*	-1706.4
Comoros	0.05	*0.0%*	3.3	*0.0%*	-3.3
Djibouti	4.69	*0.0%*	350.2	*1.3%*	-345.5
Egypt	1511.5	*5.4%*	1915.6	*6.9%*	-404.1
Iraq	n.a.	*n.a.*	1951.0	*7.0%*	n.a.
Jordan	1815.8	*6.5%*	1725.3	*6.2%*	90.5
Kuwait	514.8	*1.9%*	1614.6	*5.8%*	-1099.8
Lebanon	925.1	*3.3%*	975.6	*3.5%*	-50.5
Lybia	4.27	*0.0%*	980.0	*3.5%*	-975.7
Mauritania	8.4	*0.0%*	71.3	*0.3%*	-62.9
Morocco	374.3	*1.3%*	1085.3	*3.9%*	-711.0
Oman	2130.7	*7.7%*	1204.9	*4.3%*	925.8
Qatar	1730.1	*6.2%*	889.6	*3.2%*	840.5
Saudi Arabia	10170.2	*36.6%*	2919.7	*10.5%*	7250.5
Somalia	n.a.	*n.a.*	159.0	*0.6%*	n.a.
Sudan	332	*1.2%*	581.8	*2.1%*	-249.8
Syria	1611	*5.8%*	922.0	*3.3%*	689.0
Tunisia	933.7	*3.4%*	336.7	*1.2%*	597.0
UAE	3438.8	*12.4%*	6192.7	*22.3%*	-2753.9
Yemen	548	*2.0%*	716.4	*2.6%*	-168.4
Total	27752.9	*100.0%*	27752.9	*100.0%*	0.0

Source: United Nations (2007)

In all, the (GAFTA) is a successful step along the right track of regional economic integration within the Arab World. It managed to tackle some important topics such as the roles of origin, dispute settlement mechanism and full liberalization of trade in goods. However, its sustainable progress is mainly correlated with certain crucial topics such as trade in services, treatment of free zones products and harmonization of standards and metrology among member countries.

2.3.2 The Agadir Agreement

Unlike most –if not all- of the previous both regional and sub-regional economic integration attempts within the (MENA) region in general and the Arab world in particular, the main motivations for The Agadir Agreement were highly driven by out-ward purposes rather than in-ward ones. The idea of better

reaping of potential benefits from the Northern Mediterranean States – the (EU)-, was mainly dominating the intentions of the member states of the Agadir Agreement.

The origin of the Agreement goes back to an earlier declaration of intent among member countries in 2001; it was signed in Morocco in 2004 and entered into force in 2006. The Agreement established a free trade area among four southern Mediterranean countries, mainly Egypt, Jordan, Morocco and Tunisia. The Agreement was greatly perceived as a forward remarkable step towards the conclusion of a "Euro-Mediterranean regional free trade area" by 2010. The creation of a "Euro-Mediterranean free trade area" by 2010 is one of the targets set by the Barcelona Declaration.[45]

Despite the fact that the Agadir Agreement left the door open for accession by other Arab states, a major necessary condition of being a partner of an (FTA) with the (EU) still remained to be fulfilled. A further distinction between the Agadir Agreement and the (GAFTA) is primary related to the scope and coverage, where the Agadir Agreement is calling for the liberalization of trade in goods, services and movement of human and capital, recording the second distinguished comprehensive initiative among the (MENA) region after the (GCC) model.

A remarkable importance of the Agadir Agreement lies at the increasing potentiality of reaping extra benefits of the (EU) cumulating rules of origin, which would enable the Agreement's member states to manufacture jointly, and then export the final products to the (EU) market. Cumulation holds that inputs

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[45] Ibid.

from preferential trading partners can be used in the production of a final good without undermining the origin of the product.[46]

Accordingly, an Egyptian manufacturer may use (import) any raw materials or intermediate components along the production process from any other member states in the Agreement, without running the risk of losing preferential access if the final product to be exported within the area (mainly EU).

2.4. Regionalism Implications: Opportunities and Challenges

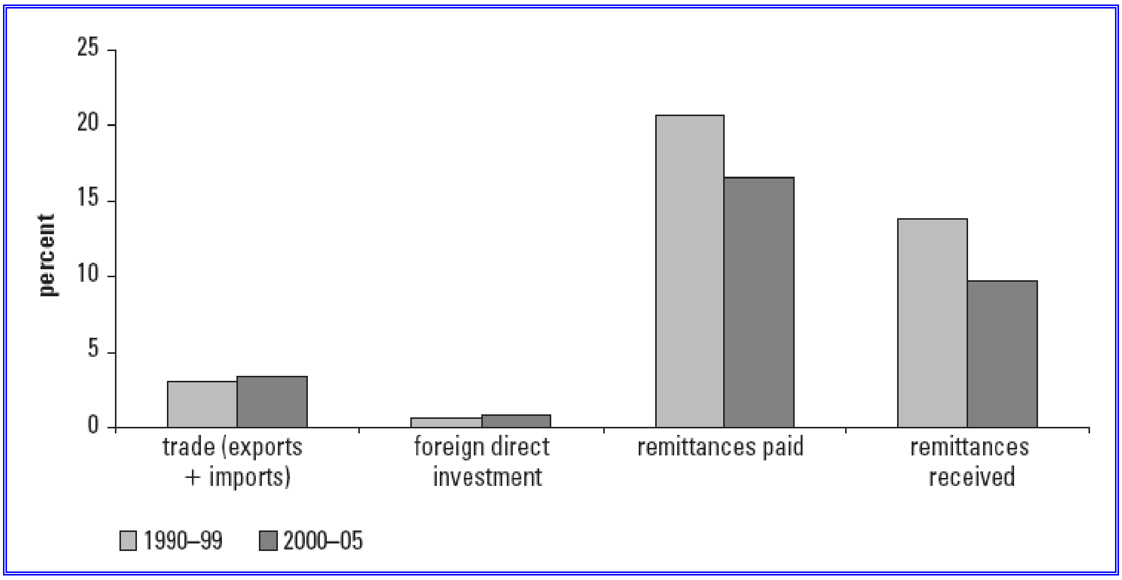
As far as the previous initiatives of both regional and sub-regional integration within the (MENA) region are concerned, it is worth mentioning that Inter-trade liberalization among the (MENA) countries was only one feature of such initiatives. In other words, evidences show that several economic externalities extended beyond the boundaries of goods trade to capture as relevant factors as labor mobility, capital flows and infrastructure links.

