On the Political Economy of Economic Integration in North Africa and West Asia

An Assessment of Regional Economic Integration

J. G. A. Saviranta

akseli.saviranta@gmail.com

Abstract

This study seeks to offer a comprehensive evaluation of the political, economic, and monetary aspects of regional integration efforts in North Africa and West Asia, as well as an assessment of the viability, feasibility, and motivations of such integration in light of the theoretical precepts and related literature, and comparatively to other economic blocs. This work is divided into four main sections: The first two define the concepts of economic integration and identify the main characteristics of the countries present in the area, the third enumerates the integration attempts, and the fourth and last section discusses and analyses these efforts and provides possible policy recommendations.

Keywords: economic, monetary, financial, political, integration, North Africa, West Asia

JEL Classification: A13, F15, F55, R58

Table of Contents

Abstract....1
Acknowledgements....2
Abbreviations....2
1 Introduction....5
2 What Is Economic Integration?....5
2.1 Theoretical Background....5
2.2 Motivations of Economic Integration....7
3 North Africa and West Asia....9
4 Attempts of Integration in North Africa and West Asia....13
4.1 Politically....13
4.2 Economically and Trade-Wise....15
4.2.1 Pan-Arab / Greater Arab Free Trade Area....16
4.2.2 Euro-Mediterranean Free Trade Area and the Agadir Agreement....20
4.2.3 Middle East Free Trade Area....21
4.2.4 Gulf Cooperation Council....22
4.2.5 Arab Cooperation Council....24
4.2.6 Arab Maghreb Union....24
4.3 Financially and Monetary-Wise....25
5 Analysis and Policy Implications....30
6 Conclusion....40

Acknowledgements

Previous versions of this work served as the author's thesis. The author wishes to reiterate previous acknowledgement for the valuable assistance provided by the German Academic Exchange Service, the guidance of the thesis supervisor, and the help provided by the programme's coordinators.

This document's version is that of April 2015. This document was produced with free and open-source software. The author's material is released under both the CC BY-SA 3.0 and the GFDL 1.3.

Abbreviations

Abbreviations

AA	Agadir Agreement
ACC	Arab Cooperation Council
ACLD	Arab Company for Livestock Development
AFPT	Agreement for Facilitation and Promotion of Trade
AM	Absolute Monarchy
AMC	Arab Mining Company
AMF	Arab Monetary Fund
AMU	Arab Maghreb Union
APEC	Asia-Pacific Economic Cooperation

Abbreviations

ASEAN	Association of Southeast Asian Nations
BSEC	Black Sea Economic Cooperation
CAEU	Council of Arab Economic Unity
CACM	Central American Common Market
CARICOM	Caribbean Community
CCA	Common Currency Area
CM	Constitutional Monarchy
COMESA	Common Market for Eastern and Southern Africa
Dved	Developed Countries
Dving	Developing Countries
ECO	Economic Cooperation Organisation
EFTA	European Free Trade Association
ENP	European Neighbourhood Policy
EU	European Union
EU27	European Union
EU-MED FTA	Euro-Mediterranean Free Trade Area
FDI	Foreign Direct Investment
FM	Federal Monarchy
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
IIT	Intra-Industry Trade
LAS	League of Arab States
LDC	Least Developed Countries
MRU	Mano River Union
MEFTA	Middle East Free Trade Area
MENA	Middle East and North Africa
MEoMG	Major Exporters of Manufactured Goods
MERCOSUR	Mercado Común Sudamericano
MPaGE	Major Petroleum and Gas Exporters
NAFTA	North American Free Trade Area
NAWA	North Africa and West Asia
OCA	Optimal Currency Area
PAFTA	Pan-Arab Free Trade Area
PR	Parliamentary Republic
QIZ	Qualifying Industrial Zone

Abbreviations

S. Arabia	Saudi Arabia
SPR	Semi-Presidential Republic
UAE	United Arab Emirates
UMA	Arab Maghreb Union
US	United States of America
USD	United States Dollar
VAR	Vector Autoregression Analysis
WAEMU	West African Economic and Monetary Union

1 Introduction

Interest in this topic stems mainly from the fact that, when examining the European Neighbourhood Policy (ENP) as well as the different European countries' foreign economic policies, it can be observed that many programmes and much resources have been allocated to the issue of South-South integration between countries in North Africa and West Asia (NAWA), in particular after the regional regime changes of 2011. This essay is therefore an examination from a political economy scope of the core point recurring in many of the programmes that the author had encountered or participated in, which examined economic reforms in the region in question, the core point being its integration. The main question that this works seeks to answer is whether or not it is economically viable to consider the area as one “economically integrable” region? Furthermore, seeing that most of the available literature focuses mainly on the trade aspect of economic integration, this dissertation would equally seek to shed light on other considerations, e.g. financial markets or exchange-rate regimes, and evaluate their role in relevant integration plans.

2 What Is Economic Integration?

In its simplest form, the term “economic integration” plainly refers to the process of turning separated economies into one whole. In related literature, it seems to be that there is no universally accepted definition of economic integration, or as ALLEN (1963) in HOSNY (2013) states it: “economic integration may mean something different to nearly everyone”. It is worth noting that the concepts of financial and monetary integration are often either considered part of economic integration or somewhat implicitly viewed as by-products of it. The following subsection defines and seeks to illustrate both economic and monetary integration, as well as their interrelation.

2.1 Theoretical Background

Multiple definitions can be found, among which some differences exist. One comprehensive and rather recurring definition is that of BALASSA (1961, p. 174), which proposes to define it as both a process and a state of affairs:

> Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies.

BALASSA (1961) draws the line between integration and cooperation depending on the

objective, i.e. whether the effort is aimed at lessening discrimination or at its complete suppression; the latter would hence qualify as economic integration. Balassa's definition could be further illustrated with examples of degrees of economic integration: These would vary consecutively from free trade areas, where tariffs are abolished between members yet still retained against non-members, to customs unions, where tariffs in trade with non-member countries are equalised, to a common market, where restrictions on factor movements are abolished, to an economic union where all the restrictions on commodity and factor policies are suppressed, and finally to complete economic integration, comprising the unification of monetary, fiscal, social, and countercyclical policies, and therefore requiring the establishment of one or multiple supranational entities of which the decisions prevail over those of the member states.

Other definitions of economic integration that are concurrent to that of BALASSA (1961) include that of KAHNERT et al. (1969), which identified it as “the process of removing progressively those discriminations which occur at national borders” and that of MACHLUP (1977) in HOSNY (2013) as “the process of combining separate economies into a larger economic region”. The main differences reside in whether economic integration should take into account other aspects, such as social and political integration, and also in the scope that integration should take, e.g. whether the mere international cooperation aiming at the removal of trade barriers but without any wider economic plans should be considered as integration. In some related literature the concepts may be distinguished as “shallow integration” and “deep integration”.

Similarly, the elimination of monetary and financial barriers is an equally important aspect of integration that should be gradually implemented as economic integration takes place. One particularly recurring idiom in related literature is the possibility of a common currency area within NAWA. A Common Currency Area (CCA) is a further unifying step following the achievement of an Optimal Currency Area (OCA): A CCA would then be an OCA with a single, hence the term common, currency. An OCA is in turn defined as “a domain within which exchange rates are fixed”. The OCA was theorised in MUNDELL (1961), and has been constantly updated by numerous works including MCKINNON (1963), KENNEN (1969), MUNDELL (1973), and MUNDELL (1997). These publications and other stated various preconditions for an OCA, such as a high degree of factor mobility, extensive trade and financial integration, similar levels of inflation, synchronous business cycles, and a degree of policy coordination. Costs of OCAs could be exhibited through the macroeconomical impossible trinity paradigm: Having the same multilateral exchange rate amongst members of an OCA and removing internal capital controls would leave little manoeuvre for sovereign monetary policy, and might also have its repercussions on national

fiscal policies, especially when supranational requirements would come first in priority before domestic ones, hence emphasising the substantial role of coordination.

MUNDELL (1997) provides multiple reasons for joining a currency union, among which an elimination of speculative capital flows between partner countries, savings on international exchange reserves as they would not be needed for intra-CCA transactions, and most importantly, the stimulation of the integration of economic policies. Other advantages include greater financial integration and an exposure of the exchange rate as no single country could issue or raise debt denominated in its own currency. BACHA (2008) cites a variety of publications arguing that bilateral trade between countries using the same currency is, ceteris paribus, higher than trade between nations with different currencies. This may equally be in correlation with border effects, where the necessity to use different currencies and the presence of transaction costs dampen trade. A CCA would reduce transaction costs related to monetary exchange by eliminating exchange rate risks and hence stabilising prices. This would improve cross-border investments and factor relocation, and encourage policy commitment without recourse to political pressure; therefore helping in keeping inflation, among other, at measurable levels. There is equally an effect of trust towards the common currency, as CCA arrangements are quite costly to break.

All these different aspects of integration need to arguably be accompanied by political will and hence measures aiming at harmonising policies. The political, economic, and financial spheres are expected to work dynamically as the process of transition from fragmented economies into integrated ones requires. This political will may find its motivations in a number of prospects.

2.2 Motivations of Economic Integration

Theorists and advocates of economic integration cite multiple reasons in its favour. In general, integration is expected to provide a wider and cheaper market and decrease trade uncertainty. BALASSA (1961) argues that it would allow for a faster rate of technological change, hence fostering economic growth, and would also serve to avoid discrimination caused by trade-and-payment restrictions, state interventionism, and mitigating cyclical fluctuations. Economic integration is expected to contribute to economies of scale through inter-sectoral and intra-sectoral trade (ARGŨELLO, 2000). This could be argued for regardless of the production structure: In case of the similarity of the production structure of the countries, thorough integration is expected to improve intra-trade industry and lessen monopoly powers. In the opposite case, it would push for trade creation as the countries would find cheaper markets for complementary goods through inter-industry trade. Integration would result in an increase in welfare (SCHWEITZER, 1960) and in

collective bargaining power, and would also help in preventing future conflicts and meeting security concerns (EL-ERIAN & FISCHER, 1996).

On the other hand, in any analysis of the formation, evolution, and failure of economic blocs, the political motivations behind economic integration cannot be overlooked. Economic integration itself is perceived by various political science theorists as only a part of broader political union schemes. As an example of these interrelations, BALASSA (1961), in his analysis of the failure of European customs unions prior to the Second World War, blames political obstacles as the main cause. The work equally considers that a form of economic integration was achieved through politics when the National Socialist policies attempted to integrate satellite countries with German economy as part of the “Grossraum Europa” policy. In other cases where two states of relatively similar decision-making powers endeavour integration plans, BALASSA (1961) also refers to the role of the United Kingdom in the 1961 concessions regarding the harmonisation of tariffs of non-agricultural commodities, which offered a push for the European Common Market negotiations. It is further argued in GROSSMAN & HELPMAN (1994) that, for most international economists, politics are to be blamed for Free Trade being often preached yet rather rarely practised.

Moreover, cultures and beliefs may represent another dimension of this political aspect, as they seem to motivate political and economic integration: As stated in EL-ERIAN & FISCHER (1996), having a common history, language, and religion may have a favourable impact on trade, tourism, labour, and investment flows. This however may seem as a rather unsupported hypothesis for various reasons: First, qualifying different nations as having the same culture is dubious and may be easily disputed. Additionally, practice may suggest differently: For instance trade and tourism flows between Tunisia and its European partners has always been higher than with any other North African country. Similarly, the main trading partner of South American countries is not any other South American country. As a matter of fact, the difference of cultures may present more incentives for tourist activity. In addition, the European case makes a clear counter-example against the importance of a common language and culture in an integrated region[1]. Nevertheless, numerous cases exist, such as the Organisation of the Islamic Conference's Preferential Tariff Scheme, where the only measure for participation was whether the country was “Islamic” or not regardless of any economic criteria (HOSNY, 2013), as well as similar plans for economic integration initiated by the League of Arab States. These clearly reflect a political standpoint with little, if any, economic

1 Nevertheless, WALLACE (1994) in EL-ERIAN & FISCHER (1996) argues that the original members of the European Coal and Steel Community were the six largely Catholic European countries, which has at least provided a common cultural and a religious identification. This may however be disproved, depending on whether or not the identification of these countries to Catholicism was strong, or whether the cultural identification of the French, for instance, was as strongly connected to Catholicism as that of the Dutch.

consideration.

There is, however, certainty that cultural elements are heavily reflected on politics, and it is indeed the political decision makers who endeavour integration plans and seek to enforce their implementation through institutions, as previously suggested. Needless to say also, that from a strictly economic point of view, non-discriminatory liberalisation may be preferred to localised liberalisation, therefore the process of regional economic integration is intrinsically political.

3 North Africa and West Asia

A region is an area usually defined by its physical and human characteristics. The definition of North(ern) Africa and West(ern) Asia (NAWA) may be less clear-cut than that of economic integration; this is mainly due to the fact that while the geographic limits could be set, the politics of the region make categorisation rather unclear. The term “North Africa and West Asia”, or alternatively “West Asia and North Africa”[2], defines a geographical region that slightly overlaps with what is referred to as “Middle East and North Africa”[3] (MENA), or to a lesser extent, the “Arab World”[4]; roughly the area covered by the Ottoman Empire until the First World War.

