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Arab Trade Integration in Retrospect: Comparison with the European Union Experience and Lessons Learnt

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Introduction

Regional trade agreements (RTAs) have proliferated since the mid-1980s. They experienced a first wave of flourishing in the 1960s, however it was only the European Community (EC) model that survived with success. Several reasons led to their revival starting mid-1980s, among the most important of which was the slow pace of further liberalization at the multilateral level under the auspices of the World Trade Organization (WTO), the reintegration into the global economy of countries in transition from socialism, and the shift of the United States of America (US) to be engaged in RTAs. The new wave of RTAs has been different from the old one, where aspects of “deep” integration have been more frequently embedded in such RTAs when compared to the first wave which was described as “shallow” integration (Lawrence, 1996). Between 1990 and 2004 the number of RTAs in force rose from 50 to nearly 230 worldwide. The WTO estimates that another 60 agreements are in various stages of negotiation. Nearly all countries belong to at least one RTA, and some are party to numerous agreements. On average each country belongs to six RTAs (World Bank, 2005).

Arab countries have experienced several attempts of regional integration among themselves. Their attempts were relatively modest in terms of enhancing regional trade. This study has the main objective of drawing lessons from the European Union (EU) experience in the field of regional integration for the Arab countries. In Section 1, we review the main features Arab economic integration emphasizing the economic, political and institutional reasons behind the modest results of their integration efforts. In Section 2, we present the historical sequence of Arab integration and compare it to that of the EU. In Section 3, we analyze the pillars of Arab regional integration including laws and regulations, organizations, and policies. We benchmark our analysis against the EU case. In Section 4 we conclude by drawing the main lessons from the EU experience which can help the Arab countries to make their integration process more successful.

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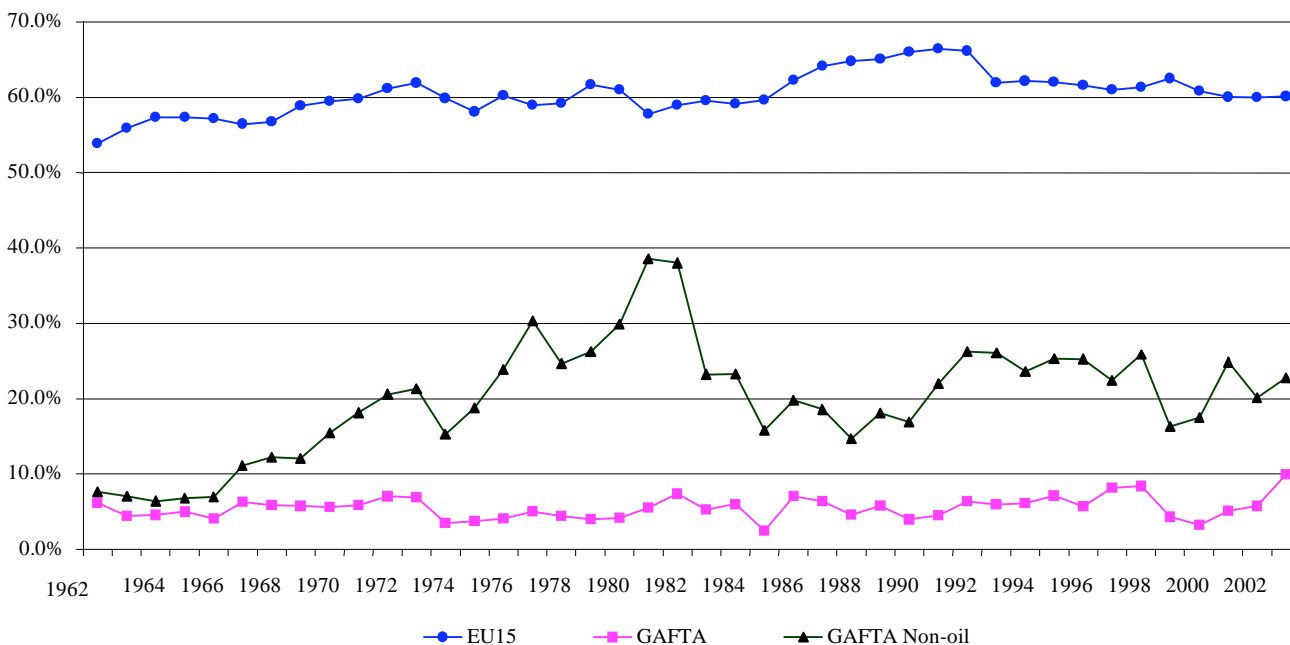
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Section 1: Main Features of Arab Economic Integration³

Trade integration among Arab countries has always been characterized to be weak. Intra-regional exports fluctuated around less than 10% of total Arab world exports whereas in the EU it ranged between 53 to 60%. Since the inception of the EU, intra-regional trade has been high and has increased with further integration. It is worth noting that intra-regional trade among European countries was high even before they joined the European Community (EC) as shown in Figure 1. Among the Arab countries, the picture looks differently if oil exports are excluded where intra-regional exports show a higher level, although still lower than in other regions such as the EU. In fact it was only in two years where such ratio exceeded 30% in a time horizon of more than 40 years. Some studies have stated lower figures for Arab intra-regional trade among where, for example, intra-regional trade among Jordan, Syria, Egypt, Kuwait and Iraq never exceeded 4% in the period 1953 to 1976 and remained at an average of 7% in the period that followed till mid-1990s with a maximum of 8% in the period 1991-1993 (El-Imam, 2001).

Several studies have analyzed the reasons behind such weak trade integration among Arab countries. Among such studies are Fawzy (2003), Galal (2000), Havrylyshyn, (1997), Sabry (2001), Limam and Abdalla (1998) and Zarrouk (2000). They have identified different economic, political, and institutional reasons for such weakness.

Figure 1: Intra-regional Trade Export Shares



Source: World Integrated Trade Solution (WITS) Database, World Bank, 2004

³ This section depends heavily on Kheir-El-Din and Ghoneim (2005).

Among the economic reasons identified are high similarity in production and exports structure of Arab countries, mismatch between exports of the Arab countries and their imports (lack of complementarity), the dominating ideology of import substitution, large size of public sector, the relatively high tariff protection, and the dispersion among tariff rates of different Arab countries. The disparity among tariff structures of Arab countries is huge especially when compared to the early stages of European integration where, despite significant differences in their tariff structures, they were never so large as between Arab countries. The average non-weighted tariff in Tunisia in 2003 reached 28.6% (WTO, 2005) while it was around 4% in the Gulf Cooperation Council members which implies a difference of more than 24 percentage points. In the case of the EC, the largest difference between the average non-weighted tariff level between any two countries of the six founding members in 1958 was approximately 10 percentage points (calculated based on table cited in El Agraa, 2004, p. 95). The EC members were able to have their diverse tariff structures converge and move to a more coherent common structure whereas the tariff structures in Arab countries have diverted from each other over time (see the case of Oman and Tunisia where the difference in their weighted average tariff increased from 23 percentage points to 26 percentage points, Tables 1a. and 1b.in the Appendix). Moreover, income disparities are enormous among Arab countries where there exist some countries with GDP per capita that is 100 times larger than other countries (United Arab Emirates compared to Sudan and Yemen) whereas in the EU countries there are income disparities however they were confined to a maximum difference of four folds between Portugal and Luxembourg and 10 times between the Slovak Republic and Luxemburg (data have been reported from WDI, 2003, see Tables 2a and 2b in Appendix). Such disparities among Arab countries hinder the integration process due to expected political frictions and economic sacrifices required from rich countries.

Havrylyshyn and Kunzel (1997) found that Arab countries have a low Intra-Industry Trade Index (IIT) implying a modest industrial base. The levels of IIT calculated for the Arab countries are less than IIT for other regional blocks such as NAFTA, APEC and Mercosur and definitely the EU (see Table 1). Their results showed however that the Arab countries are experiencing higher growth rates of IIT. Their findings indicated further that IIT levels of Arab countries in their trade relations with the EU are lower than their IIT levels among themselves. They concluded that Arab countries could increase their IIT levels and intra-regional trade by specializing in the existing industries.

Table 1: Intra-Industry Trade in Different Regional Blocks

Regional Block	Period (1984-86)	Period (1992-94)	Change IIT
Arab Countries	0.159	0.250	0.091
European Union	0.860	0.886	0.026
Andean Pact	0.237	0.290	0.053
Mercosur	0.428	0.519	0.081
NAFTA	0.687	0.773	0.086
APEC	0.874	0.903	0.029

Source: Havrylyshyn and Kunzel (1997)

It should be noted that IIT declines significantly as the level of data disaggregation increases. For example, as cited in ElAgra (2004) the IIT was 0.64 in 1992 for the EU using SITC 5 digit level which is a higher level of disaggregation when compared to the one reported in Table 1.. Nevertheless, it is higher than IIT in the Arab countries at any level of data disaggregation. IIT has always been high in the EU⁴.

Despite the fact that Arab countries have an extensive intra-regional trade in services (see Fischer, 1993; Ghoneim, 2003), few attempts have been undertaken in the past to enhance such trade. The mistrust prevailing among Arab governments and the fear of political frictions have always hindered reaching an agreement on trade in services, even on a bilateral basis. It is believed that trade in services among Arab countries has flourished because it was left deregulated and that any attempts that would have been undertaken to regulate such type of trade would have impeded it. Most services traded among Arab countries included the movement of labor which in itself is a sensitive issue despite the fact that Arab countries are classically divided into labor exporting and labor importing countries (see Nassar and Ghoneim, 2003).

The liberalization and deregulation of trade in services was recently introduced in 2002 when Arab countries agreed to complement their Great Arab Free Trade Area (GAFTA) with a regional agreement on trade in services (see Kheir-El-Din and Ghoneim, 2005, forthcoming). Such agreement is a GATS plus agreement requiring Arab countries to extend their GATS commitments for Arab countries either by undertaking additional commitments or deepening their existing ones. Yet EU countries did not have a common policy towards services (see Molle, 2002). The issue of liberalizing trade in services and regulating it gained importance with the adoption of the Single European Act in 1986 (see below). The liberalization of trade in services accelerated significantly afterwards. Currently in the EU there are no visas or work permits required for citizens of member states although residence permits may be needed in some countries or cases. The rights and benefits of the migrant workers include access to employment in other Member States; residence rights (with family) in other Member States (for those seeking employment, a six months time limit normally applies); and equality of treatment with nationals regarding working conditions and employment-related benefits (see IOM/World Bank/WTO (2004). However, there is not even one single equivalent of such measures adopted between Arab countries on a regional level.

Among the political reasons were the absence of genuine political leadership commitment to integrate, lack of credibility and feasibility among some Arab countries to undertake the integration process which created an atmosphere of mistrust concerning RTAs (see for example Galal, 2000 and Fawzy, 2003).

⁴ As cited in El Agra IIT (calculated at a highly disaggregated level of 5 digit SITC) was 0.48 in 1961. (El Agra, 2004, p. 453).

As for the institutional reasons⁵, the lack of adequate transport means, vagueness of rules and regulations governing trade at the borders were the main reasons behind the failure of several attempts at regional integration.

