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Abdessatar Grissa

Working Paper 9405

WORKING PAPER SERIES

ECONOMIC RESEARCH FORUM
FOR THE ARAB COUNTRIES, IRAN & TURKEY

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ARAB ECONOMIC INTEGRATION: CURRENT REALITY AND FUTURE PROSPECTS

Abdessatar Grissa
University of Tunis

* An earlier version of this paper was presented at the First Annual Conference on Development Economics in Cairo, Egypt, June 1993

Abstract

Despite repeated efforts to promote the integration of their markets, mutual trade between Arab countries remains very limited. This can be explained and understood against a set of physical, political and economic factors, regarded as formidable obstacles to the promotion of economic integration. Given the present economic environment, it is suggested that what Arab countries need most is not economic integration, but more and better education, less state imposed distortions, and therefore more efficient utilisation of their resources. Economic integration should then follow. Analysing the impediments to economic integration should transcend the oversimplification of current realities to acknowledge the facts of a more complex situation.

ملخص

على الرغم من الجهود التى تبذلها البلدان العربية لتنمية التكامل بين أسواقها، مازال التبادل التجارى بين هذه البلدان محدودا للغاية. و هناك مجموعة من العوامل الماديه السياسية التى تعتبر عقبات خطيرة أمام تنمية التكامل الاقتصادى و التى يمكن ان تفسر هذا الوضع و تزيد من فهمنا له. و فى ضوء المناخ الاقتصادى الحالى، فان هذه البلدان تحتاج الى تعليم أكثر و أفضل و الى حد من الاختلال الذى يفرضه تدخل الدولة و بالتالى الى استغلال اكثر كفاءة لمواردها، اكثر مما تحتاج التكامل الاقتصادى، و من هنا يجب أن يأتى التكامل الاقتصادى بعد ذلك ليتوج كل هذه الجهود. و يجب عند تحليل المعوقات التى تواجه التكامل الاقتصادى ان تبتعد عن التبسيط المفرط الى حد ما للواقع الحالى و ان تسعى لفهم حقائق الوضع المعقد نسبيا.

ARAB ECONOMIC INTEGRATION:
CURRENT REALITY AND FUTURE PROSPECTS[1]

The number of treaties, agreements and protocols signed by the member countries of the Arab League on the promotion of their mutual trade and economic integration is impressive. This number amounts to nine at the League, and to eight at the sub-regional level. But this proliferation of treaties is in effect the consequence of their high rate of failure. For as the Arabs, and in particular their intellectuals, believe rather strongly in their destiny to unite, these repeated failures constitute for them mere temporary setbacks, and as such do not discourage them from trying again whenever the occasion presents itself. In fact, they are not discouraged from repeating these efforts simply because they are able to exonerate themselves from the responsability for these failures, by putting the blame on the intervention of external forces.

Despite, therefore, these repeated efforts to promote the integration of their markets, Arab mutual trade was limited in 1973-90 to only 7,2 per cent of their total foreign commercial transactions. Moreover, this ratio did not show during the last eighteen years any marked tendancy of improvement, for it only rose from 6,2 per cent in 1973-76 to 8 per cent in 1986-90.

It should be noted, however, that 69,2 per cent of the intra-Arab trade of 1973-90 took place between the Gulf countries, mostly in the form of petroleum reexports. Consequently, it is as an important petroleum reexporter that Bahrain accounted in this period for 27 per cent of intra-Arab imports. Moreover, we find that the relatively less important trading countries such as Jordan, Yemen, Lebanon and Sudan are generally more dependent in their foreign trade on their Arab neighbors, particularly those of the Gulf area, than the relatively more important countries. This situation is clearly demonstrated by the figures of Table 1.

TABLE 1

Intra-Arab Trade as Percentages of their Total Foreign Trade

(1973-90)

Bahrain	38,7	Qatar	6,9
Jordan	25,4	Tunisia	5,9
Yemen	23,3	Iraq	5,5
Lebanon	22,7	Saudi Arabia	5,3
Sudan	19,8	Egypt	5,1
Syria	10,2	Oman	5,1
Morocco	9,8	Mauritania	2,1
Kuwait	7,7	Libya	1,2
U.A.E.	7,1	Algeria	0,8

But given that the majority of the Arab countries are net exporters of petroleum and related products,(2) most of their mutual trade consists of these commodities. Their share in intra-Arab trade amounted to 63 per cent in 1974-84. Trade between the Arab countries in other products is mostly limited to fruit, vegetables, live animals, handcrafts and the reprints of Arab classics.

However, this low level of intra-Arab trade cannot be explained solely by the structure of their production. Its reasons should also be sought in the inefficiency of their infrastructure and means of communication, in the collection and circulation of information on their economies and needs, in the extent of their georgraphical area, in the diversity of their development strategies, and in their inherent political jealousies and antagonisms.

These reasons can, for the sake of simplifying the analysis, be grouped into three main categories : physical, political, and economic. In the context of the Arab countries, each of these groups of reasons constitutes in effect a formidable obstacle to the promotion of their economic integration.

A- The Physical Obstacles

The geographical area of the Arab countries covers about 14 million km^2, but most of this area is desert. Consequently, the population of these countries is mainly concentrated in the relatively fertile parts that exist mostly along the Nile, in the valleys of the Euphrates and the Tigris, and along the costal areas of North Africa and of Syria and Lebanon. These four regions account for 84 per cent of the population of the Arab countries and of only 54 per cent of their GDP The Gulf countries: Saudi Arabia, Kuwait, Emirats, Qatar, Bahrain and Oman, have between them 45 per cent of GDP of the Arab world but only 10 per cent of its population.

Taken, therefore, as a whole the Arab world had in 1990 an average population density of 16 persons per km^2, but what renders its economic integration even more difficult to realize is its relatively low density of GDP per km^2.(3) This GDP density ratio amounted in 1990 to only 25300 dollars, against 77600 for Brazil, 570000 for the U.S.A, and 2.5 millions in the case of the EEC. The more thinly scattered is GDP, the higher should be the real unit cost of its basic infrastruture of transportation or other means of communication.(4) The effect of this high cost should not only be to handicap the development of sustained commercial relations between the Arab countries, but to hamper also the progress of the internal market integration of each of them. In fact, it is generally much easier for the scattered urban centers of these countries to communicate and to have commercial intercourse with distant foreign countries than with their own countryside, which largely lives isolated in a precarious self-sufficiency.