In terms of *labor mobility*, the (MENA) region is regarded as more integrated through labor mobility than trade and investment (Figure no. 8). Comparing with approximately (5%) representing the region's share of global trade, the (MENA) countries originate about (16%) of all remittances paid out to migrants in the world, and (10%) of global remittances are received by residents of (MENA) countries.

[46] Rajan Sudesh Ratna, "GSTP Rules of Origin- Developing Country's Perspective. www.unctadxi.org/secured/GSTP/Articles.

(Figure no. 8)

(MENA)'s share in world trade, FDI, and remittances paid & received



Source: Based on World Development Indicators (World Bank 2007b).

Moreover, it is worth noting that despite the high degree of integration among labor mobility within the (MENA) region, it is recognized as unbalanced.[47] The following table (table no. 2) shows that (MENA) countries originated about half the migrants to Maghreb countries, whereas the Mashreq countries received about (25%) from the (MENA) countries, mirroring the increasing share of non-(MENA) sources of migration for the Mashreq. On the contrary, the (MENA) region captured about (56%) of migrants originating in the Mashreq, whereas the region captured only (9%) of migrants from the Maghreb countries, stressing the importance of the (EU) as a preferred destination.[48]

[47] World Bank, Middle East and North Africa Region, 2008 Economic Developments and Prospects: "Regional Integration for Global Competitiveness".

48 Note: **Maghreb** includes Algeria, Morocco, Tunisia, and Libya; **GCC** includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates; **Mashreq** includes Iraq, Jordan, Lebanon, Syria, and the West Bank and Gaza; while "**other**" refers to Egypt, Djibouti, Iran, and Yemen.

(Table no. 2)

(MENA) Labor Mobility Integration

(thousands)

	Destination country or region							
Source country/region	Maghreb	GCC	Mashreq	Other	Israel	Total	Total in MENA incl. Israel	
Maghreb	99	36	5	0	304	5,216	444	9%
GCC	—	135	—	—	—	341	135	40%
Mashreq	80	472	1,403	349	119	3,723	2,423	56%
Other	359	1,713	113	0	147	3,975	2,332	59%
Total	1,029	12,801	5,575	2,410	2,661	24,476	—	—
Total from MENA	538	2,356	1,521	349	569	5,334	—	—
excl. Israel	52%	18%	27%	14%	21%	22%	—	—

Source: (Ratha and Shaw 2007)http://www.worldbank.org/prospects/migrationandremittances

Regarding *capital flows*, two major factors have been positively coincidently with latest regional and sub-regional initiatives within the (MENA) region, such factors could be traced clearly along both the demand side and the supply side as well. On one hand, the demand side, a wide range of the (MENA) countries did witness increasing improvements among the public sector, through realistic series of structural reforms.

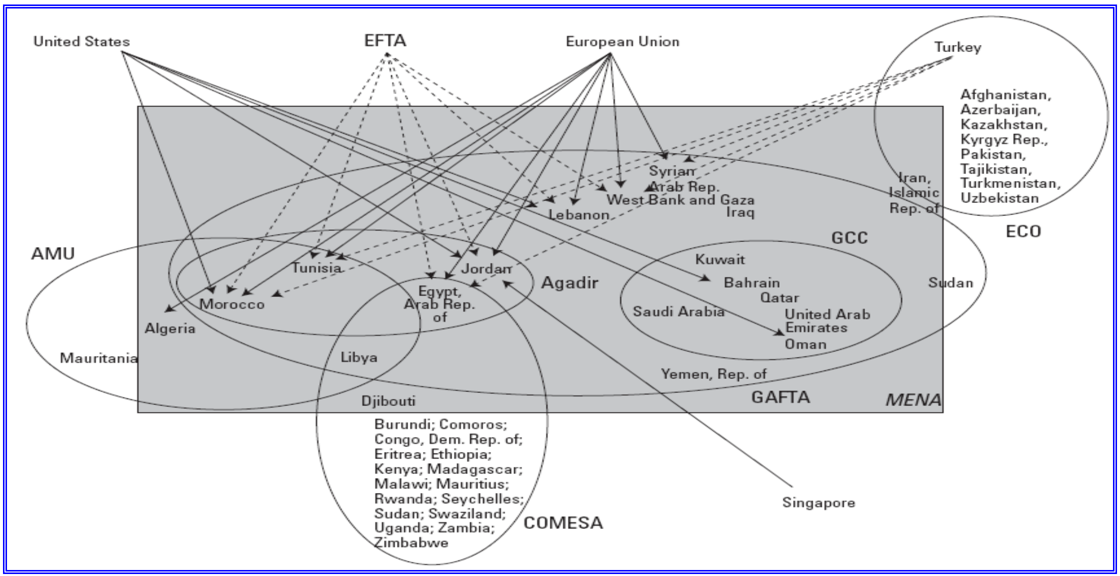
On the other hand- the supply side-, the various waves of the oil booms witnessed by the (GCC) countries in particular resulted in a plenty of liquidity to be invested, where several other (MENA) countries did capture a considerable share. Investors from the (GCC) were showing interest in stocks of non- (GCC) countries, aiming at benefiting from the privileges provided by regional agreements, and utilizing the upside potential in these markets as well. Statistics

show that market capitalization in (MENA) countries increased from only (13%) of GDP a decade ago to (50%) by (2005). [49]

As the pace of regionalism within the (MENA) region got intensified over the last five decades, a truly "spaghetti bowl" of interlinked relationships and overlapping associations has been inevitable. The following figure (Figure no. 9) shows that almost every (MENA) country is at least involved in one regional economic agreement, while many others are partners of several regional integration agreements.