The difference between Arab countries and EU members is that the latter have started to undertake serious steps to address such institutional impediments. Transport policy was one of the issues that have been historically neglected by the EU. There was no coordination among EU members, and though it hampered intra-regional trade it did not receive attention until the 1990s (El Agra, 2004). This is also the case with Arab countries where there is no coordination in the field of transport. In fact, Arab countries entered in a vicious circle of weak transport policy and system arising from lack of demand on different modes of transport (air, road, maritime, etc.). The two variables reinforced each other and the transport routes have been reduced significantly over the years due to lack of demand. To illustrate, there are 2 scheduled flights *per week* from Cairo to Casablanca whereas there exist at least 2 scheduled flights *per day* between Cairo and different parts of Germany. As reviewed by El- Imam (2001), there were four main joint Arab projects in the field of transport, which all failed, with the exception of one that is surviving although inactive. In his review of the Arab Company for Maritime, Arab Company for Air Transport, Arab Board of Civil Air Transport (the only surviving project), and Road Network, he highlights that they all faced similar problems which may be attributed to the absence of real political will and lack of coordination among Arab countries.

Another body of literature argued that the perspectives for Arab integration are more promising than what the conventional trade measures imply. Devlin and Page (2001) show that since the late 1980s there has been a trend of increasing trade intensity among Mashreq countries as well as in Mashreq exports directed to Maghreb countries. Furthermore, there is a higher concentration in non-traditional exports such as processed agricultural products and basic manufactures in non-oil goods traded regionally than in exports directed to the EU and to the rest of the world. Moreover, using intra-industry trade (IIT) as an indicator, trade among Arab countries demonstrated significant levels of competitiveness compared with their trade with the EU, with some exceptions in exports of Morocco and Tunisia showing higher levels of competitiveness in exports directed to EU than in intra-Arab trade.

Zarrouk (2001) undertook a comparative analysis of dynamic exports of the Arab countries. He concluded that for most Arab countries the number of dynamic products is higher in intra-regional trade than in exports to the EU suggesting that rising opportunities for intra-regional trade in processing activities have expanded. His findings showed also that the dynamic Arab products maintain differentiated export niches in intra-regional trade suggesting a greater room for developing export capacity and enhancing the success of regional trade agreements. Table 2 identifies the overlapping of

⁵ We differentiate between two types of institutions: those related to the system of the functioning of organizations of the EU and how decisions are made, and institutions related to deep integration ranging from adequate means of transport to harmonization of rules and regulations (We thank Ahmed Galal for pointing out to the necessity of making this distinction).

Table 2: RCA among Arab Non-oil Exports and the Overlapping of such RCAs (1995-2000)

	Algeria	Bahrain	Comoros	Djibouti	Egypt	Jordan	Kuwait	Lebanon	Libya	Mauritania	Morocco	Oman	Qatar	Saudi Arabia	Somalia	Sudan	Syria	Tunisia	Emirates	Yemen	Iraq	Other
Algeria	12	2	1	1	6	5	2	3	3	0	5	0	3	3	1	1	2	5	2	0	0	0
Bahrain	2	50	2	11	19	17	3	14	5	3	8	5	6	4	2	6	4	10	12	2	0	8
Comoros	1	2	33	5	7	2	0	11	0	2	9	0	0	0	4	4	3	8	3	2	0	12
Djibouti	1	11	5	93	31	23	2	38	5	7	17	6	4	6	18	23	20	12	17	9	0	10
Egypt	6	19	7	31	129	37	2	47	8	5	47	7	9	6	12	21	34	36	26	4	0	23
Jordan	5	17	2	23	37	107	2	40	3	2	28	6	4	6	10	11	19	23	18	5	0	11
Kuwait	2	3	0	2	2	2	8	3	3	0	1	0	4	4	0	0	1	1	2	0	0	2
Lebanon	3	14	11	38	47	40	3	134	4	6	36	9	5	5	17	19	34	25	24	6	0	14
Libya	3	5	0	5	8	3	3	4	12	1	1	0	8	6	2	3	2	0	4	2	0	1
Mauritania	0	3	2	7	5	2	0	6	1	21	9	2	1	1	6	5	3	2	3	6	0	5
Morocco	5	8	9	17	47	28	1	36	1	9	104	4	5	2	5	10	26	52	13	3	0	15
Oman	0	5	0	6	7	6	0	9	0	2	4	17	2	1	1	0	5	5	7	1	0	0
Qatar	3	6	0	4	9	4	4	5	8	1	5	2	17	7	1	1	3	3	8	1	0	1
Saudi Arabia	3	4	0	6	6	6	4	5	6	1	2	1	7	14	4	3	3	2	7	2	0	0
Somalia	1	2	4	18	12	10	0	17	2	6	5	1	1	4	35	15	9	5	7	9	0	5
Sudan	1	6	4	23	21	11	0	19	3	5	10	0	1	3	15	41	16	7	9	6	0	3
Syria	2	4	3	20	34	19	1	34	2	3	26	5	3	3	9	16	56	20	9	3	0	9
Tunisia	5	10	8	12	36	23	1	25	0	2	52	5	3	2	5	7	20	93	9	2	0	25
Emirates	2	12	3	17	26	18	2	24	4	3	13	7	8	7	7	9	9	9	60	5	0	3
Yemen	0	2	2	9	4	5	0	6	2	6	3	1	1	2	9	6	3	2	5	15	0	1
Iraq	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	8	12	10	23	11	2	14	1	5	15	0	1	0	5	3	9	25	3	1	0	176

Total number of goods having RCA for the country

Countries having exceptions within GAFTA

Source: Calculated according to Trade CAN (2002) database using SITC code 4 digits where 1995 is the base year and 2000 is the final year.

revealed comparative advantage (RCA) among Arab countries. As seen from the table, there is a large portion of exported goods (calculated at SITC 4 digits) which experience no overlapping identifying a high potential for intra-regional trade.

We believe that although important, the major obstacle hindering intra-regional trade is neither economic failure, nor is it lack of political commitment which can be overcome (witness the case of UK joining the EC which was delayed due to Charles de Gaulle “empty chair policy”). We advocate that **absence of the right institutions is the main impediment to intra-regional trade**. Institutions carry more weight than political and economic factors in hindering economic integration among Arab countries. A field survey undertaken by the Arab League in 2004 on the major impediments facing the Arab business community indicated that problems are concentrated in three main areas: abuse of technical barriers to trade (TBT) and of sanitary and phytosanitary (SPS) measures, vague rules and regulations especially when it comes to authentication of origin of goods, and customs procedures. Such issues are neither economic nor political, they are rather institutional and relate to the absence of clear standards. Moreover, there is a large number of Arab countries that are still not members of the WTO. This has been a major drawback as any violation by or against these countries is referred to a bilateral dispute settlement mechanism which in many cases is either inefficient or absent. It ends up by adopting *beggar-thy-neighbor* policies which negatively affect trade and lead to retaliation. There were several cases of such type of violations enacted between Egypt and Lebanon on the one hand and Egypt and Saudi Arabia on the other hand (see Egypt's Ministry of Economy and Foreign Trade, 2001). Such problems are only solved through political intervention. However, in all cases this creates uncertainty and harassment of potential exporters.

As will be highlighted in Section Two, the history of Arab trade integration indicates that their RTAs have always lacked the required commitment mechanism which ensures the credibility of such agreements. These agreements were political slogans. To ensure that consensus was reached among Arab countries to sign such agreements, they were intentionally vaguely worded, with no clear and highly flexible provisions.

A Retrospect on the EU Experience:

The case of EU integration has always been viewed as a model of success. This does not imply that the process of EU integration did not face economic, political and institutional obstacles. In fact, it faced all types of obstacles, however what differentiated it from other experiences was the clear vision on the intended political goal. Hence political will, economic motivations, and institutional structures were all geared towards achieving such aim. Moreover, the gradual and pragmatic approach adopted by the EU in terms of widening and deepening of the process of integration made it smooth and reduced the costs of adjustment to affordable levels. As stated by Boyer (2002) “the principle of free movement of goods has been extended from steel and coal, then to manufactured goods and the very Common Agricultural Policy (CAP) has organized a specific market for agricultural products, in a sense relatively disconnected from the world trends.”

The intended political goal is among the most important factors behind the success of the EU and the failure of Arab integration. Though it is difficult to gauge political commitment as in many cases it is based on speeches and slogans raised by politicians, we find that political aims have been mentioned from day one of the initiation of the European Economic Community. Reviewing the Schuman and Monnet ideas and declarations (see Fontaine, 2000, and El Agra, 2004) reveals that political aims in terms of unified Europe were evident. Churchill played an important role in European integration so did the German Chancellor Konrad Adenaur. Churchill was even talking about the “United States of Europe” in the 1940s. Several analysts have pointed out that overcoming the diverging political aims of European countries and creating supranational organizations are among the key factors for the success of the EU (see, Ugur, 2004). This has not been the case of Arab countries where we find several political slogans calling for cooperation and integration, but never emphasizing a unified Arab world.

The approach adopted by the EU might not be adaptable to other cases and to different historical episodes. For example, the issue of deep integration was not a matter of great importance at the inception of the EU, but nowadays it is difficult, as highlighted below, to envisage a successful RTA that does not include deep integration as one of its cornerstones, due to changes in the world trading system. Such changes require harmonization of rules and regulations, approximation of laws, etc. It is fair to say that from this point of view EU was lucky as the steps it has undertaken for integration coincided with the changes in the world trading system. In other words, EC has started by undertaking “shallow” type of integration which was adequate for the existing world trade conditions prevailing at that time. The EC deepened its integration policies afterwards to strengthen its integration process which coincided with the need for “deep” integration policies as a result of the change of the world trading system rules and conditions that necessitate the existence of deep policies for any regional integration process to succeed. This is an important aspect that needs to be taken in consideration if we are attempting to draw lessons for Arab integration from the EU experience. The policies that helped the EC to succeed in its beginning might not support the Arab countries in succeeding under the prevailing world trading system as the whole setup governing trade relations changed.

Section 2: Status of Arab Integration in Trade: A Historical Review

Arab regional integration attempts date back to 1950 when the *Treaty for Joint Defense and Economic Cooperation* was initiated. The agreement was concluded as a reaction to the establishment of the Israeli State. It was signed by seven countries: Egypt, Iraq, Jordan, Syria, Saudi Arabia, Lebanon, and Yemen. Morocco, Algeria, Tunisia and other Gulf countries joined at a later stage. The economic dimension of the agreement is highlighted in its second provision which establishes an Economic Council of ministers concerned with economic issues in the member countries. This council acted as an engine for enhancing different attempts at economic integration. It represented the institutional, organizational, and legal body responsible for this integration (see Section 3).

The agreement was modest in achieving regional integration. In fact, the word “integration” was not even mentioned, but rather “cooperation” was the word used. The agreement established the Economic Council which was then transformed to the Economic and Social Council, the main responsible body for Arab integration. From this perspective, we can argue that the agreement was successful in establishing an institutional body that can oversee different economic issues.

The EU experience shows a similar approach at its inception. At the very early beginnings of regional integration, cooperation among nations was the mode used. In fact, as it is the case with Arab integration, intergovernmentalism initially dominated the post-war architecture. In part this was simply a matter of timing. The first three European organizations - the Organization for European Economic Cooperation (OEEC)⁶, the Council of Europe and the Court of Human Rights - followed the intergovernmental tradition and were not economic in nature (Baldwin and Wyplosz, 2004). The EU countries were divided between the federal advocates and the intergovernmental or functionalist supporters (see Weiss, 1999), but in the end the federal approach was the one that dominated. The Arabs were even more advanced in integrating “economic” aspects in their regional treaties when compared to the EU. Hence, the start of regional integration in the Arab world and the EU does not differ greatly as both followed the intergovernmental approach. Moreover, the start of both was a reaction to a political threat, where in the case of the Arab countries it was a reaction to a threat from outside while in the case of the EU it was a reaction to a threat from inside (avoiding another Nazi Germany and wars between France and Germany). However, the need to cooperate on managing the Marshall aid, as required by the United States of America (US), imposed a close cooperation conditionality among the European recipients (Wallace 1995 cited in Weiss, 1999).