Given therefore the long distances that separate the relatively populated areas of the Arab World, and their rather low levels of production of mutually tradable goods, the development of trade between them must be both costly and slow.(5) As we have seen, this applies also to the development of the internal trade of the individual countries themselves, as many of them lack internal integration, both vertically, between their exporting sectors and the rest of their economies, and horizontally between their different regions. In most of them, little, if any, of their export products is consumed locally, and their export industries resort only marginally to the employment of local imputs. This concerns in particular the production of petroleum and the other exported primary commodities of the area: iron ore, phosphate, cotton, and even fish in the case of Mauritania.

These export sectors of primary commodities function as producers of inputs for the manufacturing industries, and consequently there is very little use for their products in the other Arab countries whose degree of industrialization is generally still in its early stages. Moreover, the fact that the production of these exported primary commodities is developed at the initiative of demand in the industrialized countries, the development of related means of transportation or communication in the exporting countries : pipelines, ports, railways, roads and telecommunication, etc. is conditioned by the development of these exports. We find therefore, that the means of communication by sea, air, telephone, between any Arab country and its industrialized commercial partners is by far more developed than those with its next-door Arab neighbors.(6) In facts, a resident of the these countries is frequently obliged to pass by Europe in order to reach another Arab country.

It is quite normal that the means of communications of these countries should be more developed with their industrialized partners. This is so, simply because the paying volume of traffic with these industrialized partners is by far much greater.Comparatively, therefore, communications between the Arab countries are rather limited and often sporadic, and as a result can be subjected to periodic intentional interruptions without causing much lasting damage to their economies. It is difficult to find an Arab country that did not, at one time or another, intentionally close its frontiers and interrupt its communications with one or more of the other Arab countries. In fact, the moments are rare in which all the frontiers of the Arab countries remained simultaneously open to their citizens and their trade. This frequent, and generally sudden, closing of their frontiers cannot be expected not to have marked negative effects, not only on the growth, but also on the regular flow of trade between these countries. The production of goods destined for this trade, their transport, financing, etc have to be planned in advance and this cannot be undertaken in an environment of great uncertainly, where the exporters are constantly in doubt of the disponibility of their markets, and the importors of that of their supplies. Consider, for example, the effect of the closing of the frontiers on its producers and exporters of Jordan with Iraq, Saudi Arabia and Kuwait during the Gulf war .

The construction of the infrastructure of transport and of other means of communication is very costly to be justified by such poorly developed economic relations that are also subject to frequent interruptions. It is difficult to estimate the cost, and the consequences of the pipelines that are put into disuse in the Middle East as a result of the closing of frontiers. First, due to the creation of the State of Israel, then to the closing of the Iraqi - Syrian frontier since 1982, and currently as a result of the Iraqi occupation of Kuwait and the ensuing Gulf War.

As the governments in the Arab world are generally unable to master the factors affecting their reciprocal political and economic relations, they tend to resort to the easier expedient of closing their frontiers. But this expedient is used almost exclusively against each other due to the fact that their effective political and economic consequences are on the whole limited, and the capacity of retaliation of the opposing countries is equally weak. As an example, the Algerian-Moroccan border remained firmly closed from 1975-1986, while that of Libya and Tunisia was from 1969 to 1988 more often shut than open. But at no time has any of these countries dared interrupt its economic and diplomatic relations with a developed country. The consequences will be in this case hard for them to support in comparison with those that result from the closing of inter-Arab frontiers.

However, the insufficiency of the means of communication between the Arab countries is aggravated by the evident lack of pertinent information on their economies. Trade cannot be developed between countries that do not know the products, the needs, the commercial methods, and the procedures and means of payments of each other. Every researcher working on the Arab countries knows how difficult it is not only to have access to this information, but often even to know to whom he should address himself in order to ask for it. In fact it is on the whole easier to obtain economic and related statistical information on these countries in the United States, France, or the United Kingdom, than within their own frontiers. The information is better known to Arab countries' developed partners than to their own citizens, let alone to the citizens of neighboring Arab countries.

To these problems should be added those associated with the transfer of funds, the diversity of tastes, and the specification of products. Tastes of food and dress differ considerably from one Arab country to another and tend therefore to limit markedly their mutual trade in these products which constitute for some, such as Egypt, Morocco, Tunisia, and Syria substantial proportions of their exports. Therefore, though the Gulf countries and Libya are important importers of textile products, very limited proportions of their imports come directly from Tunisia and Morocco due mainly to the fact that these two countries limit their production to types demanded in Europe where they have their main commercial partners.

Given, however, that the foreign enterprises have considerably longer and more important experience in the art of commercial intercourse with individual Arab countries, they also frequently act as intermediaries between them. Consequently the direct trade statistics of these countries do not reflect the reality of their effective commercial exchange since much of it take place through third parties, notably Tunisian olive oil through Italy, and Moroccan and Tunisian textile products through other European countries. However, it is difficult to determine the importance of this indirect trade, as it generally takes place under trade marks of the reexporting third countries.

B- Political Obstacles

It has already been remarked that the Arab countries often resort to the closing of their frontiers in the face of each other's citizens and enterprises. The conflicts that lead to this closing of the frontiers are however, frequent and the causes that provoke them vary from insignificant newspaper articles to serious border differences, or the subversion of internal stability. Actual or expected, exported subversion has been the most important determining factor of Arab countries relations. An inherent climate of suspicion is therefore deeply entrenched in the area with strong negative effects on the attitude regarding the movements of Arab citizens. Today an Arab is a suspected person not only outside the Arab World, but probably even more so inside it. The development of trade cannot possibly be expected to take place despite these strong negative currents.