(Figure no.9)

MENA's Spaghetti Bowl –Network of Regional Agreements



Source: World Bank Staff, 2008

However, some analysts view the results as insufficient. According to (Achy 2006; Peridy 2005; Miniesy, Nugent and Yousef 2004) gravity models estimating trade potentials among partner countries based on economic size,

[49] Ibid.

geographic distance and other country characteristics consistently find that (MENA) integration is below the level expected.[50]

Several views appear to be plausible reasons for the limited (frustrated) harvest of (MENA)'s regionalism. On one hand, trade within sub-regional blocks appears to be low.[51] **The following table (table no. 3) shows that none of the four members of the (Agadir) agreement trades more than (3%) of total imports and exports with the other three partners. The same observation holds for the five members of the Arab Maghreb Union, with only Tunisia showing a somewhat higher level of regional integration.**

(Table no. 3)

(MENA)'s Level of Trade with Partners in Regional & Sub-regional Agreements*

	Agadir Agreement	Arab Maghreb Union	GCC	GAFTA
MENA countries	—		—	—
Algeria	—	1.2	—	—
Bahrain	—	—	35.0	38.6
Egypt, Arab Rep. of	1.5	—	—	13.6
Iraq	—	—	—	14.7
Jordan	3.0	—	—	35.7
Kuwait	—	—	4.5	7.4
Lebanon	—	—	—	30.6
Libya	—	2.7	—	5.1
Morocco	1.2	2.2	—	7.5
Oman	—	—	11.0	12.2
Qatar	—	—	6.4	7.5
Saudi Arabia	—	—	4.1	9.1
Syrian Arab Rep.	—	—	—	46.7
Tunisia	1.4	6.7		7.4
United Arab Emirates	—	—	4.8	7.4
Yemen, Rep. of	—	—	—	24.5

***Note**: *Merchandise imports and exports with partners as a share of total merchandise trade (%)*
Source*: World Bank staff estimates based on IMF Directions of Trade database.*

In this regard, the fact of insufficient trade complementarities stands to be strong justification for weak trade –goods market- integration across the

[50] See Marcus Noland and Howard Pack, "The Arab Economies In A Changing World", 2007, Peterson Institute for International Economics, www.piie.com.
[51] Ibid.

(MENA) region.[52] As a matter of fact countries with similar resources, production capabilities, and export structures face difficulties in utilizing regional integration, in terms of establishing patterns of specialization and diversification.

According to (Yeats 1998; Khandelwal 2004) the degree of similarities between the export structure of one country and the import basket of another can be analyzed by using the bilateral product complementary index. The value of this index can range from zero, which represents no complementary between exports and imports of two countries, to 100, which implies a perfect match. The higher the index between two countries, the greater the product complementary.[53]

The following table (table no. 4) shows that bilateral complementarity among (MENA) countries is relatively low as the index[54] rarely exceeds an indicator value of 20. A remarkable result is achieved by Bahrain, which as an importer shows very strong complementarity with other fuel exporters in the region. [55]

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[52] Ibid.

[53] Jean Jacques Hallaert, " Can Regional Integration Accelerate Development in Africa?", IMF Working Paper, March 2007.

54 Note: Indexes calculated at the Harmonized System six-digit level. The product complementarity index Cjk between two countries j and k is defined as $Cjk = 100 - \Sigma i\ (|Mik - Xij\ |/2)$, where Xij represents the share of good i in total exports of country j, and Mik represents the share of good in total imports of country k. Indexes for Djibouti, Iran, Iraq, Kuwait, Lebanon, Libya, United Arab Emirates (UAE), and the West Bank and Gaza (WBG) were not computed because of lack of detailed trade data. Egypt was not included, as the country reports trade data in the Standard International Trade Classification.

[55] Ibid.

(Table no. 4)

Bilateral Trade Complementarity in (MENA), 2006

	Importer									
Exporter	Algeria	Bahrain	Jordan	Morocco	Oman	Qatar	Saudi Arabia	Syrian Arab Rep.	Tunisia	Yemen, Rep. of
Algeria	—	55.2	24.9	20.5	4.3	4.9	0.9	11.2	8.4	4.7
Bahrain	1.8	—	3.0	2.0	5.8	6.6	2.7	6.9	2.2	22.8
Jordan	13.0	9.2	—	9.8	14.7	15.4	11.4	9.3	10.2	12.6
Morocco	6.5	6.3	10.1	—	9.9	12.5	9.8	8.5	12.2	6.3
Oman	2.4	57.0	21.6	13.9	—	6.8	2.3	5.7	5.8	4.2
Qatar	2.2	48.9	21.4	16.0	5.0	—	1.5	10.2	6.1	6.9
Saudi Arabia	3.5	57.9	22.4	16.2	7.4	7.9	—	10.6	7.5	17.9
Syrian Arab Rep.	3.5	57.9	22.4	16.2	7.4	7.9	10.6	—	7.5	17.9
Tunisia	11.1	19.9	24.7	26.7	14.0	16.6	13.5	13.8	—	10.4
Yemen, Rep. of	1.2	56.1	20.0	13.5	4.8	5.7	1.8	8.2	5.2	—

Source: World Bank estimates based on UN Comtrade data

Meanwhile, it is worth noting that complementarity indexes among partners in successful regional agreements, such as the (EU) or the North American Free Trade Agreement (NAFTA), have been reported to exceed a value of 50, and moderately successful ones, such as (Mercosur), show complementarity indexes in the range of 25–30. [56]

According to (Fawzy-2003), unbalanced levels of import protection across the (MENA) region resulted in further obstacles toward better reaping the benefits of regional integration. Differences in tariffs imply that industries in partner countries benefit to a differing extent from policy-generated transfers, so that the costs and benefits of moving to freer trade are unevenly distributed. [57]

[56] Ibid.