There are some differences between the two experiences. In the case of the EU there was pressure and support from the US to push forward the integration process, which has not been the case with Arab integration at its inception. Moreover, there were attempts to establish sub-regional grouping in the case of the EU, namely the Benelux which is a customs union signed in 1944 between the Netherlands, Belgium and Luxembourg. There is no equivalent experience in the case of Arab integration. However, the approach to regional integration changed afterwards. Finally, and most importantly is the fact that federalism was a main track for integration identified in the Schuman declaration, which is considered the first step in announcing the desire of integration. The idea of federalism was embedded in Schumann declaration which is considered the basic document behind the establishment of the EU. The declaration emphasized the necessity of an independent high authority “the decisions of the High Authority will be binding on the member countries. The High Authority itself will be composed of independent persons and have equal representation. The authority’s decisions will be enforceable.” (cited in Fontaine,

⁶ The Organization for European Economic Co-operation (OEEC) was established to administer and organize the delivery of the Plan Marshal's massive economic aid and to enhance trade among European countries.

2000). Box 1 provides an overview of the three main institutions governing the EU integration process.

Box 1: An Overview of the European Institutions

The European Council:

It consists of the leaders of EU member states and the President of the European Commission. Its presidency rotates among the members every six months. It is the most influential institution as its members are the heads of states or governments of their respective countries. The Council provides broad guidelines for EU policy and decides upon the final compromises required to conclude the most sensitive aspects of EU policies including the budget, treaty changes, and issues related to enlargement. The Council meets at least twice a year on a regular basis and can meet more frequently if there are urgent matters. The Council has no formal role in EU law making process. The political decision taken by the Council has to be translated into law following the standard legislative procedures which involve the Commission, Council of Ministers, and European Parliament.

The European Commission:

The Commission is the most important EU institution. It is considered the 'guardian of the Treaties' or in other words the body that is ultimately charged with ensuring that Treaties are implemented and enforced. Moreover it is considered the gatekeeper of the EU integration as it has a monopolistic right to initiate legislations to Council and Parliament and it has always been the driving force behind deeper and wider integration. It has three main roles:

- 1) Legislative role: proposing legislation to the Council and Parliament
- 2) Executive role: administrating and implementing EU policies as trade and common agricultural policies
- 3) Monitoring role: providing surveillance and enforcement of EU law in coordination with the EU Court.

It further acts as a reservoir and source of information, data, analysis and reports on EU.

The Commission represents the EU in international negotiations related to trade and cooperation with non-members nations. It has a great deal of independence and often takes positions and views that are substantially different from those of the member states, Council, and Parliament. However, the Commission is accountable to the Parliament which can dismiss the whole Commission. In practice, the Commission has enormous influence because of the expertise it takes to draft suitable proposals and because of the intense lobbying it undertakes before proposing a new initiative to the Parliament or Council.

Before the 2004 enlargement, the Commission was always made up of one Commissioner from each EU member with an extra Commissioner from the largest five countries (Germany, U.K., France, Italy, and Spain). In the enlarged Union, each member state has one Commissioner. The Commissioners are chosen by their own national governments, but the choices are subject to political agreement by other members. The Parliament has to approve the Commission and its President. The Commissioners are not supposed to act as national representatives and they should not accept or seek instructions from their home countries. The Commissioners are appointed for seven years. Each Commissioner is in charge of a specific area of EU policy.

The decision-making process in principle is based on simple majority, however in practice the Commission takes almost all its decisions on the basis of consensus to ensure that its decisions are ratified by the Council or Parliament.

The European Court of Justice:

It settles disputes between member states, between the EU and member states, between EU institutions, and between EU and individuals. It has a supranational power where it is the supreme judiciary for EC laws. It interprets EU law for national courts where they can refer to the European Court of Justice so as to obtain a 'preliminary ruling' on a difficult element of EC law in a national case. Moreover, it provides advice upon requested opinion. As a result of this power, the Court has a major influence on European integration.

The Court consists of one judge from each member state. Judges are appointed by their own home governments for a term of six years. The Court has also eight 'advocates-general' whose job is to help the judges by constructing 'reasoned submissions' that suggest what conclusions the judges might take. The Court reaches its decisions by majority voting

Source: Based on Baldwin and Wyplosz (2004) and Pelkmans (2001)

The first initiative toward trade integration among the Arab countries was *The Agreement on Trade Facilitation and Regulating Transit Trade* which was signed in 1953 by a number of Arab countries. This agreement was considered the first regional agreement aiming at intra-regional trade liberalization following the recommendations of the first conference of Arab Economic and Finance ministers in 1953. It came into force in December 1953 after it has been ratified by three countries: Lebanon, Jordan and Egypt. In 1954 it was ratified by Saudi Arabia, Syria, and Iraq. In 1962 it was ratified by Kuwait. This agreement was mainly concerned with giving tariff preferential treatment in the form of exemptions for Arab originated products, however it had no clear schedules for tariffs reduction. It was modified several times to achieve the following aims:

- 1) Exempting a number of agricultural, animal and mineral products from tariffs and reduction of tariffs on manufactured products by 25% as long as it originates in an Arab country, however it left the origin without a clear definition.
- 2) Not subjecting the imported products from Arab countries to domestic extra surcharges imposed on domestically produced products.
- 3) Differentiating in traded goods between those produced by the private sector, which faced more obstacles, and goods produced by the public sector.

The amendments to this agreement reflected the special interests of different countries (about four amendments, each resulted in changing the schedules of liberalization). In the end it was obvious that conflicting interests led the agreement no where (Sabry, 2001).

In contrast with the first Arab experience of regional economic agreement, the EU did not put economic integration as an end in itself. It has always served as a means towards achieving political integration (see Hoekman and Messerlin, 2003). In 1952, the European Coal and Steel Community (ECSC) was established. It involved the integration of the coal and steel sectors as a means towards Franco-German reconciliation and towards creating a new system of post-war European relations (Artis and Nixon, 2001). The establishment of the ECSC followed the implementation of Schuman Plan inspired by the ‘father of European Integration’, Jean Monnet, but prompted by French Foreign Minister, Robert Schuman. Schumann proposed that France and Germany should place their coal and steel sectors under the control of a supranational authority. Other European nations were invited to join this ECSC and Belgium, Luxembourg, the Netherlands and Italy actually did. This created a group of nations known simply as ‘the Six’ that has been the driving force behind European integration ever since. The ECSC was a success not so much in that it solved the thorny problems of Europe’s coal and steel sectors, but rather as a training scheme for European integration. It showed that the six could cooperate in a federal structure (Baldwin and Wyplosz, 2004).

The road to trade integration among Arab countries diverted from the EU experience since the years 1952 and 1953 when the Agreement on Trade Facilitation and Regulating Transit Trade was signed and the ECSC was established. The approaches to integration differed. The Arabs continued adopting the intergovernmental approach whereas the Europeans shifted to the federal track by creating supranational authorities. Moreover,

and contrary to the conventional wisdom, the Arabs concentrated on trade integration as an announced end, whereas the Europeans focused on political aims using trade as a means rather than as an end.

Arab trade integration efforts continued, however, their success was limited. In 1953 the *Agreement for Paying the Current Transactions and Movement of Capital* among members of the Arab League was concluded. It was considered as a complement to the Agreement on Trade Facilitation and aimed at facilitating payments for current expenditures related to the latter. This agreement was signed at the same time and ratified by six countries (Lebanon, Egypt, Saudi Arabia, Jordan, Syria, and Iraq). However, it did not enter into force as the minimum number of countries required to ratify the agreement so that it enters into force was not met. The agreement was no more than a set of recommendations that did not ask the contracting countries for real implementation. The end result was that it remained idle.

In the 1957 the Arab Economic Union Agreement was signed and entered into force in 1964. There were ten countries that joined this agreement (Jordan, Sudan, Iraq, Libya, Egypt, Mauritania, Yemen, and Palestine). The agreement aimed mainly at enhancing economic integration among Arab countries. However, by time, the agreement lost its importance and the only surviving memory is the Arab Economic Union Council which was established in 1964. The Council is still functioning and aims at enhancing economic integration among Arab countries, despite that the agreement that established it is practically dead.

Ten years after the ineffectiveness of the intergovernmental approach adopted by the Arab countries in achieving regional integration, they entered into a new agreement, namely *The Arab Common Market Agreement* which was signed in 1964. The decree that announced the establishment of the Arab Common Market did not mean the technical word of a common market, as it left it to be achieved in the future, it dealt only with liberalization of intra-regional trade in the form of a free trade area. The four members (Egypt, Syria, Iraq and Jordan) focused on establishing a free trade area following the schedule of the Agreement on Trade Facilitation in 1953 and the rest of the commodities should be liberalized by certain percentages each year to reach full liberalization of agricultural goods in 1969 and for manufactured goods in 1974. The agreement failed to attract new members although it included flexible terms and had no binding commitments. A committee that focused on the reasons for the failure of the agreement that was established in 1972 identified the following reasons for its failure: 1) The decision of establishing a common market was not the right decision at the right time; 2) There were substantive lack of information on traded goods between Arab countries; 3) The governmental control of the trading process prevented market forces to perform efficiently; 3) The high dependence on tariff revenue made the governments reluctant to liberalizing their trade; and 4) The differences in costs structures because of the large differences in tariffs and surcharges on intermediate goods (Sabry, 2001; Dervis, et. al, 1998).

Meanwhile, the Europeans were enhancing their regional integration by delegating more power to the supranational authorities that overlook their integration process. The Treaty of Rome (1957) which established the European Community (EC) gave a lot of power to the European Commission in trade and agricultural policies and in the tariff revenue distribution among members. It is the main supranational institution of the EC and has played a major role in the process of integration. It has been the promoter and the guardian of integration through its power to propose directives and regulations, which, if approved by the Council and further by the European Parliament became EC law. The EC laws supersede national legislation in the area concerned (Artis and Nixon, 2001; Pelkmans, 2004, Hoekman and Messerlin, 2003).

The Arab countries tried again the same approach of intergovernmentalism as a reaction to the failure of the Arab Common Market. In 1971, the idea of establishing a common external tariff was abandoned. The Arabs agreed to enter a new agreement in 1981, namely the *Agreement on Facilitation and Development of Trade*. This agreement entered into force in 1983 and aimed at reaching a free trade area and establishing a customs union. The agreement is based on fundamental basics including the fair distribution of gains and losses, the provision of financial incentives to facilitate enacting the agreement, and the avoidance of imposing economic sanctions. The last fundamental principle was adopting a positive list approach for selected products chosen on yearly basis following a number of criteria as the size of production, size of exchange, the strategic importance of products, products of joint projects, Arab content, export importance. The agreement helped to resolve a number of obstacles as the settlement of payments and some financial issues related to governments. However, this agreement remained idle for several other reasons including the long time, reaching six years, before being ratified by two thirds of its signatories, which is essential for the agreement to enter into force, and the ambiguity in its provisions related to liberalization. For example, it was not clear whether liberalization was full or partial and whether it was going to take place immediately or following a specific time horizon.