The Arab League has currently twenty independent member countries, and as pretending brothers, there is a strong current of jealousies among those who govern them. The problem is that each of those who hold the reins of power among them tends to consider himself more competent and more patriotic, and to have therefore stronger claims to leadership and to the assertion of his right to interfere in the affairs of what he may consider as his less well governed brothers. These jealousies find in the mosaic of ideologies adopted by the different Arab regimes, not only propitious terrain for their development, but also sufficient material to sustain the conflicting arguments of those who entertain them.

Further, as these ideological differences lead to political, and even to armed, conflicts and as they result in the adoption of different economic strategies that do not function according to the same rules, it is difficult to expect them to co-exist within a common process of market integration. The integration of markets cannot in effect be concretized without a sufficiently strong sense of community of interests, to induce the participating countries to open their respective frontiers to the free circulation of goods and factors of production, and to surrender certain parts of their sovereignty to the commonly chosen authority responsible for the application of the rules determined by the treaties of integration.

Without this conscious and mutual surrender of sovereignty- which can be prevented by political rivalries, incompatibility between the adopted development strategies, and the absence therefore of an overriding sense of community of interests- no meaningful market integration can take place. In fact, the political jealousies, and the lack of awareness of belonging to a community of interests, have been the main causes responsible for the disintegration of a growing number of presumably united markets.

The East African and Central American Common Market, the old Pakistan, the Soviet Union, and Yugoslavia, are evident examples of the disintegration of markets under the impact of inherent political, cultural, and ideological contradictions. As undercurrents, such contradictions are also strongly present in the Arab world, but a strong sense of self deception prevents them from being recognized publically. Nevertheless, they have been the effective causes of the dissolution of the unions formed between Egypt and Syria, between Egypt, Syria and Libya, as well as a number of other aborted combinations in other parts of the Arab World.

C- Economic Obstacles

As far as the current structure of the production and foreign trade is concerned, the Arab countries can be divided into essentially three groups :

I- Those mainly dependent on the production and export of petroleum and related products, and which include Algeria, Libya, Saudi Arabia, Emirats, Kuwait, Qatar, Oman, Bahrain, and Iraq.

II- Those with relatively more deversified sources of production and exports, and which include Morocco, Tunisia, Egypt, Syria, Jordan, and Lebanon.

III- The countries included in this group are Sudan, Yemen and Mauritania, they have the lowest per capita incomes of the Arab World, and have therefore a comparatively limited participation in international trade.

The relative economic importance of each of these groups is reflected in the figures of Table 2.

Table 2

Group Shares in Population, GDP,
and Foreign Trade, of the Arab countries, 1990
(Percent)

	Group I	Group II	Group III
Population	33	50	17
GDP	70	27	3
Commodity exports	81	18	1
Commodity imports	60	38	2

The nine countries of group I predominate by their wealth and their shares in commodity exports and imports. But, as they depend on the extraction and export of petroleum and natural gas, there is in effect very limited effective integration between their domestic and export sectors. The domestic markets of these countries contribute generally little to the inputs, and have practically no effect on the production, investment, pricing and marketing decisions, of their export sectors. Given however this lack of integration between the export and domestic sectors of these countries, and the fact that they depend on the export of identical commodities, we cannot expect them to have a more developed trade with each other, particularly as none of them disposes of sufficient surplus in the products they commonly import, and which are primarily food and manufactured goods.

This implies that market integration between countries dependent on the export of homogeneous primary commodities cannot be justified on economic grounds. Consequently, trade between the countries of this group in locally produced products is on the whole conditioned, where it exists as in the case of Bahrein, by the possibility of employing underutilized production facilities for the processing and reexport of the primary commodity in question.

A priori, therefore, the only Arab countries that offer relatively valid possibilites for attempting to move their economies closer to each other are those of Group II. But can these countries currently make effective attemps at this rapprochement ? Apart, however, from the familiar political problems, three other major obstacles prevent them from making serious progress in this direction.

One of these obstacles is that these countries do not dispose of pertinently sufficient information on the economies of each other. The problem here is not due to a lack of curiosity, or interest, to acquire such an information, but to the difficulty of finding it even, as it has already been noted, for experienced researchers. Industrial production for export is often undertaken in these countries by foreign controlled entreprises, while the production destined for the local markets is essentially undertaken at the initiative of native producers. In the first case, it is the foreign producer who circulates, under his own name and trade mark, the necessary information on his products,with the country of origin being reduced to a secondary importance. As to the second case, however, the limitation of production to the local monopolized markets is generally associated with higher prices and lower qualities, and as this protected production tends to be sufficiently remunerative as it is, we cannot expect its producers to try to export products that could be sold only to equally captive clients. In fact, it is for this reason that in trade negotiations between countries in similar situations, the participating partners tend to ask for reciprocal monopolistic concessions in the markets of each other for their respective protected industries. The difficulty therefore of finding common grounds for a satisfactory exchange of monopolistic concessions is normaly the major cause of faiture of all the attempts to elaborate market integration schemes based on the exchange of monopolistic privileges, which tends to be generally the case of the protected economies of countries in their early stages of industrialization..

Excessive protection imposed in order to enhance the survival of newly born industries constitutes, therefore, another major obstacle to the promotion of market integration between these countries. Furthermore, the relatively narrow markets of these countries are often used as a pretext to the establishment of monopolies, generally of state enterprises, that have the tendency of becoming havens for priviliged excessive employment and growing sources of loss for the budget. The fear, therefore, of growing open unemployment and of aggravating the losses of these enterprises, does not facilitate the mutual opening of the markets of this countries to each other without the elaboration of adequate schemes of reciprocal compensations. Consequently, since the industrial production of the Arab countries is the whole confined to the processing of their primary commodities -phosphate, petroleum, and natural gas- for which there is a relatively limited demand in the region, or to the production of labor intensive consumers' goods, particularly textiles, it is difficult to find sufficient possibilities for making the necessary reciprocal compensations. The relatively narrow range of industrial, and even of agricultural, products exported by these countries limits the possibilities of their finding common grounds for making mutualy acceptable concessions. Moreover, as every country tries in this case to maximize the concessions it can obtain from its partners by the minimization of its potential gains and the exaggeration of its potential losses, the overall concessions demanded tend therefore to exceed what the partners can collectively offer, with the inevitable result being the breaking down of the process of integration, even before it is effectively applied.