In this document, the term NAWA, as previously referred to in a number of academic studies such as PAZ, TOURRE, & PLANTON (2003), is a more neutral term both geographically and culturally, and a clearly delimiting definition of the area encompassing the following countries: Algeria, Bahrain, Egypt, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia (S. Arabia), Syria, Tunisia, the United Arab Emirates (UAE), and Yemen. Other overlapping regional definitions have included at their widest Comoros, Djibouti, Eritrea, Iran, Malta, Mauritania, Pakistan, Somalia, Sudan, and Turkey. These countries, except Eritrea, Pakistan, and Turkey, are either members of the League of Arab States (LAS), or are present on the World Bank's definition of the MENA region. A map, and a table comparing some of the characteristics of the countries constituting the NAWA region can be found on the following page.

2 In this document, the term “North Africa and West Asia” is preferred to “West Asia and North Africa” for simple alphabetical ordering purposes.

3 In this document, the terms “Middle East and North Africa” and “Near East and North Africa” are avoided due to their Eurocentric aspect. The adjectives “middle” and “near” do not seem of relevance.

4 In this document, the term “Arab World” is avoided due to its rather racial, ethnic, and cultural connotations that exclude other components in the region. The term “Arab World” or “Arab countries” itself is very ambiguous, and perhaps the only actual common points are the status of Classical Arabic as an official language and the membership in the League of Arab States. However, none of these conditions alone seems to be sufficient: Arabic is an official language in Chad, Eritrea, and Israel, yet these countries are not part of the Arab League and are not considered as part of the “Arab World”. On the other hand, Comoros, Djibouti, and Somalia are countries where Classical Arabic is official, and they are members of the League of Arab States, yet not commonly considered as members of the “Arab World”. In the case where the term is defined based on the country having “a spoken variety of Arabic”, Malta may be a counter-example. A geographically related term seems therefore more suitable.

Illustration 1: Map of North Africa and West Asia

Source: Author's adaptation based on File:Worldmap LandAndPolitical.jpg (2006)

Table 1: Overview of NAWA Countries

	Population density[a]	GNI per capita	Industry of GDP	GINI index[b]	Youth unemployment	Openness index	Roads density [b]	Democracy Ranking	Form of Government
Algeria	15.86	8360	48.52	35.33[j]	22.40[a]	64.88	4.77	N/A	SPR (52)
Bahrain	1701.01	18910[b]	39.95[j]	N/A	5[b]	123.75	542.37	39.4	CM (231)
Egypt	79.76	6450	39.22	30.77[d]	24.80[b]	43.27	13.72	41.2	SPR (1)
Iraq	73.13	4230	70.15[h]	30.86[e]	N/A	N/A	9.58	N/A	PR (~11)
Israel	358.87	28070[a]	32	39.2[i]	12.10	72.15	83.69	73.7	PR (1)
Jordan	69.62	5980	30.06	35.43	29.30	118.14	7.95	N/A	CM (68)
Kuwait	175.35	47770[b]	51.01[h]	N/A	11.30[f]	95.73[a]	37.08	49.3	CM (~258)
Lebanon	428.43	14160	20.48	N/A	16.80[c]	77.92	67[f]	50.2	PR (~9)
Libya	3.47	17430[c]	78.2d	N/A	N/A	94.85[d]	5.0[i]	38.9	PR (3)
Morocco	71.83	5060	29.63	40.88[e]	18.60	86.59	13.08	44.6	CM (56)
Oman	9.77	25320[b]	55.11[g]	N/A	N/A	94.49[a]	18[c]	N/A	AM (~265)
Qatar	164.59	80470[a]	72.4	41.1[e]	1.30[a]	96.51[a]	84.8	N/A	CM (~164)
S. Arabia	12.91	30160[a]	62.57	N/A	28.30	86.44	11[f]	N/A	AM (~270)
Syria	119.60	5120	30.6[c]	N/A	19.20[b]	71.08[b]	37.73	29.2	SPR (~44)
Tunisia	68.70	9210	29.86	36.06	42.30[a]	106.57	11.87	52.3	R (3)
UAE	106.76	41550[a]	53.94[b]	N/A	12.10[d]	169.62	5[d]	N/A	FM (~221)
Yemen	44.14	2310	29.43[b]	37.69[f]	33.70[b]	65.07[b]	14[f]	26.5	SPR (36)
Mean	206.11	20621	45.48	36.37	19.8	91.69	56.86	44.53	

Table 1: Overview of NAWA Countries

	Population density[a]	GNI per capita	Industry of GDP	GINI index[b]	Youth unemployment	Openness index	Roads density[b]	Democracy Ranking	Form of Government
MinMax	1697.54	78160	51.72	10.33	41	126.35	537.6	47.2	

Source: The World Bank (2013), Central Intelligence Agency (2013), CAMPBELL et al. (2013), and author's research

Notes: The table includes the most up-to-date values with the default year being 2012 unless indicated accordingly, with a for 2011, b for 2010, c for 2009, d for 2008, e for 2007, f for 2005, g for 2004, h for 2003, i for 2001, and j for 1995. Population density refers to the density of people per square kilometre of land area. GNI per capita refers to gross national income per capita at purchasing power parity in current international United States Dollar (USD). Industry of GDP refers to the percentage of value-added industrial products of the total GDP; data on Israel and Qatar related to this measure was unavailable in The World Bank (2013) and was retrieved from Central Intelligence Agency (2013). Youth unemployment is calculated as a percentage of total labour force for ages between 15 and 24. The openness index is calculated as the sum of the imports and exports of goods and services divided by the GDP. Road density represents the kilometres of road per 100 square kilometre of land area. Democracy Ranking is a measure of the quality of democracy that integrates freedom, political system, gender, economy, knowledge, health, and environment. Its values are comprised between zero and 100, with zero being the lowest quality and 100 being the highest. Its data is taken from CAMPBELL et al. (2013). The form of government refers to the latest form of government adopted by the state. The explanation of the initialisms is as follows: AM for absolute monarchy, CM for constitutional monarchy, FM for federal monarchy, PR for parliamentary republic, and SPR for semi-presidential republic. The number in parenthesis indicates the years since the last change of a ruling political party or alliance, or of a ruling family; it is calculated as the difference of years since assuming power and until February 2014. Some details in this calculation need to be clarified: For Israel, the difference has effectively been one year as the 2013 legislative elections witnessed a Likud-Yesrael Beiteinu majority in contrast to the previous 2006 elections where Kadima had the parliamentary majority; however the current prime minister, Benjamin Netanyahu, has been in office since 2009. For Lebanon, the last change occurred in 2005 and ever since the March 14 Alliance has been holding the majority; Lebanon however remains a very delicate political case where alliances shifted often. The calculation for Syria starts with Hafez Al'assad's “corrective revolution”. For the UAE, the start year is when the House of Al Nahyan took over power in Abu Dhabi, which is the capital of the UAE and the principality from which the president of the federation has been appointed since the country's “independence”. In the Yemeni case, the first president of Yemen since its unification has also been the president of North Yemen, then known as the Yemen Arab Republic, before its merger with its southern neighbour since 1978; this year is therefore taken as the starting point.

NAWA could be further sub-grouped into three geographic parts: The whole of Arabia comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE, and Yemen; the Fertile Crescent comprising Egypt, Iraq, Israel, Jordan, Lebanon, and Syria; and North Africa comprising Algeria, Libya, Morocco, and Tunisia. While Egypt is a transcontinental state and could theoretically be part of North Africa, its current intense political relations with other Fertile Crescent countries favour

such categorisation for the time being. Alternatively, NAWA could be also grouped into resource-rich economies and resource-poor ones.

Table 1 further illustrates the vast differences of the countries on a few levels: The difference in GNI per capita between the minimum and the maximum values is around four times the mean. The infrastructure coverages varies greatly with the mean being around one tenth of gap. Additionally, a 126.35 per cent difference exists between the least open and the most open country; this shows that while some countries are rather accustomed to imports and exports, others are not similarly acquainted to such trade flows. The countries are also not in line when it comes to youth unemployment with around 40 per cent of youth labour force difference, they seem to be however analogous in resource distribution inequality, with only 10.33 points of difference in a GINI index of which the mean is 36.37. From an institutional point of view, multiple political systems exist in the region, ranging from absolute monarchies to hybrid democracies; all sharing a rather undemocratic character. Persian Gulf countries have had the same ruling families for over two centuries, and most of the republics in the region have had the same ruling party or faction since their independences from European colonial powers. Such disparities and other have made RAUCH & KOSTYSHAK (2009) describe the region as “three distinct Worlds”.

From a cultural point of view, NAWA is not as homogeneous as it may seem. Perhaps the only common element between the countries is the status of Classical Arabic, hereinafter referred to as Arabic, as one of the official languages. Nevertheless, Arabic is actually nobody's mother tongue in the region, a fact often overlooked as the denial of Arabic as one's language would mean a denial of one's “Arabic identity” (LEDDY-CECERE, 2010), itself often socially regarded as a denial of Islam. Arabic however continues to be used as a lingua franca, often alongside French or English; in contrast to daily communication varieties and in particular North African linguistic varieties that are characterised with substantial pre-Arabic substrata (VERSTEEGH, 1984) (LEDDY-CECERE, 2010). Multiple ethnic groups are indigenous to NAWA including Amazighs, Arabs, Assyrians, Copts, Hebrews, Kurds, Mehris, Nubians, and other. This is a fact that is not resonated often for multiple political and social considerations that find their roots in the religious reality of the region: Islam implicitly and explicitly favours the Arabic language and ethnicity over others, and throughout the Arab Muslim expansions, Arabisation and Islamisation have been two politically complementary tools in the ruling of new regions. With time, this has favoured the assimilation of the then-newly conquered territories by the Arabs. These considerations were and are used in Pan-Arabist political discourses against Non-Arab nationalist movements seeking recognition, such as the Kabyle Amazighs in Algeria or the Kurds in Syria and Iraq (ÖCALAN, 2012).

The previous point is, as a matter of fact, of relevance in examining the motivations of Pan-Arabist integration attempts and is heavily echoed in related literature: For instance ZINELDIN (2002) and AL-ROSAN (2007), claim, perhaps affectionately or credulously, that the populations of the region share a “feeling of common destiny and unity” and “share a dream of one day forming a political union”; the author however views these claimed aspirations as unfounded and as only parts of populist political programmes. North Africa on one hand and West Asia on the other, seem to share each their own characteristics. For example, North African countries share the ethnic Amazigh-Arab composition as well as the common history of French colonialism that influenced these countries judicially, educationally, and politically, and still influences their economic ties. West Asian countries, as well as Egypt, may be more tied to the United Kingdom and to the United States of America, whether due to colonial past or to current political systems and interests.

4 Attempts of Integration in North Africa and West Asia

The idea of unionism or integration within the region has been present for decades, if not centuries. It may have been the seventh century Arab Muslim conquests and submission of nearby territories that established a social precedent of one united land, at least in West Asia. Pan-Arabism later proved to be of important political use: First against the Ottoman rule in the region, and later recycled with nationalist political organisations and parties as a populist political ideology that promised “Arab union” as a rampart against anyone taking “the Land of the Arabs” and as the solution to “reduce dependence on the West”. This ideology has however been in the duality of inapplicability and constant promotion, making NAWA a region where unionist attempts have been tried, in nearly all their imaginable forms, yet also the region where these attempts fail greatly. The following section would detail the major mostly political endeavours.

4.1 Politically

Political integration within West Asia has been mostly pursued under the banner of Pan-Arabism, which Gamal Abd Ennasser[5], the former Egyptian president, sought to use both internally as a populist idea and externally as a political mean to reinforce Egypt's geopolitical strength. An example of these attempts is the United Arab Republic; a short-lived political union of Egypt and Syria that took place between February 1958 and September 1961 (PODEH ,1999). However, this union seemed to reduce Syria to a puppet state of Egypt, as most of the Syrian officials were replaced by Egyptian officials that lacked proper knowledge of Syrian characteristics. Abd Ennasser's refusal to share power seemed to ascertain his view of Syria as merely another part of

5 Also written Gamal Abdel Nasser and Gamal Abdennaser

one nation where he is the leader; this soon resulted in economic difficulties and in Abd Ennasser having no Syrian allies. A coup would eventually take place on the 28th of September 1961, declaring the country's independence (Encyclopaedia Britannica, n.d.). Egypt continued nevertheless to be officially know as the United Arab Republic until 1971. Economically, Egypt adopted a heavy nationalisation policy, also with Syrian companies; a practice motivated by Abd Ennasser's view on how social justice should be. Nationalisation plans proved however inefficient.

During its existence, the United Arab Republic was in a loose confederation, or rather a defence pact, with North Yemen, then officially known as the Mutawakkilite Kingdom of Yemen. This might have been one of the Yemeni rulers' efforts to contain sympathies towards Abd Ennasser's growing Pan-Arabism. The confederation was named the United Arab States, and it lasted between 1958 and 1961, until it dissolved after Syria's withdrawal from the United Arab Republic. In 1962, Egyptian troops were fighting against the Mutawakkilite troops in what would later come to be known as the North Yemen Civil War.

As a riposte to the United Arab Republic and to growing Pan-Arabist sentiments, the cousin monarchs, Faisal II of Iraq and Hussein of Jordan, initiated in February 1958 another unionist attempt named the Arab Federation of Iraq and Jordan, or alternatively the Arab Federation. This was the third in a series of failed attempts between the two families, the first being in the middle of the 1940s through the Greater Syria programme, and the second in the beginning of the 1950s after the assassination of King Abdullah I of Jordan (MADDY-WEITZMAN, 1990). Contrarily to what its name might suggest, it was actually a confederation with very little, if any, central authority. The confederation was merely putting foreign policy and defence functions under joint control but leaving the rest of the domestic functions untouched. It did not last long, as after a few months of its inception, the Iraqi king was overthrown and the union ceased to exist. Its failure devised another setback to Pan-Arabist unionism in the Levant, its birthplace and cradle (LAKKIS, 2003).