The agreement added a 40% value added as a condition for commodities to acquire origin and to be granted tariff exemption. However the Economic and Social Council just started in 1995 to prepare the detailed rules of origin. The agreement did not identify a specific time schedule for the transitional period leading towards the complete free trade area. Moreover, it did not determine a base year for reduction of tariffs. The committee of the Economic and Social Council responsible for overseeing the implementation of the agreement was able to completely liberalize 20 products, which were then subject to non tariff barriers from some members. As with previous agreements, the 1981 effort had little effect on formal trade liberalization or on actual trade. It lacked binding commitment to its terms and a timetable for implementation, and featured a “positive list” approach, whereby specific products for liberalization must be listed as opposed to the negative list approach whereby liberalization covers all items other than those specifically listed for continuing protection (Dervis, et. al, 1998).

The Europeans, on the other hand, were widening their integration process where the number of countries that joined the EC has increased substantially in the 1980s. Moreover, and besides giving more power to the federal system, they started thinking of “deep” integration. The Single Act of 1986 and the Maastricht Treaty represent the development of deep integration aspects whereas the key roles played by the European Commission and the European Court of Justice (ECJ) represent the empowerment of the federal track for integration. In fact, Article 235 of the Treaty of Rome allowed the EEC members to adopt common policies, but the issue of harmonization was effectively developed by the adoption of the Single Act which included harmonization provisions related to environment, regional policy, and research and development that were newly introduced. The process also continued with the Maastricht Treaty on European Union (EU) which was signed in 1992 and entered into force since November 1993. This treaty included new or improved provisions on monetary cooperation, industrial policy, trans-European networks, consumer protection, public health, economic and social cohesion, environment, research and development, education and culture. The Amsterdam Treaty negotiated in 1996-97 which entered into force since 1999 also added a few new policies, especially employment (see Laursen, 2002).

Moreover, what distinguished the EU integration steps from the Arab attempts was the clarity and specificity of their agreements. As has been revealed above Arab attempts always suffered from loopholes that impeded the implementation of their agreements. In many cases, it was intended to leave the wording vague and flexible to ensure that no disagreement happens between Arab countries. The case of the EU was different where specific provisions were identified in their different agreements whether in terms of widening or deepening. No room was left for manipulating the wording of such provisions, but rather clear precise time tables for implementation were set. In the field of trade policy, the existence of a supranational organization as the European Commission helped to ensure the effectiveness of the agreement which when complemented by the ECJ created a complete system of managing the process of integration. This is not to say that the EU system was perfect as the issue of Common Agricultural Policy and the system of its management regarding contributing and receiving compensations is far from being clear and transparent (see El Agra, 2004; Baldwin and Wyplosz, 2004).

By the mid 1980s, Arab countries started to adopt sub-regional agreements to overcome the frequent failures of regional trials. The most important sub-regional agreements were the Gulf Cooperation Council (GCC) which was signed in 1981 and the Arab Maghreb Union (AMU) which was signed in 1989. On the other hand, the EU was giving up sub-regional agreements when the EFTA members were joining the EU and the Benelux countries became members of the EC. However, by the early 1990s and as a result of the proliferation of the RTAs, the project of Arab trade integration was revived in the Arab League. The main essence of such revival was the same, based mainly on intergovernmental approach without a clear political or economic goal. However, the implementation mechanism differed this time, where room for flexibility was reduced, a negative list approach was adopted, and a strict time schedule was set. This was all embedded in the Great Arab Free Trade Area Agreement (GAFTA) which in fact

represents the executive declaration for establishment of *Agreement on Facilitation and Development of Trade*. (Sabry, 2001).

On the other hand, the EU was sticking to its two approaches, namely the federal track where the European Commission has been gaining more power with the widening process (Putnam, 1988) and the political aim remained the ultimate goal of economic integration. Actually, the most important motivating factor for some states, in particular France, in negotiating the Treaty on establishing the European Union (EU), was to strengthen integration in view of German unification in 1990. The French Government feared that a more powerful Germany might become less predictable in European politics, it sought to preempt this through closer integration (Artis and Nixon, 2001).

Reviewing the historical attempts of Arab integration reveals that the mechanisms of Arab integration remained the same over the last 50 years. The differences among successive attempts were more of a qualitative nature in terms of wording, however the approach remained the same “*intergovernmental with some sort of economic cooperation without a clear vision or specific aim*”. The case of the EU differs significantly where it started by adopting both the intergovernmental and the federal approaches but moved toward the federal approach, while giving room for limited intergovernmental efforts to survive. The final aim remained always political and economic integration was always viewed than a mean rather as an end.

Section 3: Pillars of Arab Trade Integration

We now attempt to investigate the role of three pillars in the Arab trade integration process, namely organizations, policies, and laws and regulations. We confine our discussion to the case of the Great Arab Free Trade Area (GAFTA).

Organizations:

The Arab League is the mother organization that governs Arab regional integration. The Arab League is an intergovernmental organization that was established in 1945. There are several organizations that fall under its umbrella and aim at enhancing Arab cooperation. They include the Arab Monetary Fund, the Arab Bank for Economic Development in Africa, etc. However the main responsible body within the Arab League for implementing GAFTA is the Economic and Social Council (ESC). ESC supervises a number of agreements, besides GAFTA, and follows up on the work of many other specialized ministerial councils (currently there are 13 Specialized Ministerial Councils). To be understood properly, the GAFTA should be viewed as the framework that is solely concerned with the liberalization of trade in goods. Other aspects of economic cooperation and integration are being overlooked under different legal frameworks than the GAFTA, but are also supervised by the ESC. The ESC was established in late 1970s as a successor for the Economic Council⁷ founded according to Article 8 of the Treaty on

⁷ The Economic Council acted at enhancing the Agreement on Trade Facilitation and Transit between Arab countries. It acted as a coordinator for trade in agricultural goods as well as coordinating Oil producing states efforts in their relationship with multinationals in this field. Finally it acted to coordinate helping Arab countries in having better opportunities for their market access and other negotiations with EU.

Joint Defense and Economic Cooperation. ESC is an intergovernmental council which has no executive power. (see Box A.1. in the Annex for the main tasks, organizations that are supervised by ESC, and main ministerial councils which are served by ESC). ESC plays a role in suggesting legislations related to economic integration and coordinates among different members of the Arab League. It has established a number of committees that oversee the implementation of the GAFTA (see Figure 1 in the Annex).

It is worth noting that ESC for GAFTA represents a mixture of the European Council and the European Commission for the EU. However, the power given to the European Commission in the domain of trade policy can be hardly compared with that given to the ESC. The European Commission has a legislative role, or at least a strong power to suggest rules and regulations as well as an executive power, whereas the ESC has neither. It further suffers from overlapping of functions acting as an intergovernmental body (as the European Council) while at the same time undertaking an executive role (as the European Commission).

Among the bodies that were created to enhance Arab integration was the Arab Economic Union Council which was established to oversee the implementation of the Arab Economic Union Agreement. The Council has been functioning since its establishment. However the intergovernmental nature of its work and its limited membership hinder its role as an advocate and facilitator of Arab economic integration.

One major body that was responsible for the success of the EU is the European Court of Justice (ECJ) (see Hoekman and Messerlin, 2003). It played a crucial role in approving rules and regulations and settling disputes among member states. An equivalent body in the case of the Arab world is ABSENT and this is a major problem that is likely to affect the functioning of GAFTA. There has been a newly introduced system of dispute settlement for the GAFTA which contains all the necessary requirements for acting as a dispute settlement body, however it is not binding. This implies that the judgments made by this dispute settlement system will not, in many cases, be implemented especially that the Agreement on Facilitation and Development of Trade which is the framework of GAFTA does not allow economic sanctions to be imposed (see below). Hence, the dispute settlement system lacks the necessary credibility to ensure effective implementation of the GAFTA.

Moreover, one of the main active bodies in the EU institutional structure is the European Parliament, which acts as a national parliament but at the EU level, approving legislations and budgets. Its members act on their own behalf and not as representative of their own countries.

Policies:

By nature of a conventional free trade area (FTA), there is no harmonized trade policy. This is different from a customs union which requires a unified trade policy or at least a unified tariff structure towards the non-member countries. Hence, it is not a surprise to find no harmonized trade policy among Arab countries within the GAFTA, in contrast to the EU where there is a harmonized trade policy, especially in relation to non-agricultural goods. The EU since its inception has adopted another kind of harmonized policy in the

field of agriculture (the Common Agriculture Policy, CAP). From an economic point of view, CAP is extremely inefficient and has negative consequences on the welfare of the whole society as it leads to inefficient allocation of resources, higher prices for agricultural goods, and over-production (see El Agra, 2004; Messerlin, 2002), however from an EU establishment point of view, it was a necessary condition for the success of integration since it represented the economic costs that have to be paid for attaining a successful political aim. In the case of services, the EU does not have a harmonized trade policy (see Molle, 2003). Nevertheless, in some cases, it has sectoral policies (e.g. telecommunications), but in general there is no harmonized European services policy. More recently and after the adoption of the Single European Act, the EU has started to adopt a number of unified policies in different sectors including transport, energy, etc. The reasons behind this shift towards adopting similar policies are twofold: first, it is extremely difficult to ask for harmonization of policies and regulations at early stages of integration because of the diversity of policies among members which implies increasing costs for harmonization in addition to the extra costs of changing their tariff structures; secondly, and most importantly it took the whole world in general, and the EU in specific, more than forty years to realize that a successful liberalization of trade policy cannot be achieved without the elements of deep integration; whereas if integration is confined only to shallow integration it is very likely that trade liberalization will not be successful. Hence, it is not expected that GAFTA as a traditional FTA would have any harmonized policies, whether in trade of non- agricultural goods or any other field. However, initial steps for further integration including deep integration elements should have been mentioned in the GAFTA preamble with specific time schedule to ensure its success in the future. The recent developments in the international trade arena and the technological developments imply that shallow trade integration scheme alone, is not likely to be successful or sustainable.

It is important to note that EU members have experienced a significant policy convergence over time, an element of deep integration. Such a concept of convergence of policies was not on the agenda of the Arab countries. Although by nature and as argued above, FTA does not require such policy convergence, it is a necessary element for the success of any regional trade agreement in the prevailing world trading system. The case of the Australia New Zealand FTA is an example of a FTA that has adopted harmonized policies in different fields ranging from competition policy to labor movement (see, Ghoneim, 2003). This emphasizes the important fact that deep integration is a necessity for any successful RTA in the prevailing context of the World Trading System.

Institutions (Laws and regulations):

The focus here is on the rules and regulations of GAFTA (those aspects related to deep integration). We benchmark this agreement in two ways. The first compares GAFTA with its predecessors whereas the second compares it with the contemporary FTAs around the globe.

If we compare GAFTA with its predecessors, it appears that it represents a significant improvement. In fact it can be safely argued that it is the first RTA among Arab countries that has fixed dates with clear provisions. It adopts a negative list approach, compared to

its predecessors which featured mainly a positive list approach. It allowed for exemptions to be in place for a specific time, and it set a specific deadline by which such exemptions should be eliminated. This happened regarding agricultural goods. GAFTA also contains a specific schedule for tariff reductions starting from a certain identified base year, which was implemented, and was even accelerated. Its provisions were clear and flexible allowing its members to undertake their liberalization efforts flexibly but in a disciplined way. In all respects, GAFTA represents a success when compared to its predecessors. It is a perfect example of “shallow integration”. However, it missed out one important element which is being taken care of now, namely a clear dispute settlement mechanism. Articles of GAFTA allow the ESC to undertake the necessary measures required whenever there is a dispute. However the mechanism of such measures was unclear, until recently when ESC embarked on establishing a new system of dispute settlement. Given the fact that a large number of GAFTA members are still not members of the World Trade Organization (WTO) (Saudi Arabia, Yemen, Syria, and Sudan), this led to several problems. A dispute that arises between GAFTA members cannot be resolved according to a transparent mechanism with clear provisions. The issue could be only addressed via bilateral consultations, whereas the WTO dispute settlement mechanism, cannot be used. Such an important pillar preempted the GAFTA. However ESC has undertaken efforts to create a clear dispute settlement mechanism which is likely to start functioning in 2006. Nevertheless, a crucial problem related to the intergovernmental track GAFTA is adopting remains. Even if a dispute settlement mechanism is put in place, it has no supranational power to impose its rules on the members. Moreover, the ESC does not allow for retaliation, except in very few cases following Article 5 of the Agreement on Facilitation and Development of Trade “It is not allowed to impose economic sanctions among the members in the field of trade as set by the agreement, except if approved by ESC and for urgent national reasons”. This vague wording of the article is likely to lead to problems in implementation, especially that the ESC is an intergovernmental body that has no supranational power.