The attempt to establish an Arab Common Market in 1964, failed soon after the signing of its Treaty as a result of the inability of the member countries, particularly Egypt, Jordan, Syria, and Iraq[7] to agree on the list of products that should be permetted to circulate freely between their economies. Every product proposed for this circulation was met by an objection from at least one member as being contrary to its effort to promote the development of its infant industry.

In my opinion, no two Arab countries have more affinity in every aspect of their economic, social, and cultural life than Syria and Lebanon, and no two Arab capitals so close to each other as Damascus and Beirut. Yet despite the relative diversity of their production, their officially registered mutual exports and imports is generally limited to 2.5 per cent of their respective foreign trade.[8] Neither distance nor differences in tastes and habits can be considered as significant causes for these relatively low trade ratios. The pertinent reasons should be sought in politics and in their capacity to make valid reciprocal concessions.

TABLE 3

Current Deficit and External Debt

Country	Current deficit	External debt 1990	
	as percent of the exports of goods and services (1983-1985)	Billions of current dollars	Service of the debt as percent of the exports of goods and services
Marocco	12.5	22.1	34.4
Tunisia	16.0	6.5	21.2
Egypt	13.2	34.2	25.7
Jordan	9.0	6.4	23.1
Syria	26.3	15.0	27.0

This indicates in effect that the Arab countries are far from being a homogeneous group with identifiable common problems, interests objectives, and comparable degrees of economic and cultural development, and consequently of internal integration. Conflicts of interests and objectives do not only make their economic rapprochement difficult, but have also the effect of aggravating the regional ethnic and religions to which each of these countries is vulnerable. It is for these reasons that the Arab countries are generally more suspicious of each other than of powers external to the region, and the closer they are the greater is this suspicion. And therefore their incapacity to establish mutual volontary cooperation in pratically all fields of endeavor.

The third major obstacle, and probably the most important, is raised by the balance of payment difficulties which confront constantly the countries of this group. The figures of Tables 3 indicate the gravity of the problem posed by the current deficit of their external payments and their international indebtedness.
Sources: World Bank and I.M.F.

The gravity of the balance of payment problems confronting these countries do not permit them to make the necessary immediate sacrifices required by the mutual concessions that they should concede to each other, or to divert parts of their trade from their traditionally lucrative markets to the limited and still unexplored possibilites offered by their respective underdeveloped economies. Countries like these in constant confrontation with current external payment problems, cannot possibly afford to make these sacrifices, or to undertake the risk of experimenting with the future of their trade. Day to day payment obligations force them to give an urgent preference to the bird in hand regardless of the number of those that sing unseen in the bush. These countries tend therefore to give preference to their traditional developed parteners who can offer them the neccesary commercial credit which would be difficult to obtain from other Arab countries, particularly in the light of their balance of payments problems and the risks arising from the instability of their trade relations.

The question that should be asked at this point however is : what prevents the countries of this group from making the effort to integrate their economies with their neighbors of Group I, as it is in effect being attempted in the Maghreb region. Two essential handicaps tend to make the success of such an attempt highly doubtful. First, since the countries of Group I export practically only petroleum and related products, of which Egypt, Syria and Tunisia are also net exporters, the possibility of making satisfactory reciprocal compensatory concessions is in effect excluded. Market integration means in this case that the flow of trade between the two groups of countries would essentially be in one direction. It should be difficult in this case to expect the receiving countries to accept this situation which could easily lead to their exploitation by their exporting partners, in terms of lower qualities and higher prices. No country could rationally be expected to concede such a hold over its domestic market, regardless of the affinity it can have with the partners concerned, without requiring compensatory concessions which it can in its turn apply as a means of pressure, when the need arises. It is for this reason that economic integration is considered capable of survival only between economies that have attained comparable degrees of development and production diversification. "Consequently, customs unions are most likely to be negotiable among countries with a similar degree of preference for industrial production, and with similar degree of comparative advantage in industrial production"[9].

The similarities in the degrees of industrial development, signifies that the countries concerned would have comparable income and price elasticities of supply and demand, and therefore of the mobility of factors of production. In this case, the market integration will, through its effect on the intensification of competition, lead to better allocation of resources and higher production efficiency. Without this intensification of active reciprocal competition, market integration will not have significant economic consequences. Rather it should be expected to result in more protection, lower efficiency, higher costs of production and deteriorated consumers welfare.

A market integration that results in a compensatory exchange of monopolistic concessions or in the granting, for political reasons on uncompensated advantages, cannot possibly result in the creation of more efficient production environment. The establishment of more efficient production conditions can only be the work of an active competition. Given, therefore, the relativly low levels of industrial and agricultural development of the Arab countries, the integration of their economies cannot permit them to create this competitive environment even at the sub-regional level.

Economic Integration and Economic Development

Economic integration, as it has been pointed out, is mainly justified in terms of the gains to be made, in production as result of the opening of greater possibilities for its growth and the development of economies of scale, and in consumption as a result of the effects it can have on the promotion of the consumers' welfare. In this case, each country "stands to gain in term of real income, by exchanging a reduction of its industrial production through its own tariff reduction for an equal expansion of its industrial production through the other country's tariff reduction... It follows that reciprocal tariff-cutting would proceed so long as each country could offer the other a tariff reduction that would increase the other's export".[10]

That reciprocal concessions are imperative to the effective participation in market integration schemes is clearly demonstrated by the EEC experience. It is evident from Tables 2 and 3 of the Appendix, that the rates of dependance on the Community are highly balanced, for both exports and imports, with regard to each period and participating country. We find in no case that the relative dependance of exports differed from that of imports by a rate exceeding 7.5 per cent The growth of the Community's shares in the exports of notably : the United Kingdom, Spain, Portugal, and Denmark, is matched by a comparable growth of its shares in their imports. Consequently, the simple averages of the Community's shares in the exports and imports of its members are identical for each of the five sub-periods. Morover, the smaller members are on the whole more dependent on the Community than the larger ones, and in no case the share of the Community in the exports and imports of one of its members is currently less than 47 per cent, while on the average it is superior to 60 per cent for both exports and imports. By contrast, the intra-Arab trade amounted in 1986-90 to only 8 per cent of their foreign trade which is rather limited, and even more so for the larger countries, to constitute a sufficiently solid base for the promotion of an effective market integration.