In the same fashion, the Federation of Arab Republics was subsequently initiated by Muamar Gaddafi of Libya. Three referenda took place in Egypt, Libya, and Syria on the 1st of September 1970 about forming one state (MÜLLER, n.d.). The three countries however, initially also with Sudan interested in joining but later postponing, disagreed on the meaning and extent of the merger. Later various parties were invited, such as Tunisia, Sudan, Iraq, and even Chad. However Sadat's announce of an Egyptian peace with Israel brought an end to the project, and very soon Libya and Egypt were on the verge of a war in July 1977, with around 500 dead and wounded from both sides (Historyguy.com, n.d.).

Further in North Africa, the Arab Islamic Republic was yet another example of sporadic

political pseudo-unions. It was an announced state union between Tunisia and Libya, allegedly declared on the 12th of January 1974 through “The Djerba Declaration”. Bourguiba of Tunisia has equally called for a United States of North Africa, with no particular ethnic or religious denomination. Nevertheless, this project never actually saw the light for various reasons: First, while Bourguiba perceived it as a form of cooperation between the two states, Gaddafi saw it as simple removal of names and borders and complete fusion of the two states into one entity. On the other hand, Algerian concerns about growing Libyan hegemony through the new union pressured Tunisia to cancel the treaty, therefore the planned referendum never took place. This unionist attempt was mostly political and gave minor, if any, details about economic plans. Multiple agreements between Libya and Tunisia exist however, covering various fiscal and financial aspects.

4.2 Economically and Trade-Wise

Regional economic integration was a reflection of the political unionist projects and despite the numerous political integration attempts, economic interaction within NAWA remained rather limited. The region's share of attempts that focused mainly on the economic aspect were mostly initiated by the Arab League, officially the League of Arab States. The LAS was founded in March 1945 by Egypt, Lebanon, Iraq, Jordan, Saudi Arabia, and Syria. In 1950, its Treaty for Joint Defence and Economic Cooperation was signed, and its Economic and Social Council was founded. In 1953, the LAS proposed its treaty to organise the transit of goods among its members (GALAL & HOEKMAN, 2003). In 1957, the Arab Economic Unity Agreement was ratified and the Council of Arab Economic Unity (CAEU) was established as its administrative body (HOEKMAN & SEKKAT, 2010), as specified in the text's second chapter. The CAEU sought to allow the free movement of money, goods, and labour force through the member states. Nearly a decade later, a failed treaty that sought to establish an Arab customs union between Egypt, Iraq, Jordan, and Syria was pursued in 1964 (GALAL & HOEKMAN, 2003). None of the aforementioned agreements were enforced, causing their eventual failure.

On a mesoeconomical scale, the CAEU sought meanwhile to redistribute West Asian oil revenues by setting up multiple pan-NAWA joint ventures, notably the Arab Company for Livestock Development (ACLD) and the Arab Mining Company (AMC) in 1974, and the Arab Company for Drug Industries and Medical Appliances (ACDIMA) in 1975. No North African country participated in the ACLD, and the company has constantly seen its gross profits drastically drop; in 2000 they were around eight per cent of their 1991 levels, and were mainly derived from financial portfolio investments and not operational activities. Similar profit structures are found in both the

ACDIMA and the AMC. Additionally, losses caused the ACDIMA to have some of its subsidiaries liquidated, and political tensions caused other to be expropriated by local governments. The AMC on the other hand invested in countries with poor mining resources such as Mauritania and Yemen and did not make profit until the late 1980s. It was also criticised for its centralisation, as most of its forty mangers were Jordanian, although Jordan owned only one per cent of the total shares despite being the headquarters country. Its finances were overall considered a failure and its development impact questionable; more importantly it had only little, if any, impact on promoting regional trade (LAKKIS, 2003). The examination of these details may seem marginal; however the recurrent failure was one of the reasons that contributed to the limitation of pan-NAWA activities and the subsequent emergence and gradual rise of sub-regionalism.

The 1980s brought into existence another plan called the Strategy for Joint Arab Economic Action: Adopted in the eleventh summit of the LAS on the 25th of November 1980, it comprised around 26 agreements and a handful of new institutions, such as the Arab Authority for Agricultural Investment and Development, the Arab Institution for the Insurance of Investments, the General Union of Arab Chambers of Commerce, and other (TOFFOLO, 2008). Soon afterwards, another agreement followed in 1981, known as the Agreement for Facilitation and Promotion of Trade (AFPT), and was signed by 18 members of the LAS (GALAL & HOEKMAN, 2003). This agreement would soon become obsolete after the subsequent emergence of subregional blocs on one hand, e.g. the Gulf Cooperation Council (GCC), and the inception of the Pan-Arab or Greater Arab Free Trade Area (PAFTA)[6] agreement on the other. All of the previously mentioned treaties did not seem to be successful, as they only managed to keep the same six per cent of intra-trade that was already present (TOFFOLO, 2008).

4.2.1 Pan-Arab / Greater Arab Free Trade Area

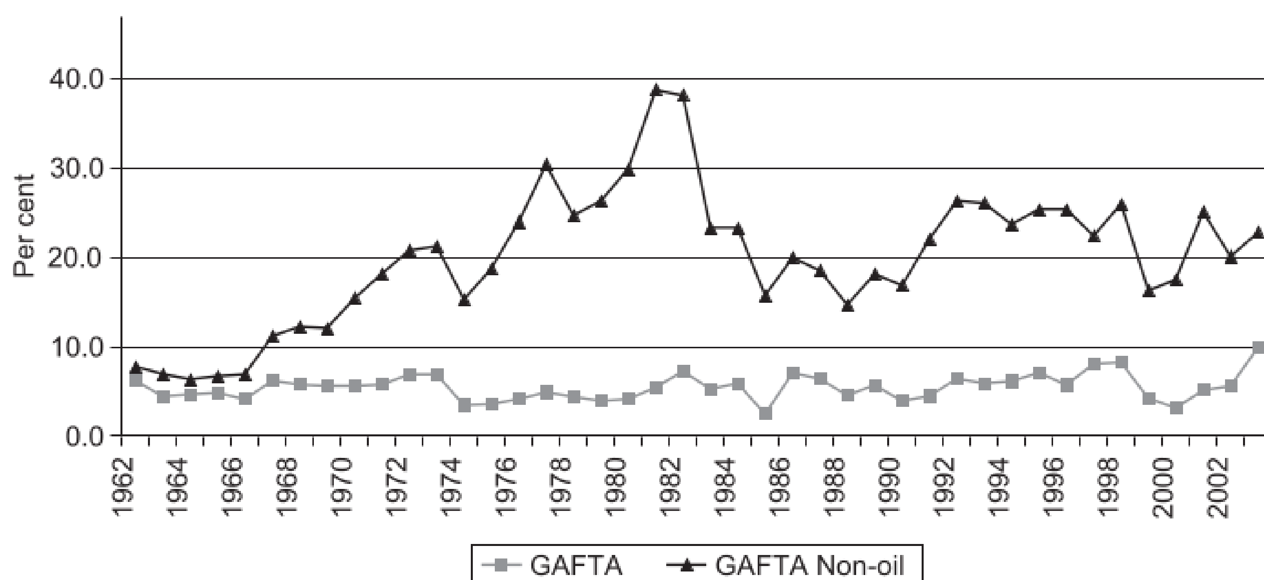
The PAFTA treaty, signed on the 19th of February 1997, was aimed to replace the ineffective 1981 AFPT treaty. It planned a ten-year transition period starting 1st January 1998, by the end of which all trade tariffs among signing countries should cease. Among the LAS NAWA countries, Algeria was the only state that did not sign; however the country has reportedly applied for membership in 2006 (TOFFOLO, 2008). The signing parties agreed to remove tariffs on manufactured goods by 2005 and to progressively free agricultural products trade by 2008 (HOEKMAN & SEKKAT, 2010). Ten agricultural products were allowed to be exempted from the removal of tariff during their harvest season and the rules of origin were set to be at 40 per cent of the value-added, in conformity with the World Trade Organisation's rules of origin. Other

6 Or alternatively GAFTA

permanent and temporary exemptions were adopted by Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia, with Morocco being the most excluding country of 898 products and 6.7 per cent of the trade (ABEDINI & PÉRIDY, 2008). No negotiations on the standardisation of service liberalisation took place (HOEKMAN & SEKKAT, 2010); this remains a rather delicate point since it is greatly affected by the degree of service liberalisation within the signing countries themselves. Attention to non-tariff barriers has been reportedly drawn and a committee has been accordingly set.

The treaty has arguably solved tariff-related problems; however problems of infrastructure, customs, and trade facilitation persisted as major constraints for merchandise trade (HOEKMAN & ZARROUK, 2010) (GHONEIM et al., 2011). The following chart details the stagnation of the levels of trade among PAFTA countries over the period stretching from 1962 to 2004. As it could be drawn, even after PAFTA the percentage of total intraregional trade out of the total trade remained considerably low, reaching its ten per cent peak in 2005 (BOLBOL & FATHELDIN, 2005), which is still nearly the same rate it was four decades ago. However, when oil is statistically excluded from the group of traded goods, the percentage of intra-PAFTA trade would on average double; yet it still remains in the relatively low 20 to 30 per cent interval and exceeds it in two occasions only, in contrast to that of the European Union (EU), which is on average above 50 per cent. This reflects the dominant character of natural resources in the structure of traded commodities and in the economy of the region as a whole; an important factor that would subsequently help in explaining the decline of PAFTA and the resurgence of sub-regionalism, as the following paragraphs portrays.

Illustration 2: Intra-PAFTA Trade



Source: MOMANI (2007)

Aside from the evident lack of enforcement, trade diversion combined with the absence of compensation mechanisms could be cited as possible causes of the discontinuation of PAFTA: In CARRÈRE, GOURDON, & OLARREAGA (2012), it is argued that preferential trade agreements between a resource-abundant country and a resource-poor country with a small but developing manufacturing sector, would probably lead to trade creation in the resource-poor country, as it would benefit from a privileged access to partners' markets and would be able to import cheaper natural resources from the resource-rich country. The resource-poor country is hence unlikely to suffer from trade diversion if the resource-abundant country is specialised in the production of the natural resource good, which is rather the case with resource-rich countries in the region. On the other hand, the resource-rich country may suffer from significant trade diversion if the manufactured goods from the resource-poor country, benefiting from preferential access, would simply substitute other goods. It would experience loss in import efficiency through substituting imports from the relatively more effective countries by those of the regional partner. In the PAFTA case, this may have been a disincentive, especially with Persian Gulf countries' continuing preference for high-end products from the USA, the EU, or Eastern Asia, over other regional products.

Evidence of the aforementioned trade diversion in further found in CARRÈRE, GOURDON, & OLARREAGA (2012) and its size is estimated using the Herfindahl-Hirschmann

export concentration index[7]. Results confirm that while trade creation occurred mostly in the three resource-poor countries of Morocco, Tunisia, and Lebanon with respectively 3.35, 3.02, and 2.23 per cent, other resource-rich PAFTA countries experienced trade diversion, with an above 15 per cent average decline of imports from the rest of the world and a 107 per cent increase in imports from other PAFTA countries. PAFTA has then effectively helped redistribute income from the resource-abundant to the resource-poor, which could explain why resource-rich countries became later reluctant to deepen such type of agreements, considering that natural resources were viewed as a national wealth and that proper redistribution institutions were lacking, as previously suggested.

On the other hand, and despite the low trade proportions evidenced in Illustration 2, PAFTA remains the most far-reaching agreement, according to ABEDINI & PÉRIDY (2008), not only because it covers most countries in the region, but because of its comparatively advanced institutional aspect, its inclusion of terms regarding monetary, administrative, and quantitative non-tariff barriers, its concise rules of origins, and its intended liberalisation of agricultural products. Most importantly, the work echoes the aforementioned points about natural resources and describes how trade within PAFTA has been noticeably concentrated: Saudi Arabia and the UAE account together for 50 per cent of the exports, and with Jordan, Oman, Qatar, and Syria added, the six countries account together for 80 per cent of intra-PAFTA exports. Persian Gulf countries alone account for 70 per cent of the trade, followed by the Fertile Crescent countries with 20 per cent. The North African countries come last with ten per cent.

This is also in line with the nature of the trade previously discussed: Fuel is the most importantly traded commodity in the region, with around 26 per cent of total trade on average. It is mainly exported by Saudi Arabia, of which the share represents more than 70 per cent of intra-PAFTA fuel exports, providing the country with around 7.3 million USD of PAFTA trade surplus. The five main intra-PAFTA flows involve Gulf countries and are respectively Saudi A. – UAE with 10.4 per cent of total PAFTA trade, Saudi A. – Bahrain with 8.7 per cent, Oman – UAE with 5.6 per cent, Qatar – UAE with 4.7 per cent, and Saudi A. – Kuwait with 4.2 per cent (ABEDINI & PÉRIDY, 2008). This may appear intriguing as the Persian Gulf countries are reported to have similar oil-resource endowments; it may however be explained by the slightly different production structure and specialisation: Bahrain, for instance, has been importing oil for its massive refinery in Sitra, of which around 85 per cent of crude oil is from Saudi Arabia (Government Printing Office, 2010, p. 45). Bahrain's 2010 sixth most important commodity was petroleum coke, and refined

7 Defined as the square root of the sum of the squared shares of exports of each party in the total exports of the region under study, with values close to one indicating high concentration and values close to zero indicating a more equal distribution of market shares among exporters

petroleum was its first most important export (SIMOES et al., 2011a). The UAE on the other hand exported, in 2010, crude petroleum as its main commodity, and imported refined petroleum oils (SIMOES et al., 2011b). Such trade concentration may have equally influenced these countries' decision to focus on subregional trade liberalisation instead of PAFTA and similar pan-NAWA plans.