Another major problem facing GAFTA is agreeing on a detailed rules of origin scheme. A general rule of 40% value added is adopted. It is lowered for joint Arab production to 20% following the Agreement on Facilitation and Development of Trade. However, due to the heterogeneous nature of production structures in GAFTA members, several problems have impeded reaching a set of detailed rules of origin. This problem when complemented by the absence of a mechanism for compensation of losers (one of the key pillars of success for the EU in redistribution of tariff revenues, due to the adoption of a customs union and in the field of CAP) is likely to remain a major impediment to the implementation of the GAFTA. This issue is of crucial importance particularly that the ESC has announced that it has a plan for establishing a customs union among GAFTA members over a 10 year period starting 2006. Mechanisms for harmonization of tariff rates were set following a pre-determined time schedule, while leaving out the redistribution of tariff revenues to be determined at a later stage. It is worth noting that moving to a customs union will solve the problems related to rules of origin, which is a major impediment affecting the functioning of the GAFTA, but will not address the issue of redistribution which requires establishing an efficient mechanism for handling budgetary issues, namely, redistribution of tariff revenue, that is based on a federal

approach (see ESC on Arab League website, 2005). In the case of the EU budget, the revenues come mainly from contributions of EU members' value added taxes, through tariff revenues and levies, and through direct contributions from members based on their GDP levels. Most of the budget is spent on CAP (more than 70%). The second largest item for expenditure is the regional policy which mainly aims at overcoming disparities between different regions by helping to upgrade the standard of low income regions (Neal and Barbezat,1998).

In a nutshell, GAFTA represents an unprecedented achievement if compared to previous attempts at Arab integration, however with the identified important pillars missing, its effective functioning is questionable.

If we benchmark GAFTA using the main aspects of deep integration, we observe that it misses most of them. Most of the new RTAs have included elements of “deep integration” which in the existing world trading system are necessary for the success of such agreements. As seen from Table 3, it appears that GAFTA lacks many pillars of deep integration especially when compared to the US-Jordan FTA as an example of North-South integration scheme or Mercosur as a South-South integration scheme. There is no system of protection of intellectual property rights, no harmonization of competition rules, regulations and policies, no provision of labor movement, and no clear dispute settlement mechanism. Moreover, in the areas where “Yes” is available, the level of integration is minimal. For example in the area of customs cooperation and standards, the GAFTA calls for cooperation in such fields, without identifying how and when. A recent survey by the Arab League (2004) identified that most of trade frictions among GAFTA members arise from issues related to standards.

Table 3: Aspects of Deep Integration besides Merchandise Trade in Various RTAs

	Standards	Transport	Customs Cooperation	Services	Intellectual Property	Investment	Dispute Settlement	Labor	Competition
US-Jordan	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MERCOSUR	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
GAFTA	No	No	Yes	No	No	No	Partial	No	No

Source: World Bank (2005) Global Economic Prospects: Trade, Regionalism and Development and for GAFTA authors judgments based on their reading of GAFTA

The EU has realized the importance of the “deep” elements of integration and that was the main reason for embarking on the Single Market Act in 1986 and the Maastricht Treaty afterwards. In fact, the Single Act was designed to tackle three important deep integration aspects, namely: “technical standards and regulations, administrative barriers, and frontier formalities; freight transport regulations, value added tax differences; and capital market controls, public procurement, and the implementation of Community law” (Neal and Barbezat, 1998). The EU experience shows that tackling such issues were difficult and required a gradual approach to reach full harmonization. Hence, it started by mutual recognition agreements among the member states and has been moving gradually towards harmonization of standards. In the world trading system prevailing today, it is very likely that such issues of deep integration can accelerate or impede trade. With the lowering of tariffs taking place around the globe, standards are arising as the main important aspect, together with rules of origin, that can either accelerate or impede trade.

Given this fact, GAFTA is missing an important pillar of enhancing intra-regional trade. There are attempts to harmonizing standards and reaching Pan Arab system of standards, but they remain to a large extent modest.

Section 4: Lessons Learnt from the EU

Arab integration faced two main problems. First, it was more ambitious in terms of objectives when compared with the tools and political economy under disposal. The end result was failure to achieve such objectives. The second main problem is that integration was always selective whenever issues that were controversial and hard to deal with arose. Hence each country wanted to gain all the time without incurring any sacrifices, a concept which was embedded in the institutional infrastructure of the agreements. The end result was always a failure as frictions arose, and in the absence of a dispute settlement mechanism that is able to address such frictions, regional trade integration failed. We believe that the main reasons behind such failures are the lack of a vision of what is actually required from Arab integration (in the case of the EU the political aim paved the way for undertaking all the necessary economic and political adjustments) and the absence of credible institutional infrastructure that is capable of implementing effectively the agreement.

In this study we tried to adopt a different approach from the conventional one that has focused on the political and economic reasons explaining weak economic integration among Arab countries. We adopted a new institutional approach benchmarking the Arab experience against the European. We emphasized the importance of the role of the institutional setup and how it can facilitate or hinder regional integration, without neglecting the role of political and economic factors. The institutional setup (i.e. the functioning of the EU organizations) and the aspects of deep integration represent, from our point of view, the main engines behind the success of the EU integration and failure of Arab integration. The deep integration aspect which, although was not needed at the time of inception of both the EEC and the first initiatives of Arab integration, is becoming a necessity in the prevailing world trading system for the success of any agreement. Globalization and proliferation of technical barriers to trade arising from different standards and laws and regulations imply that the success of regional trade agreements hinges on the presence of elements of deep integration.

There are a number of important lessons that can be learnt from the EU experience and can be applied to Arab integration:

- 1) The existence of strong institutions is a necessary condition for the success of integration. Moreover, such institutions should have a supranational power to be able to secure a well functioning agreement. The history of the EU has shown that this can be only adopted if a federal track is put in place. Intergovernmental mechanisms are not likely to yield positive results in this regard. The role played by the European Commission and the European Court of Justice were major determinants for the success of the EU. The absence of similar institutions in Arab integration is a major drawback that threatens the success of any serious regional integration. Moreover, federal institutions have the advantages of collective bargaining vis-à-vis third countries. They

increase the bargaining power and reduce the transaction costs related to decision making. They further strengthen the autonomy of national governments vis-à-vis domestic groups by relating the reasons for reforms to having to adopt common policies (Laursen,2002).

2) The adoption of political aims, backed by strong political commitment, was the key reason for success behind the EU while it has used economic tools to achieve it. There was a balance weighing economic losses against political benefits at all stages of European integration which led ultimately to its success. In the case of the Arab experience, there are no political aims and commitment, but rather *announced* and largely modest economic ones. However, since economic aims differ among Arab countries, and in the absence of a supranational power that is able to strike the balance between different economic goals, the chances of success for such integration are at best moderate.

3) The pragmatic approach adopted by the Europeans is one of the main keys to success of the whole project. Handling the different positions of the advocates of federalism and those of intergovernmentalism was important to ensure the success of the process. One of the main lessons that the EU experience teaches us is that the “management of the integration process” requires not only competent human capacity at the administrative level, but also a political vision supported by a group of public figures who have the persistence of promoting and defending their project in different fora.

4) Finally, we end by emphasizing that GAFTA has represented a success when compared to its predecessors. However the pace of changes in the world trading system and the increasing focus on “deep” integration issues, which GAFTA has completely missed, throw doubts on its success and sustainability. An acceleration of adoption of deep integration aspects is a major issue for the success of GAFTA, given the prevailing world trading system. A gradual, but clear and determined, approach can be adopted to catch up with the necessary aspects of deep integration to make this attempt at integration a success.

We believe that EU experience should be "filtered" to fit the needs of the Arab countries. This implies that not all successful modes in the EU can work in the Arab countries due to several economic, political, and institutional differences. What is important is to draw on what fits the Arab context based on EU experience. Hence, we do not advocate the adoption, for example, of the Court of Justice, at least at this stage of Arab integration. Lack of professionals and judges in this field implies that it will end up to be an inefficient organization, if established. On the other hand, we advocate the necessity of establishing an Arab Parliament (even if some Arab countries do not have one) as long as the members represent themselves and not their countries (the same as the European Parliament). An Arab organization similar to the European Commission should be established where it enjoys this supranational authority and has the power to impose its decisions on the governments. A pragmatic approach for its establishment should be adopted, where the fields it enjoys such power start few and are increased by time. Hence, for example, it is not necessary to handle all areas related to trade policy (as the European Commission), but it can start by handling issues related to antidumping and/or safeguards, etc.

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Annex

Table A.1a : EU Countries Tariff Rates

Country	Year	Simple mean tariff	Standard deviation of tariff rates	Weighted mean tariff	Lines with international peaks	Lines with specific tariffs
		%	%	%	%	%
European Union (15)	1988	3.7	5.9	3.7	4.1	12.8
	2001	3.9	4.9	2.6	2.6	7.4

Source: WDI CD Rom 2003

Table A.1b: Arab Countries Tariff Rates

Country	Year	Simple mean tariff	Standard deviation of tariff rates	Weighted mean tariff	Lines with international peaks
		%	%	%	%
Egypt	1995	25.6	33.2	16.7	53.1
	1998	20.5	39.5	13.8	47.4
Jordan	2000	22.8	16.6	18.6	63.1
	2001	16.2	15.6	13.5	46.1
Lebanon	1999	12.6	9.9	12.0	24.0
	2001	8.3	11.2	12.0	13.0
Libya	1996	27.4	37.1	21.3	58.8
Morocco	1993	66.6	29.5	45.3	96.8
	2001	32.6	20.5	25.4	79.1
Oman	1992	5.5	8.2	7.6	1.5
	1997	4.7	1.2	4.5	0.0
Saudi Arabia	1994	12.5	3.3	10.9	10.2
	2000	12.3	3.1	10.5	8.2
Sudan	1996	5.3	11.9	4.4	8.9
Tunisia	1990	28.4	10.0	26.6	97.3
	1998	30.6	12.6	26.3	91.9

Source: WDI CD 2003

Table A.2a: EU Countries GDP Per Capita (constant 1995 US\$)

Country	1990	2001
Austria	27501.86	33172.45
Belgium	25658.55	31218.00
Cyprus	10434.17	14591.81
Czech Republic	5269.69	5583.46
Denmark	31806.94	38710.25
Estonia	4514.40	4707.50
Finland	26821.08	32121.37
France	25966.68	30492.22
Germany	28580.77	32813.16
Greece	10874.99	13669.44
Hungary	4857.48	5540.15
Ireland	15084.70	29401.17
Italy	18160.61	21144.19
Latvia	3702.58	2815.54
Lithuania	3005.24	2307.59
Luxembourg	36335.02	56381.98
Malta	6905.88	10097.65
Netherlands	24977.91	31332.59
Poland	2604.30	3715.80
Portugal	9958.65	13108.96
Slovak Republic	4217.33	4404.96
Slovenia	9659.35	11984.26
Spain	13958.61	17595.45
Sweden	27251.64	31627.24
United Kingdom	18072.07	22697.27

Source: WDI CD Rom 2003

Table A.2b: Arab Countries GDP Per Capita (constant 1995 US\$)

Country	1990	2001
Bahrain	8374.72	11070.32
Egypt, Arab Rep.	970.89	1228.86
Iraq	..	..
Jordan	1519.83	1638.71
Kuwait	12258.86*	13345.42
Lebanon	1720.94	2890.37
Libya	..	..
Morocco	1310.43	1435.71
Oman	5581.26	..
Qatar	..	..
Saudi Arabia	7102.93	6613.81
Sudan	225.98	328.42
Syrian Arab Republic	641.62	796.02
Tunisia	1823.23	2561.87
United Arab Emirates	20988.98	16666.10**
Yemen, Rep.	272.07	316.47
Palestine	NA	NA

Source: WDI CD 2003

*for the year 1992

**for the year 1998

Box A.1 Main Features of the Economic and Social Council

Principal Tasks:

1. Drawing out the general policy of Arab socio-economic cooperation and program planning.
2. Supervision of specialized Arab organizations and creating any new organization.
3. Calling for the initiation of joint Arab enterprises.