However, the experience of the EEC is revealing in another sense, for a part from the United Kingdom, Spain, Portugal and Greece, none of the other members has registered a marked increase in the share of its exports to this Community. The share of the Community in the exports of the eight other members averaged 58,2 per cent in 1967-71 and 60,7 per cent in 1984-1988. In fact, the Benelux and Ireland have experienced some declined in the shares of their exports to the Community. The relatively rapid growth of the share of Britain can be explained by a significant diversion of its trade from the Commonwealth countries to the other members of the Community. But this diversion seems to have reached its limits by the end of the 1980's. As to Spain, Portugal, and Greece, they are the only members able to profit strongly in terms of the growth of their national incomes and of their exports. Nevertheless, the figures reflecting the evolution of the shares of Australia, Sweden and Switzerland, indicate that it may not be essential to join an economic community in order to profit from the growth of external demand. What should be of significante in this case, is simply to be sufficiently efficient and competitive. The exports of Austria and Switzerland to the EEC grew during the period 1967-88 faster than those of Benelux, France, Germany, Ireland, Italy and the Netherlands. Moreover, the exports of Japan and Korea to this community grew markedly faster than those of any of its members. Consequently the formation of an economic community should be considered much more on the bases of its effects on the efficiency of the allocation of resources and its impact on the growth of production than on the bases of its impact on the growth of trade between its members. The growth of this trade may simply be the result of an exclusive trade diversion without having any any significant effect on the amelioration of the underlying structure of production.[(11)]

What should therefore be of a particular interest to us is that the process of trade creation is essentially the product of economic development and growth than the consequence of market rearrangements. These market rearrangements may lead initially to certain trade expansion, but it will mainly be the effect of a once-for-all transition. Consequently, unless the integration scheme contains the elements necessary for sustaining the process of trade creation, its effect on the development of trade between its partners is bound to cease as soon as the limited possibilities of trade diversion are exhausted. Noting, moreover, that without a sustained trade expansion the integration of markets will not have a durable effect on the economic development of the countries concerned.

But, since the trade diversion is induced by the tariff rearrangements which raise the prices of third country goods relative to those of the high cost partners, this tends to lead to the lowering of consumers' welfare, the decline of government revenues, the restraining of competition and the deterioration of economic efficiency. It is for this raison that an economic integration based, on the exclusive possibilities offered by trade diversion cannot constitute an effective source of growth of production and trade. This is so simply because trade diversion can only be sustained by trade restrictions in favor of the less efficient suppliers of the participating countries.

"Trade creation is considered beneficial as the elimination of protection for domestic production vis-a-vis producers in the partner countries permits the replacement of higher-cost domestic products with lower-cost partner-country products. In turn, trade diversion may be detrimental both to member and to non-member countries. The elimination of barriers to intra-area trade entails discrimination against imports from non-member countries that continue to pay a duty, thus providing inducements to replace the lower-cost products of non-member countries by higher-cost products of the partner countries".(12)

Given, however, the relatively low level of economic, and particularly that of industrial, development in the Arab countries, including those of Group II, the insufficiency of their means of communication, their evident lack of circulation of information, and the profound differences in their development strategies, any attempt to promote market integration among them can only be realized at the cost of intensely aggravating the inefficiency of their economies. It is mainly for this reason that non of the attempts to integrate economies at such low levels of development has suceeded so far.

Economic integration between incompatible economies, either because of market distortions resulting from excessive ideologically determined state intervention, or because of a heavy dependance on the production and export of primary commodities, cannot contribute to the promotion of economic development. In fact a premature integration will, in the light of the actual economic environment of the Arab countries, raise their production costs, lower the real incomes of their consumers and consequently reinforce the obstacles that handicap their economic growth.

What these countries most urgently need is not economic integration, but more and better education, less state imposed distortions, and therefore more efficient utilization of their resources. Economic integration should not, in itself, be expected to have miraculous effects on the growth and diversification of production and trade. The contribution of integration to this growth and diversification depends on the political, production, communication, balance of payments, etc., conditions in which it is applied. Integration may provide added stimuli to the mobility of products and factors, but in order for this mobility to react to the provided stimuli the underlying conditions of production and trade must be sufficiently diversified and elastic. Without the existence of an adequate competition, flexibility of mobility of resources and sufficient means of communication, the elimination of economic frontiers will have no marked effect on the flow of trade between the countries concerned. No effective barriers existed in the past between Saudi Arabia and Yemen, or between Egypt and Sudan, but the annual merchandize exports of Yemen to Saudi Arabia, and of Sudan to Egypt amounted in 1973-90 to 12,3 and 24,4 millions of dollars respectively.

Though these figures averaged in the case of this two countries 2.2 and 1.5 dollars per head of their estimated populations, they amounted to 46.1 per cent and 21.8 per cent of their respective merchandise exports. The main cause of these low levels of exports is not the lack of external markets, but the insufficiency of their exporting capacities. The opening of the frontiers of their neighbors to their exports cannot be expected to have the miraculous effect of accelerating the growth of their exports.

The Prospects of Arab Economic Integration.

There is a widespread belief in the Arab countries that they can collectively make a more rapid economic progress than they can separately. This belief is based on the assumption that the integration of their economies would lead to a more rapid growth of their reciprocal demand and the acceleration of the internal mobility of labor and capital and result therefore in the acceleration of their economic growth and the diversification of the structure of their production. This assumption implies, however, that the higher income arab countries can effectively create more employment opportunities, and the lower income countries are capable of absorbing higher rates of productive investment. But, given that the rich countries are already saturated, relative to their limited populations, with imported labor, mostly unqualified, it would be preposterous to expect them to absorb more of this external Arab labor. This will not only be unacceptable from a security point of view, but also from the point of view of the rate of return on investment in activities run by risky imported labor, relative to the marginal rate earned on investment abroad. The higher risk and cost associated with the imported labor has already lowered the marginal rates of reurn on the domestic investment of these countries to levels that can hardly be expected to fall further, particularly in the light of the sustained decline of their export earning since 1982 as a result of the 60 per cent fall in petroleum prices. Consequently, these countries cannot be supposed to build sufficiently competitive industries on the bases of an unstable costly imported labor. The risks associated with such activities would be economically unacceptable.