[57] Ahmad Galal and Bernard Hoekman , "Arab Economic Integration: Between Hope and Reality" 2003, Egyptian Center for Economic Studies.

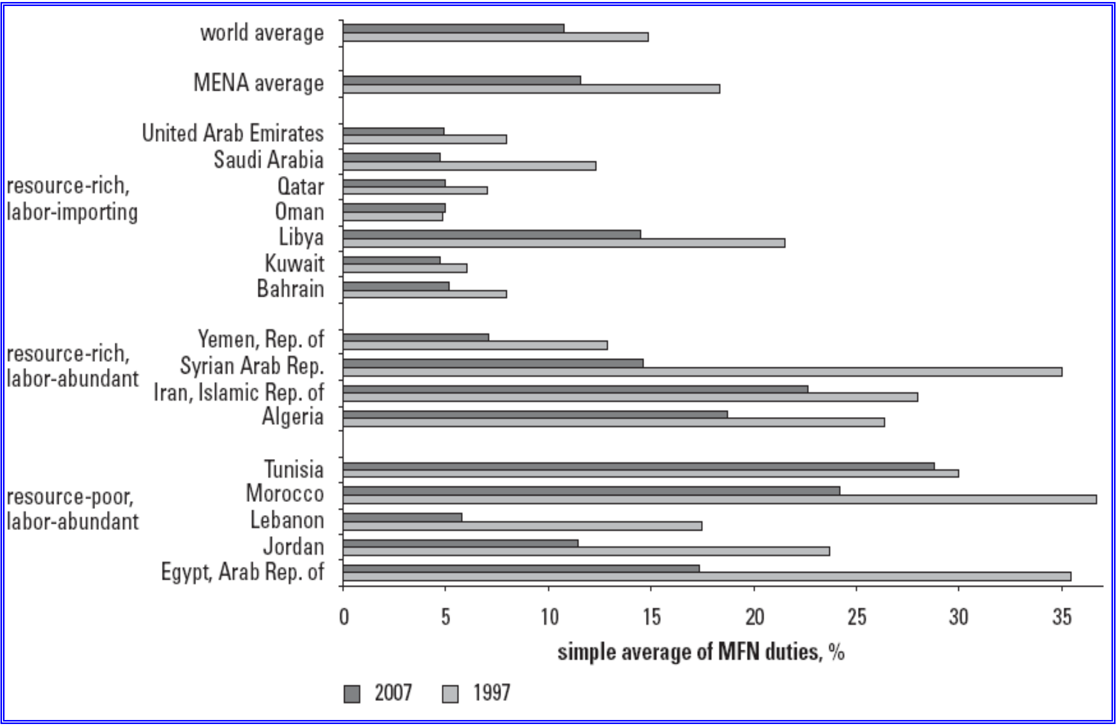
Moreover, it is worth noting that high-protection countries could be adversely affected by regional integration compared with low protection ones, as in the case of high-protection ones –high MFN rates- the risk of trade diversion occurring, is further increased if the intensity of trade is low between partners prior to bilateral liberalization, as it is the case in the (MENA) region. The idea is that maintaining high (MFN) tariffs is associated with a high risk of economically costly trade diversion occurring from preferential integration. In particular, selective opening towards regional partners can divert trade flows from more efficient third-country producers to less efficient partner-country producers, resulting in a loss of tariff revenues without the economy benefiting from lower purchasing costs. [58]

The following figure (Figure no. 10) shows that the simple average of (MFN) duties in the (MENA) countries ranges from a low level of (5%) in the (GCC) and Lebanon to a relatively medium level of (10% - 15%) as in Libya, Syria, Jordan and Egypt, exceeding the edge of (20%) as in Iran, Morocco, and Tunisia. Virtually all countries within the region have reduced their tariffs over the past decade, and many of them to a significant extent. As a result, the MENA-wide duty average has been converging toward the world average.

[58] Ibid.

(Figure no. 10)

Ranges of (MFN) Duties Across (MENA) Region



Source: World Bank staff estimates based on IMF Trade Restrictiveness database.

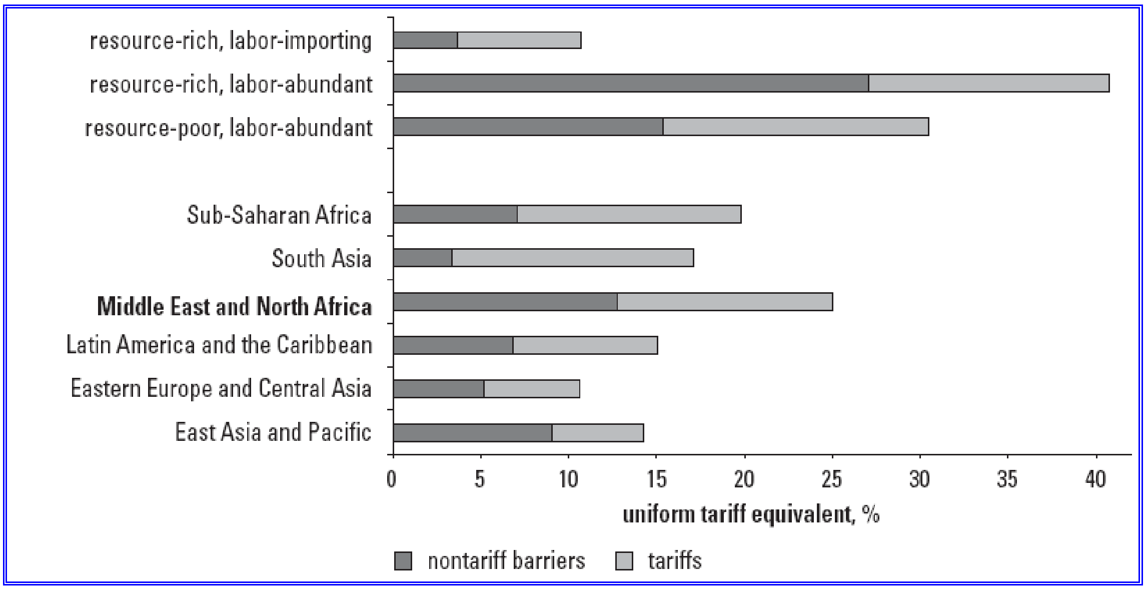
While the (MENA) region did achieve tangible progress along its pace of regional integration in terms of quantitative restrictions – tariff reductions-, non-tariff barriers appear to capture an increasingly concerns among (MENA)'s modern regional integration pace, where policy makers are exerting enormous efforts to remove discriminatory regulations, improve customs procedures and reduce transport costs. Analysts argue that (MENA) countries face substantial challenges in this area owing to an inheritance of restrictive nontariff measures and neglect of trade-facilitating efforts.