Achievements of the Council:

The initiation of the Greater Arab Free Trade Area as from 01.01.1998.

Organizations under the Council:

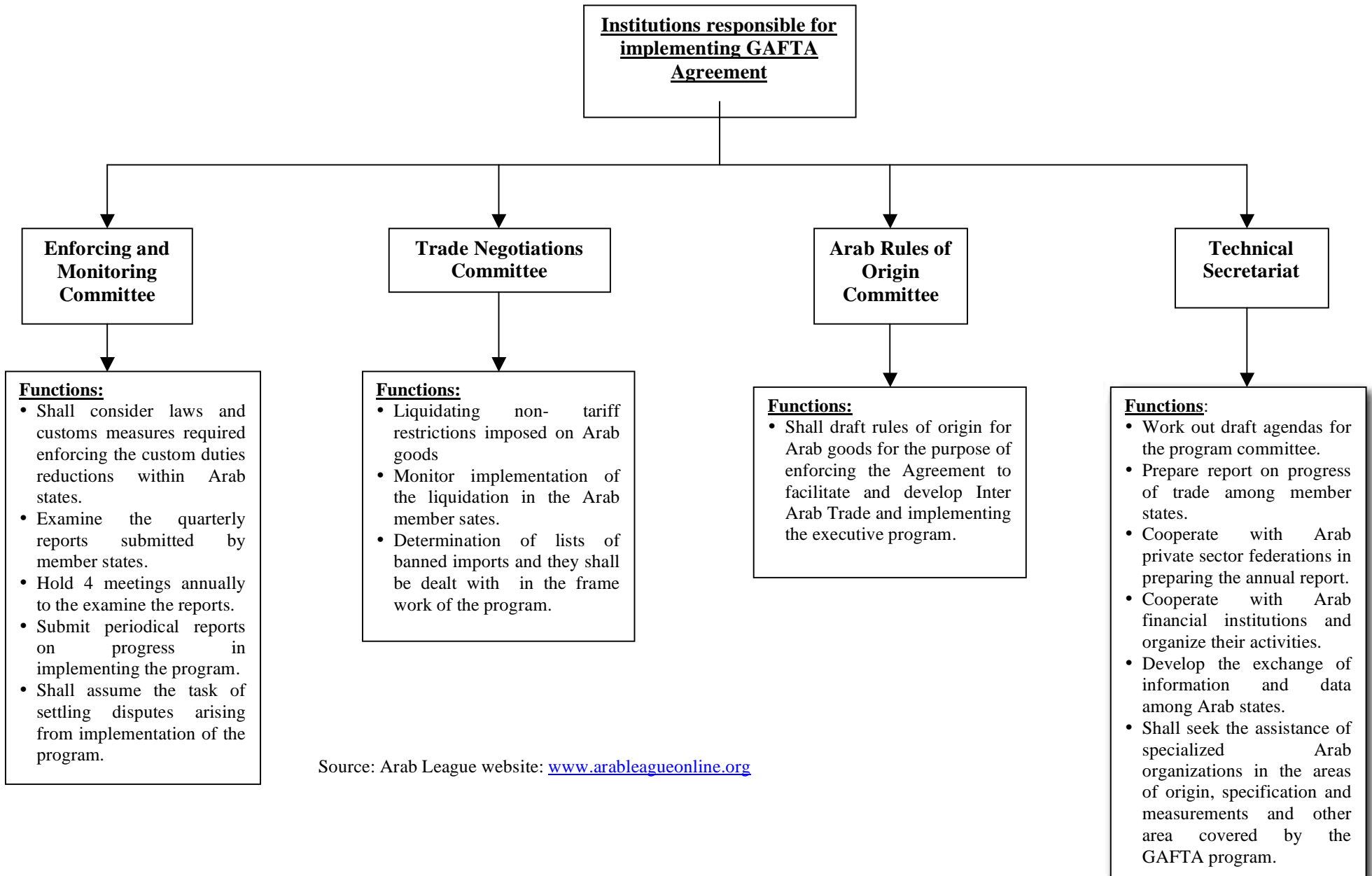
1. The Organization of Arab Petroleum Exporting Countries.
2. The Arab Organization for Management Development.
3. The Arab States Broadcasting Union.
4. The Arab League Educational, Cultural and Scientific Organization.
5. The Arab Center for Studies on Arid Areas and Dry Zones.
6. The Arab Academy for Sciences and Technology.
7. The Arab Labour Organization.
8. The Arab Organization for Agricultural Development.
9. The Arab Establishment for Satellite Communications.
10. The Arab Atomic Energy Commission.
11. The Arab Organization for Industrial Development and Mineralogy.
12. The Arab Fund for Socio-Economic Development.
13. The Arab Bank for Economic Development in Africa.
14. The Arab Establishment for Investment Guarantee.
15. The Arab Monetary Fund.
16. The Arab Commission on Agricultural Investment and Development .
17. The Arab Civil Aviation Commission.

The Ministerial Councils Whose Technical Secretariat is Assumed by the Economic Administration:

1. Council of Arab Ministers of Housing and Reconstruction.
2. Council of Arab Ministers of Environment.
3. Council of Arab Ministers of Transport.
4. Council of Arab Ministers of Electricity.
5. Council of Arab Ministers of Communications
6. Council of Arab Ministers of Tourism.

Source: Arab League website: www.arableagueonline.org

Figure A.1: Institutions for Arab Trade Integration



**Labour Mobility in Regional
Integration Schemes:
a Comparative Study of the
European Union and the Arab Region**

by
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1. Introduction

Integration schemes extend from arrangements on exchange of trade preferences through the establishment of economic unions. In between, free trade areas, customs unions and common markets progressively expand the range of the free movement of, and the establishment of unified markets for, goods, services and factors of production. Free trade areas only allow for the free movement of goods, and possibly services, produced in the territories of State parties. Starting with customs unions, the formulation of increasingly integrated policies acquires significant importance. In such schemes where the movement of all goods and services is unhindered in the territory of the union, unified foreign trade policies, including customs duties with the external world, need to be adopted. In economic unions, as in the experience of the European Union (EU), compatible fiscal and monetary policies and the establishment of a single currency are expressions of the highest degrees of economic and political integration². In the EU other policies have also been integrated in order to ensure the success of the economic union. Common markets are the stage just prior to economic unions on the scale of integration schemes. In addition to the freedoms recognized in customs unions, they provide for the free movement of factors of production, including labour³. At this stage of economic integration, common policies, such as on competition and the labour market are required in order to ensure fairness for economic actors and to promote the establishment of meaningful single markets.

² Political integration is the progressive development of a collective decision-making system: see Lindbergh, Leon, "Political Integration as a multidimensional Phenomenon Requiring Multivariate Measurement", **International Organization**, volume 24, autumn 1970, number 49, pp. 652-721. For Nye political integration is about collective decision-making in an economic grouping: see Nye, Joseph S., "Comparative Regional Integration: Concept and Measurement", **International Organization**, volume 22, number 41, autumn, 1968, p. 858.

³ On the theory of economic integration, see Tovias, Alfred "A Survey of the Theory of Economic Integration", **Journal of European Integration**, Volume 15, 1987, pp. 5-23; Balassa, Bela, **The Theory of Economic Integration**. London, Allen & Unwin, 161. See also Hansen, Roger D. "Regional Integration: Reflections on a Decade of Theoretical Efforts", **World Politics**, volume 21, number 2, January '969, pp. 257-270.

Legal provisions in integration schemes purposefully interfere with the natural interaction of economic and political actors with a view to achieving accelerated economic growth and development and to realizing security, stability and peace for their parties. In the absence of integration schemes or, in case they exist, if they are failing or weak, interactions still take place. When it comes to labour mobility, workers will move, but just in response to market determinants. In Europe, Italian workers did not wait for the establishment of the European Economic Community (EEC) in 1957 to move to Belgium, France and other more industrialized European countries in search of work. The same applies to workers from Portugal and Spain, who only joined the European Community (EC) in 1986. Migrant workers from European non-member States, such as Turkey and the former Yugoslavia, and from south Mediterranean countries, such as Algeria, Morocco and Tunisia, also flowed to members of the EC, from the 1950s to the early 1970s, to meet increased demand for labour in the golden 30 years of growth following World War II. In other words, economic growth in itself, most obviously, pulls migrant workers from labour-surplus countries, without the need for integration schemes. This case applies to movements of labour in the Arab region, especially after the rise in oil prices and the increase of revenues in oil-exporting countries in the 1970s.

Starting from common markets, the interference of integration schemes with the interaction of economic actors takes the form of preference granted to its Member States' nationals. These schemes eliminate all possible obstacles to the free movement of workers from the State parties to the scheme, but keep them opposite workers from third countries. In order to make this free movement of labour a reality, an integrated policy at the labour market level, needs to be adopted. As in the experience of the EC, this policy will include, *inter alia*, measures on job matching, retraining and mutual recognition of worker credentials. Thus, in common markets, in addition to economic growth, two other interrelated determinants of labour mobility may be identified. First is the preference given to workers from State parties to respond to demand originating in economic growth. Common labour market policies

are the second additional determinant, meant to operationalize the former. The expectation is that the combination of economic growth, elimination of obstacles and preferential treatment will result in increased flows and stocks of migrant workers between State parties to the scheme. In this perspective, flows of migrant workers from traditionally sending to traditionally receiving countries will grow. This contention is questioned in light of the experience of European integration. In fact, economic growth rates, the first determinant of labour demand, have risen in previously sending countries, as a result of the integration scheme and other factors. This is abetted by direct support provided by the scheme to these countries and to less developed regions within them, where migration used to originate. The clear result is that demand for labour rises, retaining new potential migrants in the domestic labour market and possibly pulling back migrant national workers from fellow State parties in the scheme.

In the absence of common markets and integrated policies, such as in the Arab region, economic growth in receiving countries is the sole determinant of their demand for labour. Workers from within the region are not given any preference and are thus left to face competition from workers from extra-regional countries. Political considerations at times obstruct labour movements, interfering with economic growth as a determinant of flows and stocks.