These risks have been amply concretized during the Gulf crisis, when hundreds of thousands of workers from Yemen, Jordan, Palestine, Sudan, etc, were forced, one way or another, to leave Iraq, Kuwait, Saudi Arabia, and the other Gulf countries, without being able to take much of what they have saved with them. The consequences of this massive and sudden exodus of labor can hardly be exaggerated. They meant declining incomes, rising unemployment, and deteriorating balance of payments for the countries of origin, and decreasing production in the host countries. For some countries, the sequels of this exodus are still far from being overcome. The newspaper "Le Monde" reported in its issue of May 13, 1993, that some 250.000 of the estimated 750.000 Yemenis, who left Saudi Arabia and the other Gulf countries during the first months of the crisis, are still living in camps without regular sources of livehood. Situations like this, and which can be repeated at relatively short notice in the Arab World, cannot be propicious to the promotion of an effective economic or market integration.

It should, therefore, be irrealistic to expect the authorities, or the businessmen, of these countries to sink their capital resources in unprofitable projects simply in order to create jobs for fellow Arabs. They would have already created these jobs, had it been in their interest to do so. Moreover, Arab capital has also its opportunity cost, and rational investment decisions should be determined according to the criteria of this cost and not on the basis of nationalistic sentiments. It may in effect be preferable to invest the available capital resources in more productive opportunities outside the Arab world, and to use the realized profits to help the poorer countries, than to sink these resources in non profitable ventures though this should be in their own territories. Investing in non profitable ventures in the Arab World may cause in effect the loss of the principal in addition to the revenues. Those who recommend this investment policy and employment creation in the Arab World seem to consider the rate of return on capital to be essentially the function of the supply of labor regardless of its qualifications. This recommendation is frequently repeated despite the fact that the Arab countries, and in particular those relatively rich in capital resources, lack management capacities, qualified labor, production and marketing know-how, adequate water supplies and sufficiently rapid means for the collection and the circulation of information. The effect of this evident lack of these essential factors to the efficiency of investment is to cause the rate of return on the capital invested in these countries to fall rapidly towards zero.

The fact, therefore, that an Arab country has more investment resources than its effective domestic needs does not mean that it should give them away, or sink them in "brother countries", regardless of their expected rate of return. To do so would soon lead to the ruin of the richer countries without making the poorer ones any better. Patriotism and brotherhood cannot be sufficent to make a less efficient environment more productive, or to save loss making entreprises from bankruptcy.

As to the lower income countries, their capacity to absorb productive investment is at its turn considerably exaggerated. It is a commonly accepted notion that the economic development of these countries is handicapped by the insufficiency of their capital formation relative to their real needs. This supposes, however, that any increase in their rates of investment, relative to GDP, would raise their real rates of economic growth. It is also implied that these countries have the appropriate politicial, cultural and economic environment, and dispose of adequate other resources, particularly management capacities and qualified labor, in order for their realized investment to make the expected contributions to their economic growth. It should be noted, moreover, that most of these countries have, as can be seen from the figures of Table 4, benefited in the past from a considerable inflow of capital resources and realized relatively high average rates of investment, and realized on the whole respectable rates of economic growth. Noting however that, in all these countries domestic savings could have been considerably enhanced had they not devoted relatively high ratios of their GDP to the subsidization of consumption.

In the case of Algeria, Morocco, Tunisia and Egypt, the external current account deficit, as a measure of their net capital inflow, often exceeded in 1973-87 one third of their gross domestic investment, a ratio not frequently attained in other parts of the world. Moreover, the rates of their gross domestic investment has been on the whole higher than the averages of the Middle East and the developing countries as a whole.

TABLE 4

Gross Domestic Investment, Current Account

Balance of External Payments and the

Growth Rates of GDP

Country	Gross Investment (per cent of GDP)		Current Account Balance (per cent of GDP)		Growth Rate of GDP	
	1973-80	1980-89	1973-80	1980-87	1970-79	1980-87
Algeria	44.6	35.2	-8.1	-11.5	5.8	3.8
Morocco	25.9	25.3	-7.6	-8.0	6.1	3.2
Tunisia	29.9	27.5	-5.2	-6.1	7.6	3.6
Egypt	29.3	27.9	-8.3	4.0	7.6	6.3
Syria	26.7	24.3*	+1.9	-2.2	9.0	0.3
Jordan	32.7	36.7**	-2.1	-6.6	4.4	5.8
Middle East	25.7	28.4	-	-	-	-
Developing countries	25.9	24.5	-	-	-	-

Source : IMF and World Bank
* 1980-84
** 1980-87

Rather, the real obstacles to the capacity of these countries to realize sustained economic growth should essentially be sought in :

a) the development strategies they have adopted ;
b) the insufficiency of their education and training policies;
c) the lack of water as an indispensable supporting economic resource;
d) and the effect, particularly in the case of Egypt, Syria, Jordan and Lebanon, of the Israeli-Arab conflict.

Practically all of these countries have adopted state controlled and managed, inward looking development strategies. But as the absorption capacities of their internal markets are saturated, and the facilities of their external borrowing are exhausted, the effective contribution of these strategies to their economic growth is markedly diminished.

The balance of payment difficulties, the growth of the external indebtendeness, and the rising monopolistic cost associated with these strategies, have lately forced the authorities of these countries to drastically reduce state ownership, subsidies, and their control of economic decisions. This new liberal approach may lead in the future to a more trade growth between these countries. They should not at this stage establish preferential treatment in favor of each other products. The structure of their production and communication cannot result in favorable responses. These responses can only be developed with the growth and the diversity of their economies.