The situation is captured in recent analytical work. In particular, this issue was further elaborated in a recent analytical work, in which a team of analysts in the World Bank's Development Research Group has estimated an Overall Trade Restrictiveness Index (Kee, Nicita, and Olarreaga 2005). It turns

out that nontariff barriers to trade are more substantial in the (MENA) region than in any other region of the world. Also, nontariff barriers contribute more to overall trade restrictiveness. [59]

The following figure (Figure no. 11) shows that nontariff barriers are much more restricted in the case of (MEAN) labor-abundant countries compared with resource-rich labor-importing ones. However, all in all the (MENA) region did pose higher restricted nontariff measures compared with other regions in the world such as East Asia and Pacific, Latin America and the Caribbean and even Sub-Saharan Africa.

(Figure no. 11)
Nontariff measures in MENA countries



Source: World Bank staff estimates based on Kee, Nicita, and Olarreaga 2005.

According to (Filali -2007), despite the launch of preferential tariff reductions among the (GAFTA) members since 2005, some importing countries have asked exporters from partner countries to obtain special import permits, that had to be presented to the border agencies in order to benefit from the

[59] Hiau Kee, Alessandro Nicita and Marcelo Olarreaga "Estimating Trade Restrictiveness Indices" January 2008, Development Research Group, The World Bank.

preferences. Hence, the reduced-tariff-preferences exist only on paper, but not in practice.[60]

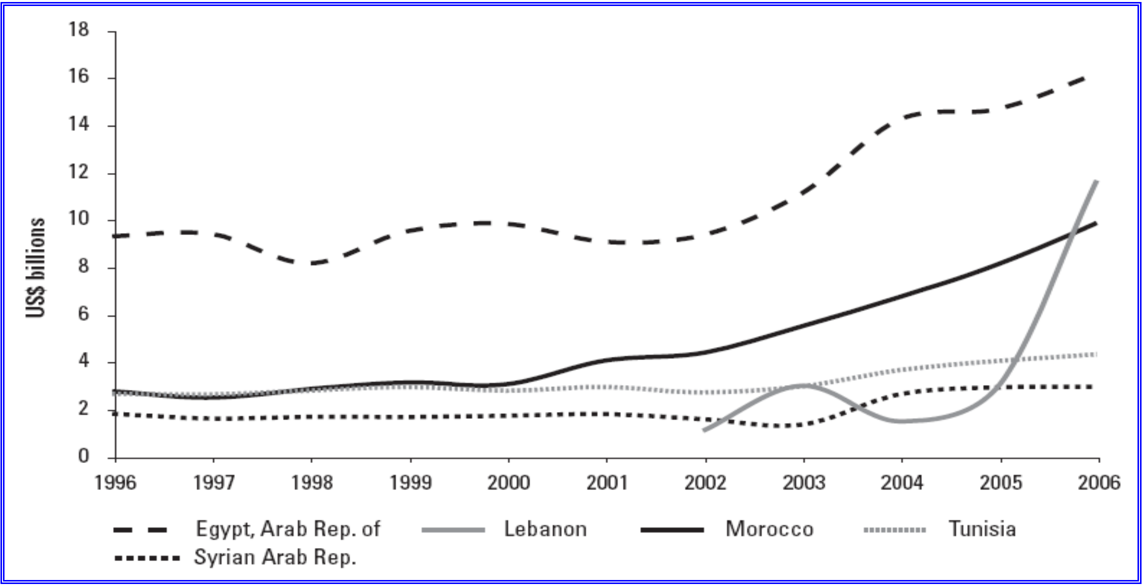
A major common factor among (MENA)'s regional integration initiatives, is the limited achievement (integration) within trade in services. It has been argued that intraregional differences in regulations, restrictions on currency convertibility, and limits on the physical movement of individuals have generally resulted in a situation, where (MENA) countries' service providers often found it easier to operate in regions outside the region (for example: Western Europe) rather than within it. [61]

However, it should be noted that the (MENA) region do pose quite potential significant opportunities for an intensive (deep) regional integration within the services sector. On one hand, the following figure (Figure no. 12) shows a dynamic promising path of services exports for selected (MENA) countries, while (figure no. 13) depicts the potential complementarity between net exporters of services in labor-abundant countries and net importers in resource-rich countries. [62]

[60] Ibid.
[61] Ibid.
[62] Ibid.

(Figure no. 12)