4.2.2 Euro-Mediterranean Free Trade Area and the Agadir Agreement

With PAFTA remaining a challenging agreement (CHAUFFOUR, 2011), and clearly not succeeding in completely removing import duties by 2008 as it was scheduled, it became clear that a new agreement was on the way: On the 25th of February 2004, the Agadir Agreement (AA) was signed by four resource-poor NAWA countries: Egypt, Jordan, Morocco, and Tunisia. The AA is in essence a preferential trade agreement that excludes services and investment. It was expected to encompass and regulate customs procedures, rules on certificates of origin, government purchases, and intellectual property protection, among other.

Multiple publications, including ABEDINI & PÉRIDY (2008) and HOEKMAN & SEKKAT (2010), choose to consider the Agadir Agreement as a “continuation” or a “completion” of PAFTA, arguably since the PAFTA agreement itself states that it should be considered as “the minimal level of trade integration”, hence perhaps implicitly encouraging other bilateral and subregional agreements; however this study views differently: As mentioned in the preamble of the text of the agreement and in its announced objectives, and as also suggested in PÉRIDY (2005), the Agadir Agreement falls within the Euro-Mediterranean integration plans, partially since it was considered a rather “welcome necessity” by the Arab Monetary Fund's BOLBOL & FATHELDIN (2005), and mostly because it was endorsed and encouraged by the European Union and is constantly represented by both European and NAWA countries as a cornerstone of the the Euro-Mediterranean Partnership and the EU's Neighbourhood Policy of encouraging free trade through multilateral agreements within the Euro-Mediterranean Free Trade Area (EU-MED FTA) plans, based mainly on the 1995 Barcelona Process.

In short, the AA was a small-scale repetition of PAFTA with EU guidance. It held the same anticipations of a South-South FTA that would enlarge the domestic markets, boost trade, create scale economies, and foster economic development. However, even after eliminating trade barriers, the lack of complementarity was such that not many goods were there to be traded. Trade between the AA countries remained limited, with mostly basic manufactured products being exported. Even

by 2009, five years after its implementation, none of the four members of the Agadir Agreement has traded more than three per cent of its total imports and exports with their other partners (The World Bank, 2009).

In its examination of the factors explaining the low intra-AA trade, PÉRIDY (2005) applies a gravity model to map the different trade relations: The low intraregional trade levels are found to be explained mainly by distance costs. The lack of complementarity remains the highest barrier, with an increase of 4.5 per cent of exports for every one per cent; followed by the low GDP levels and the lagged low trade to a lesser extent. Nevertheless, such approach could be commented on multiple levels, mainly the reported lack of solid theoretical ground for gravity models. In addition, the results pointing to an insignificant effect of the "communality of language" could be interpreted as follows: The effort of translating from local linguistic varieties to Arabic is sometimes more complicated than translating into business linguae francae such as French or English. These languages have been used in translations, officially and unofficially, in order to clarify misconceptions owed to the differences in each of the countries legal Arabic terminologies.

Another recent study, ABDMOULAH (2011), which uses the same gravity-model-based approach concludes that the AA did not live to its expectations and was even less effective than PAFTA. The most echoed reasons are rather the same for PAFTA though, including the continuing presence of non-tariff barriers, the lack of consistency in integration efforts (International Trade Center, 2012), and yet again the lack of complementarity.

4.2.3 Middle East Free Trade Area

The Middle East Free Trade Area (MEFTA) represents a particular case of agreements that were not initiated by a NAWA country, and unlike other regional agreements endorsed by a third party such as the AA, were not unanimously well received, at least politically; yet they have managed to provide a relatively substantial push for regional integration. The 2003 MEFTA is a principal example of the United States' endeavour in sponsoring regional multilateral free trade treaties in the area. The project was announced to focus on liberalising the region's economies and integrate Djibouti, Mauritania, Somalia, and Sudan, with other NAWA counterparts, in what would be known as the "Middle East Initiative" or the "Greater Middle East". The rationale was that, similarly to the European union, "the countries do no have to trust each other in the beginning", however business ties would be the ones contributing to build the future region, and hence generate political peace. Two institutions were programmed: The Regional Business Council and the MENA Bank, of which the United States intended to be the main contributor.

MEFTA was preceded by the American administration's 1995 announcement of expanding US-Israeli trade agreements to include Egypt, Jordan, and the West Bank and Gaza. This resulted in the 1996 Qualifying Industrial Zones (QIZs), where products qualifying for certain rules of origin accessed the US market in a duty-free status. The USA sought to encourage intraregional trade relying on a domino effect of potential QIZ signatories; however by 1998, the US Congress disapproved the project of funding a MENA Bank, and slow peace negotiations further blocked the advancement of MEFTA. The 2000 US-Jordan FTA later somewhat revived the project, and it contributed to an increase of Jordanian exports by 213 per cent, creating over 30,000 new jobs and contributing to the development of the textile sector (MOMANI, 2007). Egypt had its QIZs agreement set up later in 2004, and the requirement was 11.7 per cent of Israeli content in order to access the US market. MEFTA was a distinct proof of the positive effects of intraregional cooperation that these countries had the exclusivity of experiencing, though not a proof of improving political relations in the region between Egypt, Israel, and Jordan as reportedly each party sought to minimise contact with the other: The Jordanians hired expatriates and used rather misleading product labels (PELZMAN, 2011), and the Egyptians counted Israeli software among the percentage required for the penetration of the US market. Israeli firms have not rushed to invest in Cairo or Amman either.

In 2003, the US Congress passed the Middle East Trade and Engagement Act, which stated the mutual interest of the United States and the "countries of the greater Middle East" to work for the sustainable growth in the region, as well as the importance of democratisation and economic liberalisation. The LAS expressed its reservations about the proposal. MEFTA's ambitious plan to remove all trade barriers on manufactured goods, farm products, and all trade barriers in services by 2011 was nevertheless not met, as the project has been mostly idle since the 2009 departure of its main initiator, the George W. Bush's administration, with perhaps the only related activity being the US's assistance for countries negotiating their accession to the World Trade Organisation, albeit the incidental intraregional boycott and other related issues (BROUDE, 2010).

4.2.4 Gulf Cooperation Council

The Cooperation Council for the Arab States of the Gulf represents, together with the Maghreb Union and the Arab Cooperation Council, the new generation of subregional agreements. The GCC was particularly seen to constitute a homogeneous group, both politically, culturally and in particular economically: Despite recurring political nuisances, its monarchies were acquainted and even akin to each other. Additionally, population density was low relatively to petroleum

resources, and no problems of balance of payment or unemployment were present (GRISSA, 1994).

Founded in May 1981, the GCC initially sought to be a political coalition and a trade bloc between the resource-rich countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. Although the GCC precedes PAFTA, focus on its application have been shifted on and off by the various and often conflicting visions on how regional integration should be carried out. With the oil price shocks accentuating the dichotomy between the commodity's net importers and net exporters, political decisions led against further liberalisation of intraregional trade, with net exporters often abandoning domestic policy reforms after enjoying natural resources income, and hence slowing integration plans. Natural resources were viewed as a national capital stock that should not be given away to other countries: The resource-poor resource-rich burden sharing of natural resources was not equal, and resource-rich countries, which have already been making up the largest share of intra-PAFTA trade, have chosen to revert their focus to the relatively small-scale GCC as a possible response for the lack of institutional support related to intra-NAWA trade, and to properly benefit to the most from integration with similar political and economic partners, as previously suggested. This remains a case of possible “natural selection” of integration, and as argued in ROMAGNOLI & MENGONI (2009), a possibly more efficient alternative.

Similarly to other regional integration efforts, the GCC is formally an inter-governmental agreement; there are no supranational bodies with effective delegated authority. The GCC is composed of a supreme council, itself composed of the heads of states. The role of the supreme council is “to direct” and “to advise”. The other administrative body of the GCC is a ministerial council that runs committees and submits recommendations to the supreme council. The main text regarding economic integration plans in the GCC is the unified economic agreement, signed in November 1981 and adapted in December 2011. The agreement's objective is to achieve monetary and economic union among GCC countries. The agreement further encompasses measures regarding common external tariffs, agreements about investment, services, and the same treatment of legal and natural nationals throughout the countries. The criterion for tariff revenues redistribution is set on the basis of the good's final consumption within the GCC. The GCC's rule of origin applies a 40-per-cent-value-added measure, and additionally imposes a 51 per cent GCC ownership criterion. The GCC initiated a standardisation organisation, as well as a commercial arbitration body and a registry for patents. Multiple agreements exist yet enforcement is still at the country's discretion.

Although the official launch of the GCC Customs Union was announced to start in January 2003, and that of its Common Market Agreement in 2008, it arguably remains until today an

incomplete customs union, let alone a full economic bloc: Each of the countries applies exceptions on specific products, and customs and border controls still exist among their members. The GCC still does not have a system of mutual recognition and free circulation of goods (HOEKMAN & SEKKAT, 2010). Nevertheless, the GCC remains perhaps the most successful integration arrangement in the region; it still however needs to strengthen its structure and allow more flexibility in decision making for supranational institutions (The World Bank, 2010a) in order to avoid possible economic and political fragmentation.

On the other hand, the GCC policies are frequently dictated by the Saudi authorities, which is not often well-received by other states such as Qatar or Oman: The Sultanate has repetitively tried to avoid being at odds with the Kingdom; however in multiple occasions such as the Saudi-Qatari border issues, the Iran-Iraq war, the Yemen Civil War, and the location of the planned GCC Central Bank, Oman and the other GCC states were not on the same side. In March 2014, Qatari exclusion from GCC activities took a drastic political turn when Bahrain, Saudi Arabia, and the UAE recalled their envoys from the country over alleged threats to regional security (Associated Press, 2014) (BBC News, 2014). The official common communiqué published through WAM | Emirates News Agency (2014) cited in its last paragraph “Qatar's reluctance in applying the needed procedures for a November 2013 common security agreement” as the reason for the countries to proceed with “what they deemed suitable to protect their stability”; unsurprisingly, Oman did not adhere to the same course of action. The smaller Gulf states seem to fear the Saudi hegemony and have their doubts about the ability of the GCC mechanisms to guarantee each party's rights.

4.2.5 Arab Cooperation Council

Following the same trend of sub-regionalism, states that felt left out of the GCC agreement reciprocated politically in 1989, by founding the Arab Cooperation Council (ACC), announced to seek economic cooperation and integration between its members. The union was composed of Egypt, Iraq, Jordan, and North Yemen, then known as the Yemen Arab Republic. It did not last long as after one year of its announcement, Iraq invaded neighbouring Kuwait and the organisation dissolved. In 1994 Egypt officially ended its membership in the organisation.

4.2.6 Arab Maghreb Union

The Arab Maghreb Union (AMU) is another failed unionist attempt, though perhaps to a lesser extent than the ACC. The union was founded on the 17th of February 1989 with the objective of realising a union between Algeria, Libya, Mauritania, Morocco, and Tunisia, as announced on the 10th of June 1988 Zeralda meeting (Maghrebarabe.org, n.d.). It was preceded by the 1964

Conference of Economic Ministers of the Maghreb and its subsequent Permanent Consultative Committee of the Maghreb (BROUDE, 2010).

Although members of the organisation signed, however not necessarily enforced, a variety of conventions and agreements regarding trade, the AMU has been very inactive and almost in a frozen state, due mostly to the discords between Algeria and Morocco over the issue of Western Sahara. The level of trade integration remained minimal, with intra-AMU exports accounting for around three per cent of the total trade (TOFFOLO, 2008), and less than two per cent of North Africa's combined GDP by 2007 (The World Bank, 2010b). The name of the organisation, particularly its "Arab" qualification, has been the source of disagreement and was repetitively subject to demands of omission (IRATH, 2012) (Leseco.ma, 2013) (LARBI, 2013). Finally, like any other failing treaty in the region, the AMU has been gradually, and rather implicitly, overridden by other subsequent treaties, in particular those within the Mediterranean framework such as the Agadir Agreement and the February 2014 Maghreb Initiative on Trade and Investment.

4.3 Financially and Monetary-Wise

In the NAWA region, a common currency project called the “Arab Dinar” was among the objectives of the LAS during its early years; it was however abandoned for multiple reasons, not least its near impossibility given the divergent monetary characteristics. The project remains solely as a unit of account in some related publications. In the current state of matters, no NAWA country has an exchange rate that is fixed to another NAWA state. Cases for the usage of common currencies within more than one territory exist however: In Tunisia for instance, the Libyan Dinar can be used as a currency in hotels and major shops, where prices are denominated in Libyan Dinar, without the need of exchange. In Gaza, the New Israeli Shekel and the Egyptian Pound are both circulated, though the latter is commonly used to a lesser and more local extent, i.e. in villages near the Rafah passage. In the West Bank, the Jordanian Dinar is in use side by side with the New Israeli Shekel. Nevertheless, none of these examples constitute an optimal or a common currency area.