To summarize, under integration schemes providing for free movement of labour, the first determinant of labour migration is economic growth in countries members of the regional arrangement. Workers from these countries enjoy a preference and only cultural considerations stand in the way of their totally unfettered movement. An integrated labour market policy contributes to the actual realization of the free movement of labour. In contrast, in the absence of integration schemes, economic growth will still be the sole determinant of labour demand. However, not enjoying a preference, workers from within the region will face competition. They will also be victims of political decisions and possible inter-governmental tensions.

Like others in the present book, this chapter aims at drawing lessons from the European experience that could be beneficial for Arab regional integration. Concurrently, European integration being the most advanced integration scheme the international system has known so far, the conceptual framework described in the above paragraphs is naturally distilled from its experience. Therefore, after this introduction, this chapter will deal in Section 2 with the legal framework governing the movement of workers in the EU. It will review the regimes progressively developed for the free movement of persons among countries of the EU and for extra-community workers. Section 2 will also consider the integrated labour market policy that the EC has put in place and the support provided to less prosperous countries and regions. In Section 3, it will review the provisions on the movement of labour in Arab regional and sub-regional schemes. It will also take up bilateral agreements in order to identify potential similar provisions in them. An example of political interference with labour mobility will equally be reviewed. Both Sections 2 and 3 will end by reviewing the actual evolution of mobility in the two regions, to the extent that available statistics allow. The aim will be to bring out how the two regions reacted to the legal frameworks, economic growth and other political and cultural determinants. The absence of sufficient data on migration in the Arab region available to researchers should be underlined. In the Conclusions lessons will be drawn from the contrasted experiences of the two regions.

2. Labour mobility under European integration

Movement of persons in the territory of the EU is governed by different regimes. For citizens of member States, their freedom of movement, establishment and the right to work in countries other than theirs, are governed by treaty provisions and legislation aimed at successively establishing the EEC, the Internal Market and finally the European Union. The legal foundations are supplemented by labour market policies and programmes aimed at making labour mobility a tangible reality. Other

provisions aimed at ensuring the economic integration of Member States, however, also affect movement of workers. For third country nationals, mixed Community and national regulation govern their movement, residence and economic activity. These different regimes, and related policies and programmes, are reviewed in the following two sub-sections.

2.1 Labour mobility for nationals of member States

Treaty and Community law provisions lay the foundations for the free mobility of workers from member States in the progressively established integrated market. Ensuring this mobility is in line with the precepts of the theory of economic integration, as above pointed out. Executive actions, adopted by the Commission, have put in practice the objectives and policies broadly outlined in the Treaty and Community law provisions with a view to facilitating the employment of Community workers in any and all member States. The effective movement of workers is also affected, however, but in an opposite direction, by the impact of integration on economic growth and demand for labour. These three issues are dealt with in what follows.

2.1.1 The Treaty and Community law foundations of the mobility of workers from member States

The free movement of persons is referred to in almost all treaties and agreements both explicitly and implicitly. The 1957 Treaty of Rome establishing the EC provided, in Article 2, that by establishing a common market and an economic and monetary union and by implementing common policies or activities, its task was to promote throughout the Community a harmonious, balanced and sustainable development, a high level of

employment and social protection and other similar purposes⁴. To this end, Article 3 mentioned among the activities to be undertaken by the Community the establishment of an internal market characterized by the abolition, as between Member States of obstacles to the free movement of goods, persons, services and capital. In fact, the need for free movement of workers within the EEC was felt during the negotiation of the Treaty of Rome. It was recognized that the viable common market could not function without circulation of goods, services, capital and labour⁵. The drafters of the treaty concluded that workers, professionals and companies had to be free to move to the areas of greatest employment and business opportunities. Article 48 of the Treaty of Rome states clearly that the “freedom of movement for workers shall be secured within the community by the end of the transitional period at the latest”. This is the same period of 12 years during which a customs union, and a concomitant common external trade policy, between the original six member States of the EEC was established. To realize its objective, on 15 October 1968, Council Regulation (EEC) No. 1612/68 on the free movement of workers within the Community was adopted. This regulation, which is the cornerstone to all subsequent legislation on the subject, bore on equality of treatment in respect of access to employment, working conditions, social and tax advantages, trade union rights, vocational training and education, in addition to laying down guidelines on family reunification. It is noteworthy that free movement of labour accompanied the establishment of the customs union. This is in line with the principle of the *spill over effect* that guided European integration, according to which one step in the process led to, and imposed, the adoption of a next and more significant one⁶.

Put in other words, even though the process of European integration naturally focused in its first stage on the free movement of goods and services in the territories of its member States, it also laid down the legal framework and opened the doors for the free

⁴ **Consolidated version of the Treaty establishing the European Community**, <http://www.europa.eu.int/eur-lex/en/treaties/dat/12002/htm/C>

⁵ Collinson, Sarah, **Europe and International Migration**. London, Pinter Publishers, 1993.

⁶ On the theory of European integration, see Haas, Ernest B., “The Study of Regional Integration: Reflections on the Joy and Anguish of Pre-theorizing”, **International Organization**, Volume 24, no.4, Autumn 1970.

movement of labour. However, even though legal texts facilitating labour mobility continued to be adopted⁷, the fuller establishment of an internal market for goods, services and factors of production had to wait until the 1980s. The 1985 *Single European Act* envisaged creating an area without internal frontiers in which the free movements of goods, services, capital and persons could be ensured. In accordance with Article 8a of the *Single European Act*, the ECC Treaty was supplemented by the following provision: “the Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992. The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this treaty.” To this end, Council Regulation No. 2434/92 of 27 July 1992 amended Part II of Regulation 1612/68 on free movement of workers within the Community referred to above.

The legislative framework of the free movement of workers is technically complex; there also exists a considerable case law of the European Court of Justice in this area. However, Treaty and Community law provisions on the free mobility of member States’ workers can be summarized as follows. Any national of a Member State is entitled to take up and engage in gainful employment on the territory of another EU Member State in conformity with the relevant regulations applicable to national workers. He/she is entitled to the same priority as the nationals of that Member State as regards access to available employment, and to the same assistance as that afforded by the employment offices in that State to their own nationals seeking employment. A worker who is a national of a Member State may not, in the territory of another Member State, be treated differently from national workers as regards working and employment conditions, particularly with respect to dismissal and remuneration, because of his/her nationality. He/she also has the same entitlement to occupational training and retraining measures. He/she is entitled to the same social and tax benefits as national workers. A national of one Member State working in another is entitled to equal treatment in respect of the exercise of trade union

⁷ An example is Regulation No. 1408/71/EEC relating to the application of social security regimes to employed persons and the self-employed and to members of their families who move within the Community. Thus Regulation was modified in 1998 by Regulation No. 1606/98/EC.

rights, including the right to vote and to be eligible for the administration or management posts of a trade union. He/she may be only excluded from the management of bodies and from the exercise of an office under public law. He/she has the right of eligibility to bodies representing workers within the undertaking. In addition, the family members, such as spouse and dependents, of a worker employed on the territory of another Member State are entitled to establish themselves there with him, whatever their nationality. Member States are required to facilitate the admission of any other member of the worker's family who is dependent on him or lived with him in the country of origin. The family members admitted to the territory of a Member State under the family reunification arrangements are entitled to equal treatment in respect of right to work, access to education and vocational training and other measures facilitating their integration in the labour market.⁸

The “Community Preference” principle is clearly defined in a Council Resolution of 20 December 1994, where it is provided that “Member States will consider requests for admission to their territories for the purpose of employment only where vacancies in a Member State cannot be filled by national and Community manpower or by non-Community manpower lawfully resident on a permanent basis in that Member State and already forming part of the Member State’s regular labour market”⁹. It is noteworthy that from 2006, long-term residents will enjoy preference over newly arriving migrants in the Member State of residence and will have the possibility to move and settle in a second Member State for study, work or other purposes¹⁰.

In addition to the Treaty and Community law underpinnings of labour mobility for nationals of member States, other more specific provisions need to be brought out. Amended article 49 of the *Treaty of Rome* states that appropriate machinery should be set up “to bring offers of employment into touch with applications for employment and to facilitate the achievement of a balance between supply and demand in the employment market in such a way as to avoid serious threats to the standard of living and level of

⁸ “Free Movement of Workers: General Provisions”, *Free Movement of Workers*. EUROPA. <http://www.europa.eu.int/scadplus/leg/en/lvb/l23013a.htm>

⁹ **Council Resolution of 20 June 1994**, in connection with Council Regulation (EEC) No 1612/68.

¹⁰ **Council Directive 2003/109/EC**

employment in the various regions and industries.” The 1992 *Maastricht Treaty*, which established the European Union, also pointed out a number of administrative programmes to facilitate the free movement of workers and citizens in the Union. These are the foundations of the labour market programmes put in place by the Commission with a view to facilitating the employment of nationals of member States in countries other than theirs. Finally, Article 130c of the *Single European Act* provides that “the European regional development Fund is intended to help redress the principal regional imbalances in the Community through participating in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions.” This and similar provisions on other structural funds are not directly related to the movement of workers. However, by fostering economic growth, they affect labour mobility by increasing demand for labour in less developed regions of the EC. The policies and programmes put in place in application of these Treaty provisions are dealt with in the next paragraphs. It neither is the intention here to describe in detail the progressive realization of a single European labour market nor is it to point out the obstacles standing in its way. The aim of this sub-section is just to bring out that labour mobility can only be achieved by purposive action within the framework of an integration scheme that consciously allows for the free movement of factors of production.

2.1.2 Labour market measures to facilitate the mobility of workers from member States

In response to Article 49 of the Treaty of Rome and the Maastricht Treaty, and in implementation of Council Regulation (EEC) No. 1612/68, the Commission put in place several policies and programmes. In 1994, in accordance with its Decision 8/2003/EC of 23 December 2003, it established the European Employment Services (EURES), which aimed at the establishment of a uniform system for the exchange of labour market information between national employment services. The 15 EU member states, in addition to Iceland and Norway, were the original participants in the EURES programme. In December 2003, by Decision 8/2003/EC the Commission updated the first generation

EURES network in order to reinforce and consolidate it as a fundamental instrument by networking the employment services of the 25 member States of the European Union, plus Iceland, Norway and Switzerland. The aim of the decision was to improve the institutional framework of the EURES by decentralizing decision-making and stepping up the strategic and coordinating role of the Commission. Members of and partners of EURES are the national and local employment services, the employment services responsible for the cross-border regions, other specialized employment services notified to the Commission and the trade union and employers organizations designated by the members¹¹.

In the establishment of the Internal Market, it was recognized that one of the major obstacles for people wanting to work or learn in another EU country, or to move between different parts of the labour market, is that their qualifications and competences may not be accepted. This is further complicated by the proliferation of qualifications worldwide, the diversity of national qualification systems and education and training structures, and constant changes in these systems.

In the light of this recognition, Article 57 of the Treaty establishing the EC, as amended by the *Maastricht Treaty*, provided that “in order to make it easier for persons to take up and pursue activities as self-employed persons, the Council shall.. issue directives for the mutual recognition of diplomas, certificates and other evidence of formal qualifications.” Mutual recognition of gained qualifications rather than the unification of criteria for education and skill acquisition is worth underlining. In response to this provision, the Commission and Member States have introduced several instruments for facilitating the transfer of qualifications for academic and professional purposes¹². From among these instruments, the following may be mentioned:

- The Diploma Supplement and the certificate Supplement for vocational qualifications;

¹¹ “Activities of the European Union: summaries of legislation”,
<http://europa.eu.int/scadplus/leg/en/s02300.htm>

¹²“Recognition of Qualifications: Introduction.” EUROPA. Last Updated: 14/11/2002,
<http://www.europa.eu.int/scadapplus/leg/en/cha/c00003d.htm>

- the European Community Course Credit Transfer System for recognition of periods of study abroad;
- the Common European Format for Curriculum Vitae for a simple and efficient presentation of individual qualifications and skills;
- Europass Training, a passport indicating the knowledge and experience acquired in formal and non-formal training.