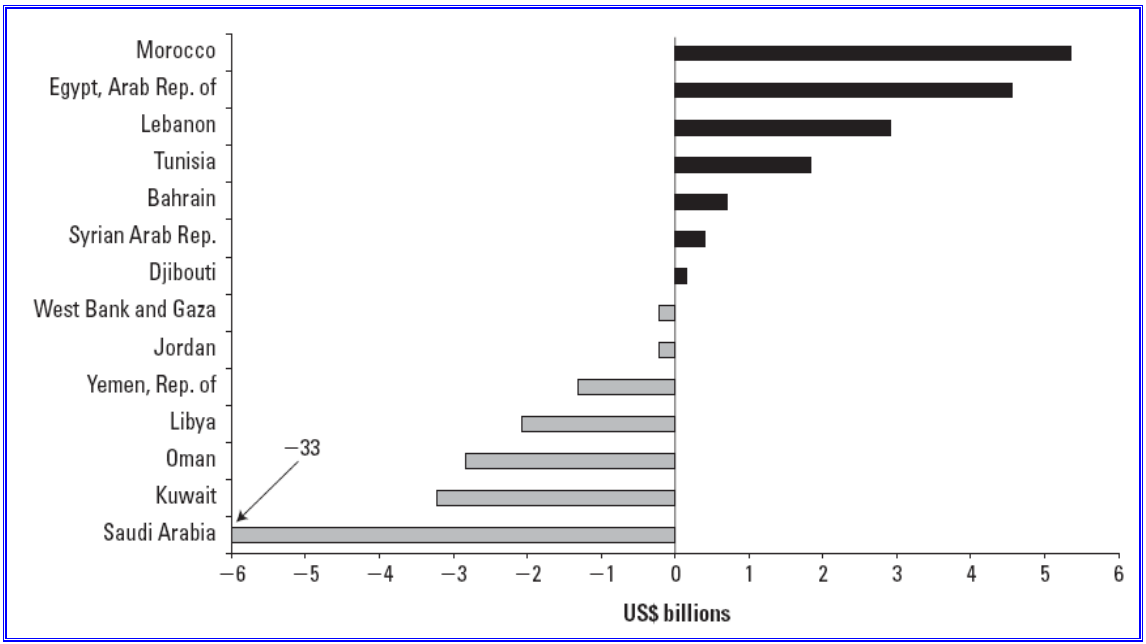
Exports of Services for selected (MENA) Countries



Source: World Bank staff estimates based on IMF Balance of Payment statistics.

(Figure no. 13)

MENA countries' net services trade position, 2006



Source: *World Bank staff estimates based on IMF Balance of Payment statistics*

Chapter Three: Concluding Remarks

3.1 Main Findings

Economic integration is generally defined as the process of eliminating (reducing) barriers –mainly economic ones- between two or more economies. The paper listed a number of similarities between past versus current waves of economic integration. With technological advances continue to play an important role in facilitating global integration as in the past waves, both current supporting government policies coupled with supporting institutional framework appear to be a similar driving force as in the past. Moreover, social opposition to rapid economic integration continued to be major similarity.

On the other hand, the paper showed a considerable set of distinctions between past versus current waves of economic integration. With the increasing intra-trade's share of world trade over extra-trade's share records a remarkable characteristic of current waves of economic integration, the insignificance of the traditional distinction between the core (hub) and the periphery (margin), is greatly recognized as a further feature of current waves of economic integration, as the mature industrial economies (mainly North America and European Union) and the emerging-market economies (China, India and Brazil) are becoming more integrated and interdependent.

The paper showed that the process of economic integration could be deepening either vertically through the gradual evolution from (FTAs) to (CUs) to (CMs), or horizontality via enlarging the scope of coverage to include trade in goods, trade in services and movement of labor and capital. Despite the fact that economic integration is usually defined as a systematic staged process, in

practice, formal agreements rarely fall neatly into one of the traditional forms (stages) of economic integration, resulting in some confusion regarding both the terminologies and the conditions of economic integration.

This situation is best described by both (NAFTA) and (EC), where the first merges several conditions of both (FTAs) and (CUs) simultaneously, the second did skip the first formal stages of economic integration – namely (FTA) – and started directly as a (CU).

The surge in (RTAs) has continued unabated since the early 1990s. A sum of 421 (RTAs) have been notified to the GATT/WTO up to December 2008. Of these, 324 (RTAs) were notified under Article XXIV of the GATT 1947 or GATT 1994; 29 under the Enabling Clause; and 68 under Article V of the GATS. At that same date, 230 agreements were in force.

The legal frameworks for (RTAs) rely mainly on GATT Article (24) XXIV –for agreements related to trade in goods- and GATS Article (5) V – for agreements related to trade in services. Moreover, a wide range of preferential arrangements finds its legitimacy within the Generalized System of Preferences (GSP) which became part of the 1979 "Enabling Clause". Those legal frameworks of preferentiality have marked an explicit forego (waive) over the heart of the GATT, which is the principle of "Non-Discrimination".

Currently, what has been termed the "Spaghetti Bowl" of (FTAs), (CUs), (CMs) and an endless assortment of preferential trade deals has almost reached the point where (MFN) is an exceptional treatment. Certainly, the term might now be better defined as (LFN), Least-Favored Nation Treatment. The sluggish progress in multilateral trade negotiations under the Doha Development Round

appears to be the most recent common plausible justification accelerating the rush to forge (RTAs). Accordingly, the unregulated proliferation of (RTAs) has an increasing propensity to result in vested interests, which may in turn make it more difficult to attain meaningful multilateral liberalization.

In practice, evidences showed that the Doha round has witnessed the hesitations of many developing countries – mostly GSP beneficiaries or PTA recipients- to support ambitious objectives on MFN tariff reductions, which would erode the value of their preferences. Therefore, there is an increasing doubt towards the declaration that pursuing multiple (RTAs) would enhance, rather than undermine, the attractiveness of multilateral trade liberalization.

In the light of the changing landscape of regionalism listed above, the paper argues that multilateral rules governing regionalism should continue to capture as much concern as possible among the (WTO)'s negotiating agendas and work programs. Assessing the existing patterns of regionalism in terms of legal compliance with stipulated legal framework is a necessary condition, but not a sufficient one. In other words, the paper concludes that a progressively systematic examination of the new characteristics of regionalism should be further developed, besides well prepared outlook in terms of whether the ongoing architecture of regionalism is more or less likely to foster multilateralization in the future.

The increasing recognition of the link between preferentiality and regional arrangements has led most nations to become more engaged in regionalism. The (MENA) region has economic, geographical, and cultural elements that provide a favorable context for deep regional economic integration. The paper showed that efforts to integrate regionally were started

mostly earlier than in any other developing region in the world. All countries in the region have concluded numerous bilateral agreements to reduce trade barriers on a preferential basis and further profound existing ones as well.