The GCC remains perhaps the only organisation that seeks a formal common currency: The GCC's founding documents, in particular Article 22 of the Council's Unified Economic Agreement, have expressed the group's will for an exchange rate arrangement. The article stated the clear objective of creating a common GCC currency by 2010. Similarly to the European Monetary System, regional exchange rates stability was sought through fixing it to a common anchor and members were therefore required to officially peg their currencies to the USD. While this was the case already for most of the GCC countries, it was not such for the Kuwaiti dinar, which was only

pegged to the USD between the 5th of January 2003 and the 19th of May 2007, and subsequently re-pegged to an undisclosed weighted basket for international currencies constituting “Kuwait's major economic partners” (Central Bank of Kuwait, n.d.); still, the USD would most likely have a prominent percentage in the basket. Furthermore, GCC countries have equally agreed to prohibit unilateral changes to the pegged rates between their currencies and the USD; however efforts for the harmonisation of inflation and interest rates, as well as coordination of fiscal policies are still lagging. On a side note, while anchoring the GCC's common currency to the USD may seem as a viable direction, other studies such as LAHRÈCHE-RÉVEIL & MILGRAM (2006) state that the most suitable option would be pegging regional CCA currencies to the Euro, in order to ensure intraregional exchange stability and benefit trade-wise through the containment of real exchange rate shifts. In practise, arrangements related to a GCC's CCA are mainly advocated and sponsored by Saudi Arabia and are often neglected and resisted by some of its neighbours for various reasons, primarily the differences in political allegiances and ties. This monetary agreement hence remains suspended, particularly after Oman's 2006 withdrawal, followed by that of the UAE.

Studies examining the possibility of regional CCAs include SAHIN (2006), which uses a genetic algorithm optimisation model: The work argues that while the previous use of this method in economics concerned the evaluation of exchange rates, among other, its usage for the evaluation of OCAs has been recorded in a limited number of studies. This model relies on an objective function comprising inflation, interest rates, and a range of indicators, and the function is evaluated at randomly picked points called an initial population; the highest value among these points is then stored as a candidate solution. The process is repeated with new populations and new eventual candidates until the occurrence of an equilibrium or equilibria. In this particular case, the method sorts out various vectors containing countries and each vector is a potential candidate for a monetary union. Countries that are not suitable are constantly dropped from the populations. The results however seem rather unorthodox and do not take into account neither the state of trade integration, nor the political factors, which are considered to be two of the main drivers of OCAs. The study suggests a Monetary Union between Algeria, Bahrain, Egypt, Qatar, Tunisia, the UAE, and Yemen on one hand, and Iran, Iraq, Jordan, Morocco, Oman, Saudi Arabia, Syria, and Turkey on the other. The other outcome suggests that the first union does not contain Qatar.

In another analysis investigating the possibility of regional CCAs, BACHA (2008) uses a dataset covering the period between 1970 and 2003 to examine the synchronicity of macroeconomic variables, namely real GDP growth, inflation, monetary growth, and short-term interest rates. These variables are considered to be key indicators of a predisposition for a CCA. Initially, the work uses

a correlation analysis to identify how the countries are linked to each other. Additionally, a vector autoregression analysis (VAR) is used, and its impulse response functions and variance decomposition are analysed to check for present similarity in intraregional real GDP growth responses to external shocks, which proxies the present degree of symmetry and policy coordination among the countries planning a CCA. The VAR's external shock variable is the world's real GDP and the two-lag-VAR model allows to examine how change in one variable affects the others. The results of the correlation conclude that a CCA would more likely be feasible on the GCC level, where the monetary sector's coordination and convergence seem to reflect integration despite the low trade and real economy integration. The same results are equally echoed, and further detailed, by the outcomes of the impulse response function: GCC countries have more or less the same symmetric response pattern to world real GDP shocks, consisting of a negative reaction followed by a stabilisation of their output growth. The other set of countries that were examined consisted of the Agadir Agreement states, where no symmetry whatsoever was found. Furthermore, through the analysis of the variance decomposition, which checks for the extent to which the countries influence each other's real output, there is clearly no substantial mutual intra-GCC influence, and unsurprisingly, no mentionable intra-AA real output dependencies. The study concludes that the possibility of a NAWA-wide common currency seems therefore more than far-fetched; the GCC however, as a trade bloc and an aspiring monetary union, has more prerequisites for a CCA, though not enough.

Monetary fragmentation could be also identified in the institutional efforts for capital market integration, which consisted mainly in the establishment of the Arab Monetary Fund (AMF): Despite having set the objective of achieving full monetary integration, the institution had very little impact, neither in its first decade (ABU-SABHA, 1985), nor later. Examining the AMF's annual reports reveals that its activities consisted mainly in aids, loans, settlement of payments among member countries through the symbolic Arab Dinar, and in contributing financially to some of the countries' monetary institutions. It did not seek measures aiming at freeing exchange markets or creating a unified pan-NAWA financial market, and did very little financial policy and framework coordination. Consequently, NAWA financial markets kept and developed their own characteristics, e.g. degree of liquidity, openness, as well as their separate juridical structures. In LAGOARDE-SEGOT & LUCEY (2005), the integration of selected equity markets within the whole of NAWA is investigated, as well as the integration of these markets with the European Monetary Union, and the rest of the World. Data covered daily indices between January 1998 and mid-November 2004, and the sample of countries included Egypt, Israel, Jordan, Lebanon, Morocco, Tunisia, and Turkey. The

study concludes that all of the markets, each on their own, display no integration whatsoever with the NAWA benchmark and the authors point out that the markets display different reactions to external shocks and therefore should not be viewed as a financial block for portfolio allocations. The same results are echoed in YU & HASSAN (2008), which disproves any bidirectional stock market integration between any of the seven NAWA examined countries; the study however finds weak unidirectional causality from Saudi Arabia to Morocco, and asserts strong non-NAWA to NAWA causality, in particular from the USA's financial markets, suggesting the segmentation of the region as a group on one hand and its slight global integration on the other.

From the perspective of this study, monetary sub-regionalism is viewed as a natural outcome: NAWA as whole does not currently qualify for an OCA, and a simple evaluation of the gap in some of the factors presented in Table 1, such as the influence of the sectors in the economies, proxied here through the percentage of industrial products in total GDP, as well as the degree of openness, demonstrates a challenging feasibility. The different NAWA production structures make the planning of an OCA a very complicated task, as the trade and the financial spheres are closely entwined in the region and elsewhere. The regional differences in macroeconomic policies, banking systems, and exchange rate parameters as well as their degree of fluctuation, would contribute to trade distortions, over-valuation (NABLI, KELLER, & VEGANZONES, 2003), capital flight, and balance of payments problems, particularly with the shifts in natural resource prices. These trade distortions have not been sustainable and they would even be worsened if NAWA states give up their sovereign monetary policies in favour of a common currency driven by the interests of the region's major political powers. The diversity of the political systems and the different, if not conflicting, interests and balances further make political coordination a fiction.

On the other hand, the slow but continuing adoption of pro-market policies is ameliorating to some extent the countries' perennial problems with exchange rates, and is favouring regional and global harmonisation. This has been mostly the case with GCC countries, in contrast to resource-poor countries where exchange rates seem to follow the same pattern of a fixed or managed system, often exposing it to over-valuation shocks and balance of payment problems, which in turn lead to subsequent devaluation; similarly to what occurred in Egypt, Jordan, Morocco, and Tunisia, among other. Therefore, while indicators may point to a predisposition for a CCA in the GCC, especially with the present political will, tremendous work in the real economy needs to be carried out. If the GCC countries aspire to follow the example of the Euro, they need to strengthen real economy ties, and they need to acknowledge that it took Europe more than fifty years of planning and was

preceded by a variety of agreements and mechanisms, including the 1957 Treaty of Rome, the 1979 European Monetary System, the 1986 Single European Act, the 1991 Maastricht treaty, and the 1998 establishment of the European Central Bank.

To summarise the three previous subsections, the following table presents a timeline of the integration attempts. All of them, except the GCC, have either been revoked or failed to meet their announced objectives.

Table 2: Timeline of Integration Attempts

Year	Political	Economic	Participants
1945	League of Arab States	League of Arab States	Initiated by Egypt, Lebanon, Iraq, Jordan, Saudi Arabia, and Syria. Later encompassing all NAWA countries except Israel.
1950	Treaty for Joint Defence and Economic Cooperation	Treaty for Joint Defence and Economic Cooperation	Proposed for LAS members
1953		Convention for Facilitating and Regulating Transit Trade	Proposed for LAS members
1957		Arab Economic Unity Agreement	All NAWA except Algeria, Bahrain, Israel, Oman, and Qatar
1958	United Arab Republic		Egypt and Syria
1958	United Arab States		United Arab Republic and Northern Yemen
1958	Arab Federation of Iraq and Jordan		Iraq and Jordan
1964		Arab Common Market	Egypt, Iraq, Jordan, and Syria
1970	Federation of Arab Republics		Libya, Egypt, and Syria
1974	Arab Islamic Republic		Libya and Tunisia
1981	Gulf Cooperation Council	Gulf Cooperation Council	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE
1989	Arab Cooperation Council	Arab Cooperation Council	Egypt, Iraq, Jordan, and North Yemen
1989	Arab Maghreb Union	Arab Maghreb Union	All North Africa
1997		PAFTA	Initially all of NAWA except Algeria and Israel
2003		MEFTA	Egypt, Israel, and Jordan, with other bilateral agreements existing
2004		Agadir Agreement	Egypt, Jordan, Morocco, and Tunisia

Table 2: Timeline of Integration Attempts

Year	Political	Economic	Participants
2014		Maghreb Initiative on Trade and Investment	All North Africa

Source: Author's research

Notes: Year refers to the date of approbation, signature, or effect. Political refers to the dominant political nature of the agreement, usually either completely excluding the economic aspect or giving it a secondary status. Economic refers to the dominant economic nature of the agreement as announced in its text.

5 Analysis and Policy Implications

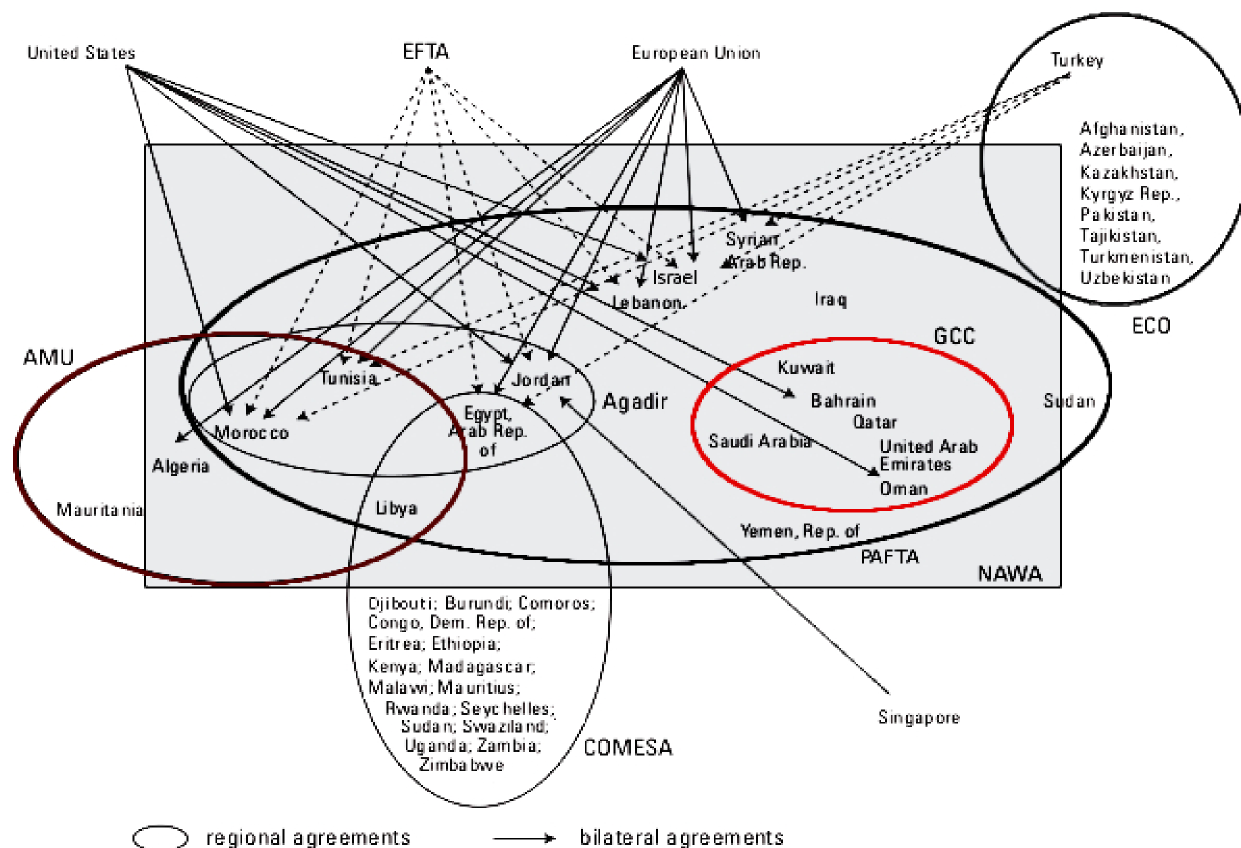
Before attempting to provide an analysis, few notes may be indicated concerning existing literature on the subject of regional integration: NAWA being a region is a point that practically all related literature seem to consider unquestionable. This is relatively odd considering that most other regions in the world are defined by their geographical limits, except for NAWA, which stretches over two continents and where countries can be very distinct. Furthermore, related works mostly view the topic from either a political or an economic perspective, and economic integration is mostly examined from a trade point of view with minor attention drawn towards financial and monetary integration.