What the Arab countries currently need, therefore, is not economic integration, for which their economies are not yet ready, but the acceleration of their economic development. In this endeavor, it would be more appropriate if each country concentrates its efforts on the development of the activities and products in which it has comprative advantages. Moreover, as the process of the economic development is better served by the adoption of production strategies that are open to external competition, they should simultaneously try to promote as much as possible this competition among their rival producers. This should permit mutual trade between these countries to expand with the growth of their economies, and thus facilitate their integration in the future.

In others words the economic integration of the Arab countries should be the crowning stage in the process of their economic development. A premature integration of these incompatible economies would do them more harm than good.

Conclusions

It is widely believed in the Arab countries that they can, by an effective opening of their frontiers to each other, accelerate the process of their economic development. This belief exists despite the fact that it is based on two false assumptions. It is supposed in the first place that the number of inhabitants is a determining factor of economic development and trade diversification. This assumption is implied in their reasoning though no valid correlation exists between the levels of economic development and the sizes of population. Rather, we find the smaller countries, that have been, relative to their sizes, more active participants in world trade, and are therefore more open to the absorption of new ideas and techniques, have invariably made a faster economic progress than the protected and tradition bound economies of the more heavily populated ones.

The other assumption is that the slow growth of trade between the Arab countries is essentially due to the existence of protective frontiers. It is therefore supposed that a simple removal of the economic frontiers would lead to an upsurge of trade and capital flows between these countries.

These two assumptions are often, explicitely or implicitely, made in political discourses, newpaper articles, and at times even in seemingly scientific publications. Howerver, they assume in their turn that what is fundamentally lacking for the Arabs to achieve their economic, and eventually political integration, is will and readiness on the part of the richer countries to make immediate and temporary sacrifices.

But are things in fact as simple as it is implied by these assumptions? The reality of the Arab World is however much more complex than it is thus implied.

First, it is not the existence of frontiers which is responsible for the rather low level of trade between the Arab countries. For, given their current structure of production, the composition of the products they export and import, the wide distances that separate their relatively important economic areas, and the insufficiency of the means of communication between them, no attempt on the part of these countries to accelerate the growth of their reciprocal trade can at present lead to significant results.

The political jealousies and antagonisms associated with the diversity of their political regimes, and the wide differences in per capita incomes, are only aggravating factors and not the fundamental causes of the low level of intra-Arab trade. Given current conditions of production and communication, political will, however sincere it may be, cannot lead to a more rapid growth of this trade.

The Arab countries should, therefore, avoid forcing their fragile economies into premature integration the main effect of which will be to make the utilization of their resources even less efficient. This is so simply because, their integration schemes can only be sustained by the establishment of reciprocal protective tariffs, the higher burden of which can only be reflected in the deterioration of the welfare of their consumers.

Economic integration should not be considered as an objective in itself, but as a means to the promotion of trade and economic development. Economic integration can only succeed in effect between compatibles economies that have completed, or at least nearly achieved, the process of their internal integration, and capable therefore of making satisfactory reciprocal concessions. However, no two neighboring Arab countries have had contemporaneously compatible economic and political regimes capable of realizing voluntary and durable cooperation. In fact, in most of these countries the process of internal integration remains far from being achieved, which constitutes in itself a major handicap to the development of durable external political and economic relations. A country in which internal integration is not consolidated cannot have the necessary national political and economic cohesion that can enable it to face the full implications of an external integration.(13)

Each Arab country should in effect concentrate its effort on the development of its economy and the promotion of its proper integration. At the same time it should negotiate progressive liberalization of its commerce with its neighbors without, however, imposing added restriction on their trade with the the rest of the world. The human, and other resources, differ considerably from one Arab country to another and this affects their chances and capacities of development, each of them should try to exploit its own comparative advantages and particular foreign relations, in order to promote its own economic growth.

In some cases the success of the integration attempts seemed to be certain as a result of their being made, amid considerable publicity and fanfare, by regimes having the same political and economic orientations. But these attempts have also failed as rapidly, and mostly as a result of unfavorable change of political or economic direction in one of the participing countries.

The fact, therefore, that the signed integration treaties and agreements are not subject in the Arab countries to ratification by democratically elected parliaments makes their repudations an expected common occurrence. The absence of democratic institutions and the frequent coups d'Etat in these countries are in effect the main causes of the evident lack of respect of the decisions and agreements made by successive governments and regimes. Each successive government or regime wants to have its own monument of duly signed agreements of Arab economic and political integration, and to do so requires that it should repudiate what has been done before it. This is the only sure way that the successive regimes can prove the validity and the eagerness of their intentions to promote Arab unity even if this takes place only on paper.

Some consider that the treaty establishing the Gulf Cooperation Council is being proved as an exceptional success among the integration agreement signed by the Arab countries.This may, however, be true from the point of view of political and defense considerations, but as far as its economic implications are concerned they are, apart from the coordination of its members positions with regard to the decisions adopted by the OPEC, of very limited economic consequences.

The member countries of this Council constitute, from a political and cultural point of view, a homogeneous group, their economies are on the whole open to international trade, and as they all have low population densities relative to their petroleum resources, and therefore do not have balance of payment and unemployment problems, there is no reason why they should not, in the light of their current circumstances, maintain their present cohesion.[14]

Notes

(1) Economic integration is defited for the purposes of this paper as the renoval of tariff quantitative, and other restrictions between the countries concerned in order to promote their mutual trade and factor mobility.

(2) The following percentages show the relative weight of petroleum and related products, including natural gas, in the 1988 marchandize exports of Arab countries :

Algeria	96	Oman	98
Bahrein	75	Qatar	93
Egypt	41	Saudi Arabia	90
E.A.U	95	Syria	45
Iraq	88	Tunisia	18
Kuwait	92	Yemen	35
Libya	99		

(3) The density of GPD per km^2, is for example, 900 dollars in Mauritania, 3000 dollars in Sudan, 7500 dollars in Libya, and 12500 dollars in Yemen.

(4) Canada and Australia are also vast and thinly populated countries and have comparatively highly developed economies. But though Canada has only 2.7 persons and 57150 dollars per km^2, most of its population and economic activities are to be found in a narrow strip along the United States border; while in Australia, wich has a population and GDP density of 2.5 persons and 38600 dollars per km^2, the main inhabited areas are located in the Southern and Eastern parts of the country.