Accordingly, and as efforts to promote such deeper integration are capturing importance, and the model of open regionalism— based on the use of regional preferences as stepping stones for global integration and competitiveness—is getting the improved attention of policy makers; it is worth noting that the paper dealt with regionalism not only as a package of preferential arrangements but also as a vehicle of fostering the flow of investments, capital and labor.

In this context, the paper partially concluded that regionalism did act significantly as a vehicle of facilitating the region's integration. More specifically, it should be mentioned that despite the existence of many factors hampering intra regional integration (among which differences in per capita income, lack of product differentiation, homogeneity of exports and geographical features) the proportion of intra-MENA trade within subgroups is significantly higher than overall intra-MENA trade. Nearly 2/3 of Maghreb trade with the Arab world goes to other Maghreb countries; GCC countries capture 75% of GCC trade and 1/3 of Mashreq trade goes to other Mashreq countries.

The general impression, however, is that intraregional trade is low compared with its potential and with levels achieved by economic blocs elsewhere in the world. For example, intraregional merchandise exports among (GAFTA) members is about (9%) of total bloc exports. This is much less than the levels achieved by blocs such as (NAFTA) and (ASEAN), although it is comparable to the levels achieved by other blocs, such as the Southern Cone

Common Market (Mercosur) and the Common Market for Eastern and Southern Africa (COMESA).

While the paper did add to the literatures emphasizing the significance of regionalism as a vehicle of facilitating the region's integration both internally and externally, the accessible evidences are rather confusing regarding the question of whether intra-regional trade flows are lower than what would be expected given the region's fundamentals. On one hand, simple shares and trade intensity indices suggest that intra-regional trade is not that low and has been expanding. On the other hand, the gravity regressions suggest that trade is less than what would be expected. However, there has been a noticeable change in the last 10 years, with trade now being larger than what the standard gravity model would predict.

The paper concluded that the gains from regional movements within the region were not equally distributed/utilized among/by the different dimensions; where the region is regarded as more integrated through labor mobility than trade and investment. Comparing with approximately (5%) representing the region's share of global trade, the (MENA) countries originate about (16%) of all remittances paid out to migrants in the world, and (10%) of global remittances are received by residents of (MENA) countries.

The paper showed that the low levels of intraregional goods trade can be explained partly by the lack of complementarity in production and trade structures across the region. Bilateral complementarity indexes show that the match between desired imports and available exports within the region is generally poor and remains significantly below the level found in successful

regional communities. Besides, the uneven level of import protection across the (MENA) region did create a further obstacle to smooth integration.

Moreover, the paper agreed with the findings that existing regional integration agreements within the (MENA) region generally do cover trade in services marginally, through "intentions of cooperation" in certain services sectors. Intraregional differences in regulations, restrictions on currency convertibility, and limits on the physical movement of individuals are currently creating a situation in which it is often easier for (MENA) countries' service providers to operate in countries outside the region (e.g., Western Europe) than within. Given the dynamic development of services exports, as well as the complementarity of net services exporters in labor-abundant countries with net importers in resource-rich countries, significant opportunities could exist for increased regional exchange.

The paper argues that regional agreements within the (MENA) region have further facilitated the launch of intraregional investments, which are widely believed to bring the region's countries more economically closer together, through the creation of business linkages with an increasing concern in successful reciprocal exchange. Meanwhile, taking into consideration the reasonable level of the region's integration via capital movements, some FDI might generate additional links by stimulating the emergence of cross-country networks of suppliers. Evidences showed that over the past two decades, such networks have been established in the car industry in Eastern Europe and in electronics in East Asia, and have significantly contributed to the international economic success of these regions.

Thus, the paper agreed with the findings of (Haddad 2007) that the systems of interrelated suppliers would take advantage of inter-country wage differentials within the region, short transport distances, and economies of scale from specialization. Accordingly, the resulting fragmentation of production would intensify intraregional trade, and it tends to depend heavily on extra-regional demand for final goods as well. Hence, a vital approach for successful utilization of regional movements would stake to the following:

- **Closer integration of factor and product markets to facilitate the emergence of production linkages within the region.**
- **Parallel openness towards international markets.**
- **Well established compensation schemes, as such production networks would result in winners and losers.**
- **Well designed complementary reforms.**

3.2 The Way Ahead

As far as regional integration within the (MENA) region is concerned, and taking into consideration the remarkable achievements on the regional track utilized by the region so far, and despite the fact of limited exposure of trade in services in existing regional movements, coupled with high tariff and non-tariff barriers in some countries, and given the lengthy, costly and ambiguous prospective of the multilateral agenda, the paper do conclude that the regional choice for the region's future integration is inevitable.

Our conclusion stakes not only to economic argument listed so far, but also to non-economic aspects of regional integration, such as enhancing security and facilitating cultural exchange, which would serve as plausible justifications. Moreover, the paper underscores a wide range of in-ward oriented motivations,

and varieties of out-ward empowered ones as well; US-Middle East trade relations and EU-Middle East trade relations. In other words, the possibility of going more regionalism would even get more preferable especially in the light of the ongoing negotiations with both the United States and the (EU), with whom trade liberalization seems more attractive due to their financial support offered to foster (MENA)'s trade reforms, and prevent the appearance of the "hub and spoke" mechanisms (when speaking about sub-regional FTA's).

Examining the latter justification reveals clearly how much regionalism is further biased to dominate within the region's trade atmosphere. On one hand, exploring the major features of trade relations between the (EU) and the (MENA) region reflects explicitly that the regional approach lies at the heart of this front rather than the multilateral one. The realistic launch of regional movements between the two partners goes back to year 1995 (Barcelona Conference), where all (MENA) Mediterranean countries, with the exception of Libya, were encouraged to initiate trade negotiations with the (EU) and ultimately replaced their Cooperation Agreements of the 1970s with the more comprehensive Association Agreements.

Such step was part of a more comprehensive initiative aimed at achieving an (FTA) by 2010. Jordan, Morocco, and Tunisia were the first to ratify the agreement, and by 2007 they had reduced or abolished their tariffs on most European industrial goods entering their respective markets. Egypt started reducing its tariffs on EU imports in 2004, and in January 2007 it initiated the reduction on goods listed under Annex III of its agreement. Lebanon started the process of dismantlement in 2008.