Early works, such as ASKARI & CUMMINGS (1977) and EL-ERIAN & FISCHER (1996), estimate an important potential for regional integration, considering the various natural, human, and financial endowments: NAWA's high initial trade barriers, its average per capita income above that of the developing countries as a whole, and its relatively accessible intraregional trade routes and well established trade links suggested a scope for trade creation. Nevertheless, as stated in EL-ERIAN & FISCHER (1996), it is often correctly argued that the similarity of resource endowments among the countries and the proximity of North African and European Markets, would keep intraregional trade limited. On the other hand, GRISSA (1994), a pioneering and a rather visionary work, offers a different perspective: Political antagonisms between the different regimes have only been a secondary limiting factor of regional integration. The main causes for the non-enforcement of treaties and agreements are political instability and the lack of democratic institutions: Newer governments seek to have their own “monument of duly signed agreements” and therefore must “repudiate what has been done before”, in order to assert their legitimacy and “the validity and the eagerness of their intentions to promote Arab unity even if this takes place only on paper”. GRISSA (1994) however considers that even if these political efforts were honest, they would not be able to alter the economic reality, which does not allow for economic integration, a process that, according

to the publication, “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”. Previous unsuccessful cases, of which the rapid failure is only comparable to their “considerable publicity and fanfare, by regimes having the same political and economic orientations”, owed their decline to simple sudden changes in one of the countries, reflecting their fragile nature. Most importantly, GRISSA (1994) argues against considering economic integration as an objective on its own, and signals that the often recurring assumption stating that slow economic growth is due to the existence of frontiers, is rather naïve, and that a simple removal of barriers would not alter the pre-existing economic incompatibilities, qualified by the work as follows: “no two neighbouring Arab countries have had contemporaneously compatible economic and political regimes”.

The region's integration is characterised, if anything, by its inefficient overlapping agreements. This form of spaghetti regionalism, as described in ABEDINI & PÉRIDY (2008) and CARRÈRE, GOURDON, & OLARREAGA (2012), and of which the implications are detailed in HOEKMAN & KHEIR-EL-DIN (2000), ACHY & SEKKAT (2004), CHEMINGUI & MAROUANI (2004), KHEIR-EL-DIN (2004), SAIF & NEAIME (2004), and KHEIR-EL-DIN & GHONEIM (2005), among other, could be summarised in the following illustration.

Illustration 3: Overview of Regional Agreements in NAWA



Source: Author's adaptation based on The World Bank (2009)

Notes: The initialisms COMESA, ECO, and EFTA stand respectively for the Common Market for Eastern and Southern Africa, the Economic Cooperation Organisation, and the European Free Trade Association.

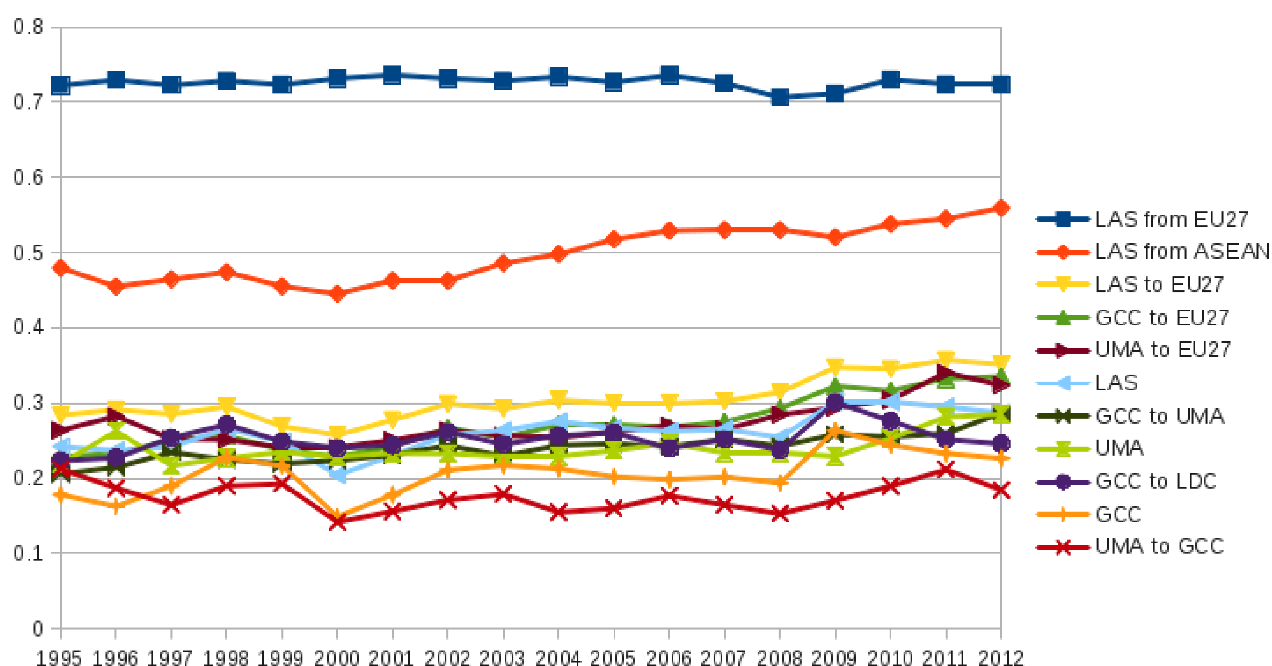
Despite the numerous depicted agreements, the ratio of intraregional trade to GDP exceeds 15 per cent only in Jordan and Syria; it remains in the low single digits for the rest of the countries. The levels of intraregional trade in West Asia, including Cyprus, Iran, and Israel, accounted only for 5.6 per cent of total exports in 2004, compared to 7.6 per cent in 2002 (MOMANI, 2007). Other blocs such as the North American Free Trade Area (NAFTA) and the EU have more than 50 per cent of their own exports remaining within their respective region. Moreover, the numerous works using gravity-model-based analysis, e.g. AL-ATRASH & YOUSEF (2000), SÖDERLING (2005), ELAFIF (2007), BHATTACHARYA & WOLDE (2010), or PARRA ROBLES, MARTÍNEZ ZARZOSO, & SUÁREZ BURGUET (2012), among many other, disagree on multiple points yet almost unanimously agree on the lower-than-expected intraregional trade levels. Trade continued to be characterised with uneven levels of import protection through widely dispersed tariff rates, high

levels of non-tariff barriers, and poor logistics and transport arrangements (The World Bank, 2009). All of the aforementioned accords have also rarely, and if so very timidly, discussed reforms related to the services sector. Countries were equally concerned that opening domestic markets would increase competition in sectors that were already characterised by a high industrial concentration. On the other hand, other tools of economic integration in the region included foreign direct investment (FDI) and portfolio investments; a point thoroughly highlighted in CHAUFFOUR (2013). FDI flows, particularly those originating from the GCC and spreading over NAWA, were a result of growing oil revenues; however the GCC and other resource-rich countries did not exclusively direct their FDI flows towards NAWA countries: Between 2002 and 2006, about 60 billion USD constituting only 11 per cent of the total GCC capital outflows, went to other NAWA countries (The World Bank, 2009).

Low effective integration could be mainly explained by the lack of complementarity in production, itself caused by the preceding politically motivated import substitution policies, and a constant dilemma in NAWA countries between investing in all sectors from one side and specialisation to profit from comparative advantages on the other: A cross-region and cross-country intra-industry trade (IIT)[8] regression signals that, despite their ongoing increase, IIT levels remain below the expected values and that the region lacks industry specialisation (HAVRYLYSHYN & KUNZEL, 1997). The similar production and export structures and the recurring lack of specialised and diversified NAWA economies render it difficult to proceed with regional integration, and further makes the countries compete for the same export markets. Bilateral complementarity indexes show that the match between desired imports and available exports remains generally poor over the years, significantly below the levels found in successful regional communities. The following illustration details the evolution of the Merchandise Trade Complementarity Index, defined in UNCTADstat (2013) as an indicator that “assesses the suitability of preferential trade agreement[s] between two economies given [that] the structure of one potential partners’ exports match[es] the imports of the other potential partner. Changes over time may indicate whether the trade profiles are becoming more or less compatible”. The values of this index are comprised between zero and one, with the latter reflecting perfect complementarity.

8 Using the Grubel-Lloyd IIT Index

Illustration 4: NAWA Merchandise Trade Complementarity



Source: Author's calculations and illustration based on UNCTADstat (2013)

Notes: The initialism EU27, the acronym ASEAN, and the initialisms LDC and UMA refer respectively to the European Union, the Association of Southeast Asian Nations, the group of the least developed countries, and the Arab Maghreb Union. The terms “from” and “to” refer respectively to import and export flows.

As it could be drawn from the above illustration, the most complementary partner of the LAS is the EU, both in exports and imports. The import complementarity of the LAS from ASEAN still exceeds by far the internal complementarity of the LAS. The export complementarity of the GCC with the AMU is nearly the same as that of the GCC with the world's least developed countries, which suggests that the Persian Gulf countries would be indifferent between exporting their products to North African countries or to the world's least developed countries. On the other hand, the complementarity of the AMU as an exporter to the GCC struggles to exceed 0.2, which is around half of its export complementarity with the EU; however, the AMU's internal complementarity exceeds on average that of the GCC, and is nearly the same as the internal complementarity of the LAS: This suggests that AMU countries would not lose much, when it comes to internal trade, if they would choose to reduce LAS-wide cooperation and focus more on North-African-related trade policies. Finally, all of the three blocks have higher export complementarity with the EU than with each other. A calculated complementarity average for

NAWA as defined in this study would amount in 2012 to 0.241 out of 1. As an importer, NAWA's most complementary partners would be the European Union, the rest of the World, and the major exporters of manufactured products. In this sense, HOEKMAN (1995), an early study that is still rather pertinent, argues that regional liberalisation with the EU would help enhance trade, FDI attractiveness, and provide assurance to investors.

Additionally, the use of more benchmarks in order to compare merchandise complementarity levels worldwide may further complete the picture. The following table enumerates those of 2012. The columns of the table are selected importers and are ordered from the most internally complementary to the least, with the group's own complementarity highlighted. The rows of the table are selected exporters and are ordered by their complementarity with the LAS. The three main groups of interest, i.e. the LAS, the AMU, and the GCC, are indicated with a dashed border. The selection of the trade blocs sought to be as precise and as diverse as possible, in order to avoid the recurrence of some countries in more than one group, and in order to cover the largest number of countries. Other aggregations such as the world or the developed countries are provided for analysis and benchmarking purposes.

Table 3: Comparative Merchandise Trade Complementarity

Exporter	**Importer**								
	EU27	**NAFTA**	**ASEAN**	**WAEMU**	**MERCOSUR**	**LAS**	**AMU**	**GCC**	**LDC**
EU27	0.83	0.76	0.63	0.53	0.76	0.72	0.66	0.69	0.61
Dved	0.84	0.76	0.67	0.52	0.77	0.72	0.66	0.67	0.60
World	0.88	0.83	0.76	0.59	0.75	0.70	0.64	0.66	0.60
MEoMG	0.82	0.80	0.71	0.50	0.76	0.70	0.64	0.68	0.59
NAFTA	0.78	0.77	0.67	0.52	0.74	0.69	0.63	0.65	0.57
APEC	0.77	0.77	0.74	0.50	0.72	0.66	0.60	0.64	0.56
Dving	0.72	0.75	0.71	0.54	0.63	0.61	0.55	0.58	0.52
ASEAN	0.65	0.62	0.70	0.48	0.60	0.56	0.54	0.52	0.53
BSEC	0.57	0.51	0.55	0.54	0.47	0.50	0.51	0.43	0.50
MERCOSUR	0.50	0.47	0.47	0.46	0.42	0.45	0.45	0.39	0.42
COMESA	0.41	0.38	0.36	0.36	0.32	0.34	0.32	0.29	0.30
CACM	0.33	0.30	0.36	0.29	0.28	0.33	0.29	0.30	0.33
WAEMU	0.33	0.29	0.39	0.44	0.28	0.30	0.32	0.26	0.37
CARICOM	0.33	0.29	0.37	0.38	0.28	0.29	0.31	0.25	0.32
LAS	0.35	0.33	0.37	0.34	0.30	0.29	0.30	0.24	0.26

Table 3: Comparative Merchandise Trade Complementarity

Exporter	Importer								
	EU27	**NAFTA**	**ASEAN**	**WAEMU**	**MERCOSUR**	**LAS**	**AMU**	**GCC**	**LDC**
GCC	0.34	0.32	0.36	0.33	0.29	0.28	0.29	0.23	0.25
MRU	0.30	0.29	0.35	0.38	0.25	0.27	0.27	0.24	0.30
MPaGE	0.36	0.33	0.38	0.34	0.29	0.26	0.29	0.22	0.27
LDC	0.32	0.31	0.27	0.26	0.23	0.25	0.21	0.24	0.19
AMU	0.32	0.31	0.31	0.32	0.28	0.23	0.28	0.18	0.25
ECOWAS	0.27	0.25	0.26	0.25	0.21	0.20	0.20	0.15	0.17

Source: Author's calculations based on UNCTADstat (2013)

Notes: WAEMU refers to West African Economic and Monetary Union. MERCOSUR refers to Mercado Común Sudamericano. Dved refers to Developed countries. MEoMG refers to Major exporters of manufactured goods. APEC refers to Asia-Pacific Economic Cooperation. Dving refers to Developing countries. BSEC refers to Black Sea Economic Cooperation. COMESA refers to Common Market for Eastern and Southern Africa. CACM refers to Central American Common Market. CARICOM refers to Caribbean Community. MRU refers to Mano River Union. MPaGE refers to Major Petroleum and Gas Exporters.