(5) In order to appreciate the extent of distances in the Arab World, we should know that the distance between Casablanca, the main sea port of Morocco and Alexandria the main sea port of Egypt is greater than that which reparates Casablanca from New York, and that to go by sea from Casablanca to Bosra in the South of Irak takes longer than to go from Casablanca to Los Angelos, in passing by the Panama Canal.

(6) When the author of this paper travelled to Cairo in the first week of June, 1993, to take part in the conference organized by the World Bank, he was held at the airport with six other Tunisian and Moroccan participants for more than an hour, while the European travellers who arrived with us were ushered in without delay.

(7) It should be noted that the signatories of this Treaty included Libya, Democratic Republic of Yemen, and Mauritania. The inclusion of these countries in this Treaty was a clear indication of the predominance of its political implications, and of the lack of seriousness as far as its economic consequences were concerned. It was a treaty that was intended to fail rather than destenied to succeed.

(8) This ratio is based on the trade statistics published by the Arab League.

(9) Harry G. Johnson. "As economic Theory of Protection, Tariff Bargaining, and the Formation of Customs Union", in : The Economics of Integration, ed. m.B. KRAUSS, George Allen and Unwin, London, page 94.

(10) Ibid. page 81

(11) Some Arabs ask : why the relatively rich Arab countries do not in order to effectively participate in the promotion of the region's economic integration, help their poorer bothers, as it is being done in the EEC, where the richer members are helping the less developed members and areas. Those who ask this question forget, however, that the poorer areas amount in the case of EEC to onmy about 10% of its total population, which in the case of tha Arab countries they amount to over 90%.

(12) B. Balasa : "Types of Economic Integration". in Economic Integration Worldwide, Regional and Sectorial ed. F. Machlup

(13) Nicos Poulantzas wrote, concerning the political and economic development of Italy of the 1920's : "Cette in,galit, de d,veloppement du Nord et du Sud explique ,galement l'inach,vement du processus de formation de l'unit, nationale". Fascisme et Dictature, Seuil/Masp,ro, Paris 1974, p. 34

(14) However, even among the member countries of this Council, things are not as smooth as they seem to be. A border insident took place in 1992 between Qatar and Saudia Arabia in which three border guards were kiled. This incident resulted in a temporary closing down of the frontiers between the two countries and in the absence of Qatar from a number of Council meetings.

Appendix

Table 1

Income per Capita

Population and GDP density per km^2

1990

Country	Number of inhabitant per kmý	GDP per km^2 (dollars)	Income per capita (dollars)
Mauritania	2	900	500
Morocco	39	38300	950
Algeria	11	17700	2050
Tunisia	50	68300	1440
Lybia	2.5	7160	2800
Egypt	52	33210	600
Sudan	10	3020	300
Jordan	36	37640	1240
Syria	68	79730	1180
Lebanon	250	450000	1800
Iraq	43	57800	1400
Saudi Arabia	7	37630	7000
Yemen	21	12700	600
Oman	8	36320	4800
Qatar	40	450000	11200
Bahrein	500	1120000	11200
Emirats	19	336550	19860
Kuwait	117	1310000	12000

Table 2

Exports to the Rest of the EEC

as percent of total commodity exports

Country	1967-71	1972-75	1976-79	1980-83	1984-88
Belgium and Lux	73.1	71.5	73.5	72.0	72.4
Denmark	41.6	43.8	47.1	49.7	47.2
France	52.3	52.2	51.2	51.1	55.0
Germany (FR)	46.6	46.5	49.6	50.1	51.5
Greece	51.9	51.3	49.5	48.4	60.2
Ireland	75.0	76.8	77.1	71.3	72.3
Italy	48.2	47.1	49.8	48.6	52.5
Netherlands	70.9	71.6	72.1	73.6	74.3
Potugal	41.1	48.6	41.9	56.3	68.3
Spain	45.2	46.2	47.9	49.5	59.9
United Kingdon	28.7	32.5	39.1	45.3	48.7
Simple averages	52.2	53.5	54.4	56.0	60.2

Source : IMF. Direction of Trade Statistics.

Share of EEC in Commodity Exports

(percent)

Country	1969-71	1972-75	1976-79	1980-83	1984-88
Austria	48.0	46.0	52.0	53.8	60.7
Sweden	50.6	47.6	48.1	47.7	52.1
Switzerland	47.3	46.0	48.0	49.3	54.8

Source : IMF. Direction of Trade Statistics

Table 3

Imports from the Rest of the EEC
as percent of total Commodity Imports

Country	1969-71	1972-75	1976-79	1980-83	1984-88
Belgium and Lux	72.5	71.3	73.5	72.5	72.2
Denmark	42.5	44.5	47.0	50.5	48.0
France	50.1	53.6	54.2	54.9	58.4
Germany (FR)	45.0	44.6	48.0	47.8	50.2
Greece	52.5	53.7	52.1	50.0	59.8
Ireland	75.1	76.5	75.0	74.4	72.4
Italy	52.5	47.8	50.0	49.3	52.5
Netherlands	71.8	71.7	72.8	74.1	74.4
Portugal	44.5	50.1	55.7	61.7	68.2
Spain	48.5	47.9	50.6	50.9	59.6
United Kingdom	27.5	31.2	38.0	42.8	46.3
Simple averages	53.3	53.9	56.1	57.2	60.2

Source : IMF. Direction of Trade Statistics

Share of EEC in Commodity Exports

(percent)

Country	1969-71	1972-75	1976-79	1980-83	1984-88
Austria	47.6	44.0	51.7	55.2	59.7
Sweden	51.5	47.9	49.3	50.0	50.6
Switzerland	48.0	49.4	52.8	55.0	55.9

Source : IMF. Direction of Trade Statistics

ECONOMIC
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FORUM
FOR THE ARAB COUNTRIES, IRAN & TURKEY

7 Boulos Hanna St., Dokki, Cairo, Egypt
Tel: (202) 700810, Fax: (202) 3616042, E Mail: ERF @ vrit 01 eg.