This conclusion goes in line with the findings the paper showed before, where (MENA) countries have also looked toward Europe for both financial and technical support through action plans in the context of a broader European Neighborhood Policy (ENP). These country-specific action plans lay out strategic objectives of cooperation between the EU and the MENA signatories, linking economic, political, and institutional reforms in MENA to receive greater financial assistance and enhanced market access to the EU. Accordingly, the creation of recent forms of sub-regional movements within the region, such as the Aghadir Agreement, was highly perceived as an enabling gateway for preferential market access to the (EU).

On the other hand, our conclusion is further supported through the US-MENA trade front, where in may 2003 the Bush administrative –US former president- promised to launch new bilateral free trade agreements with Middle Eastern countries, pursuant to the creation of a comprehensive US-Middle East FTA (MEFTA) over the following decade. The US administration emphasized that the (MEFTA) is an ultimate goal to be achieved within a decade, through a series of regional preferential measures; those US measures extend to include negotiating new Trade and Investment Framework Agreements (TIFAs), launching Qualifying Industrial Zones (QIZ), as an efficient facilitating preferential trade arrangements toward the fulfillment of higher form of preferential trade, i.e. Negotiating comprehensive (FTAs) that could be combined into other sub-regional initiatives.

In practice, Agreements with the United States have already been signed by Jordan, Morocco, and Bahrain in 2001, 2006 and 2006 respectively, with one for Oman still pending and another for the United Arab Emirates under

preparation. Jordan's qualified industrial zone (QIZ) with the United States (offering duty-, quota-, and tax-free access to U.S. goods with both Jordanian and Israeli value added) has helped raise manufacturing exports, and a similar (QIZ) protocol was recently put in place in Egypt. Consequently, the opportunity for cheaper Turkish inputs in the production of textiles destined to European markets has also triggered a number of bilateral trade agreements between Turkey and MENA economies.

Additionally, a decisive parameter in shaping the way ahead is greatly determined through accession procedures and conditions. Such parameter is an important issue for both non-members and members of regional groups within the (MENA) region. According to (Alabdulrazzaq and Srinivasan, 2006) the fact that (GCC) does not have an accession procedure has been a factor impeding efforts by Yemen to join the group. More generally, there are questions associated with relative costs and benefits of sub-regional groups accession mechanisms for non-members. The paper argues that such costs and benefits compare with accession to the (WTO) and whether and how the two complement each other do matter significantly.

The above findings mirror clearly how much regionalism is advocated in the coming future. Therefore, the paper believes it is highly advisable for (MENA) policy makers to focus first and foremost on how to deepen their existing regional agreements, before considering the choice between going further regionalism or multilateralism, and what contributions each approach could make toward the end of realistic feasible integration.

The paper concludes that deep regional linkages do have a constructive role to play. On one hand, preferential opening of markets can help export-

oriented firms learn how to enter foreign markets, find foreign suppliers and customers, and build up economies of scale, that can subsequently be put to good use in global markets as well. Conversely, import-competing firms can be exposed to foreign competition initially on a limited intraregional basis, which might force them to upgrade their performance, prepare them for the fierce competition in the global market following subsequent, more comprehensive trade policy reforms. [63]

(MENA) regional movements would also provide a training ground for policy makers and senior officials, who can obtain experience in negotiating highly technical aspects of the trade policy environment, such as rules of origin, and learn how to engage in common rulemaking. Developing such skills before entering into policy reform discussions with major players, such as the (EU) or the United States, or even in the context of multilateral (WTO) negotiations, is likely to result in outcomes that correspond more closely to domestic interests.

However, it is worth emphasizing that well-designed regional agreements are of limited value if they are not implemented. The paper did show that many regional agreements in (MENA) look stronger on paper than in practice. One major impediment to effective implementation is the proliferation of agreements. If different regional initiatives have different sector and product coverage, different liberalization schedules, and different rules of origin, implementation agencies, such as customs, might not have the capacity to put the agreement provisions into practice.

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[63] World Bank, Middle East and North Africa Region, 2008 Economic Developments and Prospects: "Regional Integration for Global Competitiveness".

There is often also a lack of trust and commitment— on both the export side, for example, with respect to the credibility of certificates of origin, and the import side, for example, with regard to discretionary application of administrative rules and requirements—that hampers proper implementation. Hence, well-functioning monitoring mechanisms and sustained high-level political attention to institutional improvements (such as those concerning reductions in tariff and behind-the-border barriers) are essential for the success of regional integration initiatives.

Finally, taking into consideration the increasing proliferation of regional initiatives within the (MENA) region, analysts are becoming much more worried about the consequences of such proliferation on the multilateral agenda. Therefore, the paper concludes that it is urgently demanding to recall the so-called "Multilateralising Regionalism" within the region. Literatures have shown that there are some scopes for disciplines to promote the sociability of regional initiatives within the multilateral trading system. . Arguably, there is additional room for the (WTO) to scrutinize regional regulatory initiatives. It could further promote the transparency of such initiatives, establish additional principles that ensure their openness to initially excluded countries and promote templates for regulatory cooperation that lend themselves to eventual multilateralization. [64]

It is not surprising that negotiations on procedures and disciplines on (RTAs) were included in the Doha Mandate. The new Transparency mechanism agreed in December 2006 was the first product of that. Consolidation of multiple

[64] Jim Rollo, "The Challenge of Negotiating RTA's for Developing Countries: what could the WTO do to Help?" Paper presented at the Conference on Multilateralising Regionalism Sponsored and organized by WTO, 2007

and overlapping (FTAs) into a single comprehensive (FTA) can help alleviate the harmful “noodle bowl” effects of different rules of origin and standards. The concept of multilateralizing regionalism has widely been examined in several regions of the world such as Americas and Asia, however, little has been tailored for (MENA)'s perspective.

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