Some of the observations that could be drawn from the table are the following: The GCC is only more self-complementary in trade than the group of the least developed countries. Its complementarity is additionally not very far from that of the AMU or the LAS as a whole, which is around 30 per cent less complementary than the MERCOSUR or the WAEMU and 65 per cent less complementary than Europe. Likewise, the complementarity of the LAS as an importer and the GCC as an exporter is 0.28, which is higher than that with the AMU as an exporter, and almost equal to the LAS's 0.29 own complementarity: This indicates that most of the trade in the LAS is focused on the West Asian part or on West Asian goods such as petroleum and gas. Furthermore, the AMU's own compatibility is higher than its average complementarity as an exporter with the LAS or the GCC as importers, and inversely its complementarity as an importer is nearly the same with the LAS and the GCC as exporters, which again may reassert the previous point relating to the concentration of LAS trade flows in the GCC countries. This further signals that sub-regionalism is, if anything, a reality at least trade-wise, which is an ascertainment in line with proponent literature, e.g. AARTS (2010) or BROUDE (2010), in contrast to earlier literature that sets a rather unrealistically aspiring agenda, e.g. SAIDI (2003). Political decisions in this direction may therefore seem more viable and “economically friendly”, rather than working on one whole discordant region.

Other deficiencies include the lack of infrastructure: There is no complete road network linking any of the two subregions together let alone the whole area, and related plans such as the Cairo-Dakar Highway are still in their infancy. This is further affected by the closed borders between Algeria and Morocco since 1994. Likewise, there are almost no working plans related to linking power and water grids in the region, and previous plans in the Fertile Crescent that aimed to link Syrian and Lebanese electrical grids have not succeeded and are being further impeded by the ongoing unrest in Syria. Fertile Crescent countries remain in need of a substantial investment to improve road transportation quality (The World Bank, 2010c). Moreover, the integration of labour markets is practically non-existent: Although some technical cooperation agreements exist between labour-importing and labour-exporting NAWA countries, workforce movements are very tied and are in no way free. Strong past trends of labour migration, as minor as their effect on integration was, have nevertheless been going downwards (The World Bank, 2003, p. 92): GCC countries have been recently substituting their NAWA-emanating workforce by other, mostly Asian, workforce. This has been continuously the case for various reasons including the lower wage demand of the Asian workforce, as well as the adoption of a policy of nationalisation of employments, itself motivated by the high unemployment rates. Perhaps one remaining important employment flow is that of West Bank and Gazan labour into Israel (EL-ERIAN & FISCHER, 1996). Similarly to labour markets, there is no coordination nor mutual recognition of higher education diplomas. Inter-university exchanges are very low due to the limited recognition of diplomas and due to the fact that NAWA countries have different systems with different instruction languages in each country. While countries such as Tunisia and Morocco have been aligning their educational framework to adopt to the Bologna process, states such as Israel were rejected from the programme, and countries such as Syria are still lagging in a completely separate system that exclusively uses Arabic as its instruction language for higher education. In contrast, Tunisian universities offer high education courses mostly, if not exclusively, in French, and very recently in English, with higher-education instruction in Arabic being reserved for few Humanities-oriented and theologically oriented programmes. Institutional reforms, mostly internal but also external, remain a top priority for all the countries, as thoroughly detailed in ROUIS & TABOR (2008), HOEKMAN & SEKKAT (2009), and The World Bank (2009).

In all of the integration attempts, from bilateral ones covering a limited range of goods to substantial ones aiming at establishing pan-NAWA institutions, national authorities seemed to abide by a refusal or at least a reluctance to delegate any power to supranational authorities, and instead relied on an omnipresent government-to-government approach even in integration plans that have

gone farther than the rest such as the GCC. The same governments equally refused to share power with other factions in the country, as it could be seen from the rightmost column of Table 1. Other institutional deficiencies were embodied in the complete absence of compensation mechanisms that were supposed to redistribute the gains from integration, and the lack of a consensus on these institutions as well as the continuing presence of non-tariff barriers. The institutional aspect remains a hampering element for NAWA countries, both internally and integration-wise.

The refusal to delegate power to supranational pan-NAWA authorities was contrasted with a constant promotion and capitalisation on Pan-Arabism, a political populist ideology with no effective economic plans. Comparatively to other regions, the cultural argument seems to be heavily echoed in NAWA; inversely, it is mentioned nowhere in the European Union's founding documents that unionism is motivated by Europe having the same ex-ante culture; on the contrary, the EU parliament remains until today the most linguistically plural parliament in the world. The idea of unionism because of presumed similarities in culture seems rather inefficient and have proved its failure in this case. It has dragged the countries into inefficient political and economic partnerships and has ruthlessly excluded other ethnolinguistic elements in the region. Few indicators of this include the unidirectionality of cinematographic exports that remain immensely, if not exclusively, from and within Egypt and other Fertile Levant countries to North African countries; the opposite did not happen due to differences in the used linguistic varieties. Algeria has equally embarked on heavily contested Arabisation policies starting with the Bendjedid government, which were rather futile and could have had their resourcing allocated into more appropriate uses. The lack of supranational bodies and the views on cultural plurality remain two of the main differences with the European example and should be heavily taken into account by Pan-Arabist proponents of regional integration. The same proponents could equally apprehend that while most of the related literature on “Arab unity” views it as an objective on its own, integration is as a matter of fact perused as means to provide more welfare for populations, and such unity would not, as if by magic, solve all of the region's problems.

Perusing pan-NAWA integration should ensure that few points are applied by all of the concerned parties: There is first a need for the proper reinstatement of the open regionalism paradigm instead of narrow gullible views of a union of the “Arabs versus the West”, particularly in the ongoing context of globalisation. Phasing out chauvinistic nationalist ideologies that reference one ethnic or cultural group in the region, and acknowledging that the cultural reality of the region is not monolithic would guarantee that the future cooperation in NAWA would be based on common economic ties and a common will for benefit, and spare it the effects of possible political shifts,

hence guaranteeing an incentive for all participating parties. There is equally a crucial need for the continuation of the normalisation process with Israel for the interest of the whole region: The Israeli markets present a complementary and a very near prospect with ample business opportunities. Current trade relations that take place through the proxies of Cyprus, Egypt, or Jordan to the rest of the region are costly and uneconomic. Moreover, the peace process in the region would only be accomplished through long-standing business lobbies that defend such agreements despite their difficulty of application due to many governments continuously using either party's actions as pretexts to gain support from local populations, and due to other socio-religious factors institutionalised by the religious establishments and customs in the region. Peace would undoubtedly decrease military spending, investment uncertainty, and country risk, and would further help rearrange the allocation of resources into more efficient options. However, peace dividends and integration dividends would mostly benefit West Asia, as the region's economic relations are still very much governed by the pace of the peace process, itself trapped into a circular rationale with economic integration. North Africa on the other hand would need to concentrate on its integration with its main economic partner, the European Union, and deepen the hub-and-spoke Euro-Mediterranean integration, which might represent a first cornerstone of an all-NAWA integration, should North African political forces insist on a broader one. Both regions need to reduce divergences in regulatory frameworks and are in need for the development of a regional investment code that conforms to international standards, in order to gain from policy harmonisation.

Most importantly, local reforms are primordial for successful integration: Countries in both areas, particularly resource-poor ones, should focus independently on the internal restructuring of their monetary and industrial sectors through investing in a strong specialised internal industry that could sustain liberalisation and through attracting FDIs or alternatively examining external investment opportunities, in Sub-Saharan Africa for instance, where returns may still be interesting. Heavy protectionist policies and high tariffs have not been efficient; they are merely costly and they would only delay proper domestic industrial specialisation. This also affects consumer choices and access to other, perhaps better, goods. Moreover, one important transition phase is the final settlement of the remaining border issues, such as the Algerian-Libyan, Algerian-Moroccan-Western-Saharan, Bahraini-Qatari, Egyptian-Saudi, Egyptian-Sudanese, Emirati-Saudi, Israeli-Lebanese-Syrian, Omani-Yemeni, and other, in order to reduce future conflicts and contribute to political and economic stability. Withal, there is undoubtedly a need for a more comprehensive integration framework, such as the Union for the Mediterranean for instance, as the LAS has proven

its inefficiency, and an equal need for the redefinition of the regions on the basis of economic activities.

6 Conclusion

Explanations of low trade seem to fall within a repetitive vicious cycle that is: Intra regional trade is low because of the low intraregional integration, and low intraregional integration is low because of the low intra regional trade. The explanation that this document advocates is simple: NAWA integration was first advocated under populist political programmes that failed because integration for mere ideological reasons was and is not viable. NAWA perhaps remains the exception to regionalism because it simply cannot be a region on its own. Trade amongst NAWA countries remains below what gravity models predict because NAWA does not complement itself to be a trade bloc on its own due to, among many other, the lack of proper institutional support and transparency, and the similar production structures caused by import-substitution policies that later made the countries compete for the same export markets. The failure of pan-NAWA agreements proved the inefficiency of pan-NAWA institutions and (re)led to sub-regionalism, in turn equally motivated by the legitimate reluctance of richer countries to continue integration plans with poorer countries, as they chose not to share national resource wealth and not to reduce national welfare through trade diversion, among other. This thesis sought to cover, as best as it could, a delicate and a multidimensional topic taking place in a wide geographical and historical span, and if one recommendation only is to be retained from this work, it would perhaps be the following: North Africa should emphasise on its more beneficial cross-Mediterranean partnerships and avoid ideological futilities and related costly and unfruitful institutions in building cooperation with other regions, including West Asia. West Asia on the other hand should proceed steadily with the Persian Gulf's integration and engage more intensively in the peace process in order to reap its economic benefits. Countries from both regions should invest extensively in institutional reforms and continue the liberalisation of their economies in a globalised open regionalism perspective.

Illustration Index

Illustration 1: Map of North Africa and West Asia....................10
Illustration 2: Intra-PAFTA Trade....................18
Illustration 3: Overview of Regional Agreements in NAWA....................32
Illustration 4: NAWA Merchandise Trade Complementarity....................34

Index of Tables

Table 1: Overview of NAWA Countries....................10
Table 2: Timeline of Integration Attempts....................29
Table 3: Comparative Merchandise Trade Complementarity....................35

Bibliography

AARTS, Paul. (2010). The Middle East: a region without regionalism or the end of exceptionalism?. *Third World Quarterly*. 20:5. 911 – 925.

ABDMOULAH, Walid. (2011). Arab trade integration: evidence from zero-inflated negative binomial model. *Journal of Economic Cooperation and Development*. 32, 2. 39 – 66.

ABEDINI, Javad & PÉRIDY, Nicolas. (2008). The Greater Arab Free Trade Area (GAFTA): an estimation of its trade effects. *Journal of Economic Integration.* 848 – 872.

ABU-SABHA, Suleiman. (1985). *Arab capital market integration: problems and prospects*. University of Keele.

ACHY, Lahcen & SEKKAT, Khalid. (2004). overlapping trade agreements: status and challenges for Morocco. *IDRC Research Programme*. Research Report Series: No. 0427.

AL-ATRASH, Hassan & YOUSEF, Tarik. (2000). Intra-Arab trade: is it too little?. *IMF Working Paper*. WP/00/10.

AL-ROSAN, Basim. (2007). *Arab Currency Union*. Universiteit van Amsterdam.

ALLEN, Robert Loring. (1963). Review of the theory of economic integration, by Bela Balassa. *Economic Development and Cultural Change*. 11 (4). 449 – 454.

ARGŨELLO, Ricardo. (2000). *Economic integration. an overview of basic economic theory and other related issues*. Centro Editorial Universidad del Rosario. Bogotá, COLUMBIA.

ASKARI, Hossein & CUMMINGS, John Thomas. (1977). The future of economic integration within the Arab World. *Int. J. Middle East Stud.*. 8. 289 – 315.

Associated Press. (2014). *Saudi, UAE, Bahrain recall their envoys from Qatar.* Retrieved 6th March 2014 from http://www.nytimes.com/aponline/2014/03/05/world/middleeast/ap-ml-qatar-gulf-ambassadors.html

BACHA, Obiyathulla Ismath. (2007). A common currency area for MENA countries? A VAR analysis of viability. *International Journal of Emerging Markets.* 3. 2. 197 – 215.

BALASSA, Béla. (1961). *The theory of economic integration*. The theory of economic integration: an introduction. Greenwood Press. Retrieved 5th October 2013 from http://ieie.itam.mx/Alumnos2008/Theory%20of%20Economic%20Integration%20(Belassa).pdf

BBC News. (2014). *Gulf ambassadors pulled from Qatar over 'interference'.* Retrieved 6th March 2014 from http://www.bbc.com/news/world-middle-east-26447914

BHATTACHARYA, Rina & WOLDE, Hirut. (2010). Constraints on trade in the MENA Region. *IMF Working Paper.* WP/10/31.

BOLBOL, Ali A. & FATHELDIN, Ayten M.. (2005). Intra-Arab exports and direct investment:an empirical analysis. Arab Monetary Fund. *AMF Economic Papers.* Number 12.

BROUDE, Tomer. (2010). Regional economic integration in the Middle East and North Africa: a primer. *European Yearbook of International Economic Law*. 269 – 296.

CAMPBELL, David F. J., PÖLZLBAUER, Paul, BARTH, Thorsten D., & PÖLZLBAUER, Georg. (2013). *Democracy Ranking 2013 (Scores).*

CARRÈRES, Céline, GOURDON, Julien, & OLARREAGA, Marcelo. (2012). Natural resources: a key challenge in regional integration of the Middle East and North Africa region. CEPII. *La lettre du CEPII.* 325.

Central Bank of Kuwait. (n.d.). *CBK: Market Data.* Retrieved 16th February 2014 from http://www.cbk.gov.kw/WWW/exchange_rates.html

Central Intelligence Agency. (2013). *The World Factbook 2013-14.* Washington DC, USA. Retrieved 19th February 2014 from https://www.cia.gov/library/publications/the-world-factbook/index.html

CHAUFFOUR, Jean-Pierre. (2011). Trade integration as a way forward for the Arab World: a regional agenda. The World Bank. *Policy Research Working Paper.* 5581.

CHAUFFOUR, Jean-Pierre. (2013). *From political to economic awakening in the Arab World.* The

International Bank for Reconstruction and Development / The World Bank.

CHEMINGUI, Mohamed A. & MAROUANI, Mohamed A.. (2004). The economic and regulatory policy implications of overlapping preferential trade agreements in the Arab countries: the case of Tunisia. IDRC Research Programme. *Research Report Series.* No. 0428.

EL-ERIAN, Mohamed & FISCHER, Stanley. (1996). Is MENA a region?. International Monetary Fund. *IMF Working Paper.* WP/96/30.

ELAFIF, Mohamed. (2007). Intra-Arab trade and their economic integration. *International Economic Conference on Trade and Industry (IECTI) 2007, 3 – 5 December 2007*

Encyclopaedia Britannica. (n.d.). *United Arab Republic (U.A.R.).* Retrieved 12th January 2014 from http://www.britannica.com/EBchecked/topic/615447/United-Arab-Republic

GALAL, Ahmed & HOEKMAN, Bernard. (2003). Between hope and reality: an overview of Arab economic integration. Egyptian Center for Economic Studies.

GHONEIM, Ahmed Farouk, LOPEZ GONZALEZ, Javier, MENDEZ PARRA, Maximiliano, & PÉRIDY, Nicolas. (2011). Shallow versus deep integration between Mediterranean countries and the EU and within the Mediterranean region. Center for Social and Economic Research. *CASE Network Reports.* No. 96.

Government Printing Office. (2010). *Minerals Yearbook, 2008, V. 3, Area Reports, International, Africa and the Middle East*.

GRISSA, Abdessatar. (1994). Arab economic integration: current reality and future prospects. *ERF Working Paper Series.* 9405.

GROSSMAN, Gene M. & HELPMAN, Elhanan. (1994). Protection for sale. *The American Economic Review*. 84 (4). 833 - 850.

HAUSMANN R., HIDALGO C. A., BUSTOS S., COSCIA M., CHUNG S., JIMENEZ J., SIMOES A., & YILDIRIM M.. (2011a). *The observatory of economic complexity :: Bahrain exports, imports and trade partners.* Retrieved 28th January 2014 from http://atlas.media.mit.edu/country/bhr/

HAUSMANN R., HIDALGO C. A., BUSTOS S., COSCIA M., CHUNG S., JIMENEZ J., SIMOES A., & YILDIRIM M.. (2011b). *The observatory of economic complexity :: United Arab Emirates exports, imports and trade partners.* Retrieved 28th January 2014 from http://atlas.media.mit.edu/country/are/

HAVRYLYSHYN, Oleh & KUNZEL, Peter. (1997). Intra-industry trade of Arab countries: an indicator of potential competitiveness. *IMF Working Paper.* WP/97/47.

Historyguy.com. (n.d.). *The Egypt-Libya border war of 1977.* Retrieved 28th January 2014 from http://historyguy.com/egypt_libya_war_1977.htm

HOEKMAN, Bernard. (1995). The World Trade Organization, the European Union, and the Arab World. *Policy Research Working Paper.* 1513.

HOEKMAN, Bernard & KHEIR-EL-DIN, Hanaa. (1973). *Trade policy developments in the Middle East and North Africa.*

HOEKMAN, Bernard & SEKKAT, Khalid. (2009). Deeper integration of goods, services, capital and labor markets: a policy research agenda for the MENA region. *ERF Policy Research* Report. 32.

HOEKMAN, Bernard & SEKKAT, Khalid. (2010). *Arab economic integration: the missing links.*

HOEKMAN, Bernard & ZARROUK, Jamel. (2010). Changes in cross-border trade costs in the Pan-Arab Free Trade Area, 2001–2008. *Policy Research Working Paper.* 5031.

HOSNY, Amr Sadek. (2013). Theories of economic integration: a survey of the economic and political literature. *International Journal of Economy, Management and Social Sciences.* 2 (5). 133 – 155.

International Trade Center. (2012). *League of Arab States' regional integration: opportunities for trade and employment.* Geneva, SWITZERLAND.

IRATH, Izem. (2012). *Le Maroc propose de supprimer le mot « Arabe » de l'UMA.* Retrieved 15th

February 2014 from http://www.tamurt.info/le-maroc-propose-de-supprimer-le-mot-arabe-de-l-uma,3179.html

KAHNERT, F., RICHARDS P., STOUTJESDIJK E., & THOMOPOULOS. P.. (1969). *Economic integration among developing countries*.

KENNEN, Peter. (1969). *The theory of Optimum Currency Areas: an eclectic view.*

KHEIR-EL-DIN, Hanaa. (2004). Issues paper on the assessment of implementation of regional trade agreements in the Arab Countries and the economic and regulatory policy implications of their overlapping: The case of Egypt, Jordan, Morocco, Tunisia. IDRC Research Programme 2004 – 2005. *Research Report Series.* No. 0424.

KHEIR-EL-DIN, Hanaa & GHONEIM, Ahmed F.. (2005). The economic and regulatory policy implications of overlapping preferential trade agreements in the Arab countries: the case of Egypt. IDRC Research Programme 2004 – 2005. *Research Report Series.* No. 0425.

LAGOARDE-SEGOT, Thomas & LUCEY, Brian M.. (2005). *Capital market integration in the Middle East and North Africa and its implications for international portfolio allocation.*

LAHRÈCHE-RÉVEIL, Amina & MILGRAM, Juliette. (2006). Exchange-rate policies and trade in the MENA countries. *ThE Papers.* 06/07.

LAKKIS, Ramy A.. (2003). *Arab regional integration:: A neo-functionalist and transactionalist analysis.* Durham University.

LARBI, Amine. (2013). *Maroc : Un parti du gouvernement veut supprimer le mot 'Arabe' du nom de la MAP.* Retrieved 15th February 2014 from http://www.lemag.ma/Maroc-Un-parti-du-gouvernement-veut-supprimer-le-mot-Arabe-du-nom-de-la-MAP_a78268.html

LEDDY-CECERE, Thomas A.. (2010). *Contact, Restructuring, and Decreolization: The Case of Tunisian Arabic.* Dartmouth College

Leseco.ma. (2013). *Le nom de la MAP doit changer selon Benchemmas.* Retrieved 15th February 2014 from http://www.leseco.ma/maroc/13570-le-nom-de-la-map-doit-changer-selon-benchemmas

MACHLUP, Fritz. (1977). *A history of thought on economic integration.* Columbia University Press. New York, USA.

MADDY-WEITZMAN, Bruce. (1990). Jordan and Iraq: efforts at intra-Hashimite unity. *Middle Eastern Studies.* 26. 1.

Maghrebarabe.org. (n.d.). *L'Union du Maghreb arabe.* Retrieved 15th February 2004 from http://www.maghrebarabe.org/fr/uma.cfm

MCKINNON, R.. (1963). Optimum Currency Area. *American Economic Review.* 17. 717 – 725.

MOMANI, Bessma. (2007). A Middle East free trade area: economic interdependence and peace considered. *The World Economy.* 1682 – 1700.

MÜLLER, Beat. (n.d.). *Syrien, 1. September 1971 : Bildung der Vereinigten Arabischen Republik.* Retrieved 11th January 2014 from http://www.sudd.ch/event.php?lang=en&id=sy021971

MUNDELL, Robert. (1961). A theory of optimum currency areas. *The American Economic Review*. 51. 657 – 665.

MUNDELL, Robert. (1997). *Updating the agenda for monetary union.*

MUNDELL, Robert. (1973). *Uncommon arguments for common currencies.*

NABLI, Mustapha, KELLER, Jennifer & VEGANZONES, Marie-Ange. (2003). *Exchange rate management within the Middle East and North Africa region.*

ÖCALAN, Abdullah. (2012). *War and peace in Kurdistan.* Transmedia Publishing.

PARRA ROBLES, María Dolores, MARTÍNEZ ZARZOSO, Inmaculada, & SUÁREZ BURGUET, Celestino. (2012). *The impact of FTAs on MENA trade.* Ibero-Amerika Institut für Wirtschaftsforschung. Diskussionsbeiträge Nr. 217.

PAZ, Shlomit, TOURRE, Yves M., & PLANTON, Serge. (2003). North Africa-West Asia (NAWA) sea-level pressure patterns and their linkages with the Eastern Mediterranean (EM) climate. *Geophysical Research Letters.* 19.

PELZMAN, Joseph. (2011). *Israel — Middle East North Africa (MENA) trade: is there any truth to the NEG theory as applied to the Israel-Jordan QIZs?.*

PÉRIDY, Nicolas. (2005). Toward a pan-Arab Free Trade Area: assessing trade potential effects of the Agadir Agreement. *The Developing Economies.* September. 329 – 345.

PODEH, Elie. (1999). *The decline of Arab unity.* Sussex Academic Press.

RAUCH, James E. & KOSTYSHAK, Scott. (2009). The Three Arab Worlds. *Journal of Economic Perspectives.* 23. 3. 165 – 188.

ROMAGNOLI, Alessandro & MENGONI, Luisa. (2009). The challenge of economic integration in the MENA region: from GAFTA and EU-MFTA to small scale Arab Unions. *Econ Change Restruct.* 42. 69 – 83.

ROUIS, Mustapha & TABOR Steven R.. (2008). *Regional economic integration in the Middle East and North Africa.* The International Bank for Reconstruction and Development / The World Bank.

SAHIN, Hasan. (2006). MENA countries as optimal currency areas: reality or dream. *Journal of Policy Modeling.* 28. 511 – 521.

SAIDI, Nasser. (2003). Arab economic integration: an awakening to remove barriers to prosperity. *ERF Working Paper Series.* 0322.

SAIF, Ibrahim & NEAIME, Simon. (2004). The assessment of implementation of regional trade agreements in the Arab countries and the economic and regulatory policy implications of their overlapping. Case Study: Jordan. IDRC Research Programme 2004 – 2005. *Research Report Series.* No. 0426.

SCHWEITZER, Arthur. (1960). Economic integration: theoretical assumptions and consequences of European integration, by Rolf F.Sannwald, and Jaques Stohler. *Indiana Law Journal.* 35. 12.

SÖDERLING, Ludvig. (2005). Is the Middle East and North Africa Region achieving its trade potential?. *IMF Working Paper.* WP/05/90.

The World Bank. (2003). *Trade, investment, and development in the Middle East and North Africa. Missed opportunities in global integration.* The International Bank for Reconstruction and Development / The World Bank.

The World Bank. (2009). *2008 MENA Economic developments and prospects report.* Washington DC, USA.

The World Bank. (2010a). *Economic Integration in the GCC.* The International Bank for Reconstruction and Development / The World Bank.

The World Bank. (2010b). *Economic Integration in the Maghreb.* The International Bank for Reconstruction and Development / The World Bank.

The World Bank. (2010c). *Economic Integration in the Mashreq.* The International Bank for Reconstruction and Development / The World Bank.

The World Bank. (2013). *World Development Indicators.* Retrieved 16th January 2014 from www.data.worlbank.org

TOFFOLO, Cris E.. (2008). *The Arab League.* Promoting economic development and regional integration. Infobase Publishing.

UNCTADstat. (2013). *UNCTAD UNCTADstat.* Retrieved 30th January 2014 from http://unctadstat.unctad.org/

VERSTEEGH, Kees. (1984). *Pidginization and creolization.* John Benjamins Publishing Company. Amsterdam, NETHERLANDS.

WALLACE, William. (1994). *Regional integration: The West European experience.* The Brookings Institution. Washington DC, USA.

WAM | Emirates News Agency. (2014). الإمارات و السعودية و البحرين .. بيان مشترك. Retrieved 6th March 2014 from http://www.wam.org.ae/servlet/Satellite?c=WamLocAnews&cid=1290009771431&pagename=WAM

%2FWAM_A_Layout&parent=Collection&parentid=1135099399918
YU, Jung-Suk & HASSAN, M. Kabir. (2008). Global and regional integration of the Middle East and North African (MENA) stock markets. *The Quarterly Review of Economics and Finance.* 48. 482 – 504.
ZINELDIN, Mosad. (2002). Globalisation, strategic co-operation and economic Integration among Islamic/Arab countries. *Management Research News.* 25. 4. 35 - 61.
File:Worldmap LandAndPolitical.jpg. (2006). Retrieved 16th January 2014 from https://commons.wikimedia.org/wiki/File:Worldmap_LandAndPolitical.jpg