Further, rules aimed at guaranteeing the mutual recognition of professional qualifications between Member States were adopted. From among them, the following are the main rules¹³:

- Sectoral directives which provide for automatic recognition of professional qualifications and which are mainly in the health sector (doctors, nurses, dentists, midwives, veterinary surgeons, pharmacists and architects);
- Three “general system” Directives which apply to all the professions which are regulated from the point of view of qualifications;
- Two Directives applying to lawyers, one of which concerns the provision of services and the other establishment under the title of country of origin;
- Two “transitory” Directives concerning activities in the fields of commerce and the distribution of toxic substances.

2.1.3 Indirect determinants of the effective mobility of workers from member States

¹³ “Professional Qualification..” http://europa.eu.int/comm/internal_market/index_en.htm.
http://europa.eu.int/comm/internal_market/qualifications/index_en.htm

Four structural funds exist in the EC with the primary objective of fostering the advancement of less prosperous regions and social groups. The structural funds finance multi-annual programmes, which constitute development strategies drawn up in a partnership with the regions, the Member States and the Commission. The main objectives of the programmes are to develop infrastructure, such as transport and energy, to assist firms in providing training for workers, in addition to extending telecommunications services and disseminating the tools and know-how of the information society. For the period 2000-2006, transfers through these funds amount to EURO195 billion. Seventy per cent of this funding goes to regions whose development lags behind, while 11.5 per cent are allocated to assisting in the economic and social conversion of areas experiencing structural difficulties and 12.3 per cent to promoting modernization of training systems and employment in regions other than those mentioned above. The Cohesion Fund, established in 1994, helps member States reduce economic and social disparities and stabilize their economies through providing direct assistance to specific environmental and transport projects. Its resources amounted to ECU 15.1 billion for the period 1993-99, out of which 52 to 58 per cent were earmarked for Spain, 16 to 20 per cent for both Greece and Portugal and seven to 10 per cent to Ireland¹⁴. The resources of the Cohesion Fund increased to EURO18 billion in 2000-06, out of which Spain and Portugal obtain EURO12.3 billion and EURO3.4 billion respectively. All in all, transfers through the Structural and Cohesion Funds account for one third of the Commission budget for the period 2000-2006.

It is difficult to establish causality links between the Community action described above and economic and employment growth in a country such as Spain, which had traditionally been a country of emigration. However, even if unemployment remained high, rates of employment growth are indication of increased demand for labour in Spain. Right after its adherence to the EC in 1986, the rate of annual employment growth for the period 1986-90 reached 3.18 per cent, well above the average for the 15 member-Community of 1.47 per cent, and the rates for the most populous member States, which

¹⁴ Council Regulation (EC) No. 1164/94 of 16 May 1994, establishing a Cohesion Fund.

are France, Germany, Italy and the United Kingdom. For the period 1991-98, the rate for Spain dropped to 0.54 per cent. However, it still was well above the average of -0.08 per cent and the rates for the most populous members, all of them negative with the exception of France's¹⁵. Besides rates of employment growth, the starting volume of the economy, rates of labour force growth and terms and conditions of work are also determinants for labour migration flows. Nevertheless, it may be legitimately assumed from the comparative consideration of employment growth rates in member States that increased demand for labour in Spain has resulted in reducing emigration flows. The migration outcomes of the mobility Treaty and Community law, labour market measures and indirect determinants will be reviewed below in Section 2.3.

2.2 The regulation of the mobility of third country nationals

Until the early 2000s, migration into the EU has remained the policy prerogative of Member States. These have diverse legal instruments, relevant for the admission of third country nationals for paid employment. Some countries regulate the admission for paid employment in one law that is mostly called "Immigration Act". Other countries use two main legal instruments, for an example an Aliens Act for residence purposes and Aliens Employment Act for employment purposes. In addition, there may be ordinances regulating details and ensuring flexibility¹⁶.

Policies of Member States in the recent decades have been restrictive. The mobility of third country workers into a Member State or between Member States was severely constrained. Except for family reunion, seasonal and temporary immigration and reduced annual quotas the entry into Member States of third country nationals for employment purposes was banned. The objective was to protect European labour markets and preserve them from the instability brought about by irregular labour

¹⁵ **European economy.** European Commission, Commission Services, Directorate-General for Economic and Financial Affairs, 1995.

¹⁶ **Admission of Third Country Nationals for Paid Employment or Self-Employed Activity.** Birmingham, Brussels and Madrid, ECOTEC Research and Consulting Ltd, n.d.

migration. Policies thus included measures for checking the arrival of illegal flows and deporting those migrants who succeed in getting through the net protecting the European continent¹⁷.

Measures for safeguarding labour markets are adopted at the common level as well as in each country independently. A clear trend exists as to strengthening public authorities' powers over all matters relating to the entry and stay, as well as the employment, of foreigners. Another clear trend is the transfer of competence, *de jure* or *de facto*, to the ministers responsible for internal security in all matters related to immigration. Both trends reveal the severe restrictive nature of the immigration safeguarding policy measures. Instruments used by the European countries are almost all the same, with different orders of priority¹⁸. They include border controls, surveillance within states, action to combat the employment of foreigners not in possession of work permits, their detention and expulsion¹⁹.

At the common level, the Schengen Agreement, signed in June 1985, embodies the coordination of the EU's member states' policies, the objective of which was originally to remove internal borders between State parties. The agreement is a set of declarations of intent. Its 1990 Convention of Implementation regulates, *inter alia*, border control and the movement of persons.

Within the "Schengen Area", persons may cross borders without being subject to control. This removal of physical borders is applicable to citizens of State parties, of other member states of the EU as well as of third countries. When stay exceeds three

¹⁷ On policies constraining the mobility of third country nationals, see Awad, Ibrahim, "Concept and Practice of Labour Immigration Policies in European Mediterranean Countries", paper presented to the **Fifth Mediterranean Social and Political Research Meeting**, Montecatini Terme and Florence, March 2004.

¹⁸ Under the 1997 Treaty of Amsterdam, member States of the EU are required to formulate and implement a common policy regulating the entry and residence of foreign nationals. Although not yet in place, common elements exist in national policies.

¹⁹ Marie, Claude-Valentin, "L'Union Européenne face aux déplacements de populations. Logiques d'Etat face aux droits de personnes", **Revue européenne des migrations internationales**, Vol.12, No. 2, 1996, pp. 169-209.

months, conditions are those provided for by laws of each country. The Convention, therefore, regulates the entry of foreigners to the Schengen Area, when they come for stays of less than three months. A uniform visa in all State parties was later introduced. A common list establishes the countries, the citizens of which are required to obtain visas. Some Member States thus imposed visa requirements on nationals of countries who had been previously exempted. In order to fight illegal immigration, *agreements for readmission* were concluded. These instruments compel a country responsible for the irregular entry of a foreigner, to the territory of a Schengen Area country, to take him/her back.

It is the Maastricht Treaty in its Title VI, Article K that paved the way for the adoption by the Council of joint actions and European conventions on immigration. The Treaty of Amsterdam incorporated the provisions of the previously intergovernmental Schengen regime Treaty law²⁰. At present, Title IV of the revised EC Treaty enshrines visas, asylum, immigration and other policies related to free movement of persons. Article 63 (3) (a) provides that the Council is to adopt measures on immigration policy within the area of conditions of entry and residence, standards on procedures for the issue by Member States of long-term visas and residence permits, including those for the purpose of family reunion. A further step towards an EU immigration policy is manifested in the conclusions of the European Council held in October 1999 in Tampere. The aim of the meeting was to examine optimal ways of establishing an area of freedom, security and justice in the European Union. The conclusions on fair treatment of third country nationals acknowledged, *inter alia*, the need for approximation of national legislation on the conditions for admission of third country nationals²¹.

At the political level, the Thessaloniki European Council held in July 2003 stressed “the need to explore legal means for third country nationals to migrate to the Union, taking into account the reception capacities of Member States”. The Treaty establishing a

²⁰ See the **Consolidated Version of the Treaty Establishing the European Community**, Articles 62 and 63, <http://www.europa.eu.int/eur-lex/en/treaties/dat/12002E/htm/C>

²¹ **Admission of Third Country Nationals for Paid Employment or Self-Employed Activity**. Brussels, Birmingham and Madrid, ECOTEC, Research & Consulting Limited, n.d., pp. 4-5, <http://www.ecotec.com>

Constitution for Europe, agreed during the Brussels European Council in June 2004, states that the “Union shall develop a common immigration policy aimed at ensuring, at all stages, the efficient management of migration flows”. Against this background as well as recognizing the impact of demographic decline and ageing on the economy, the Commission presented to the Council in January 2005 a Green Paper on a EU Approach to Managing Economic Migration. The Green Paper identified the main issues at stake and possible options for a EU legislation framework on economic migration, while recognizing, in line with draft Constitutional Treaty, that decisions on the number of economic migrants to be admitted in order to seek work are a matter for Member States.

In drafting the paper, the Commission had in mind the implications that an economic migration strategy would have on the fulfillment of the modernization and competitiveness objectives adopted by the European Council in Lisbon in the year 2000²². It considered that more sustained immigration flows could increasingly be required to meet the needs of the European labour market and to ensure Europe’s prosperity. It further believed that in the absence of a European strategic initiative, the number of third country nationals entering the EU illegally would grow. This belief is justified by flows of illegal migrants to the EU in the past two decades. These flows prove that the preference given to nationals of Member states has not obviated the demand for migrant workers. Legally constraining the mobility of migrant labour has thus resulted in irregular migration and informal employment. The latter are not only damaging to rights and conditions of work of migrant workers. They are also detrimental to those of national workers, since they put them at a disadvantage with migrants in respect of labour cost. The next subsection will review examples of illegal migration in Member States.

2.3 The mobility outcomes of Treaty and Community law and policies

²² COM (2004) 811 final

The provisions in Treaty and Community law and the labour market measures intended to promote free movement did not result in increased mobility of the nationals of those Member States that were traditional sources of migration. The allocations intended to foster the less prosperous regions and social groups and to ensure cohesion between EU members certainly increased demand for labour in these Member States. However, there also were other factors that kept mobility from increasing. Progress in reducing the economic gap between southern regions of emigration and the more prosperous EU members is one such factor. The gradual transition, as of the early 1970s, from the early post-war paradigm of low skill, labour intensive production to today's knowledge based economy may also have contributed to this drop in overall mobility and to a new focus on the migration of high skilled persons. People with higher educational levels are the most mobile; indeed, nationals of 11 Member States living in a different Member State have higher educational levels than their compatriots in the home country. A further explanation for the low mobility pattern in Europe is the existence of cultural and linguistic barriers to migration²³.

Present levels of geographical mobility are very low compared to those observed in the 1950's and 60's. Between Member States, it is now estimated to range between 0.1 and 0.2 per cent of the total population, and is only partly linked to employment²⁴. Migrant workers from the EC of Nine shrank from 1.8 to 1.2 millions in the 1973–1985. Outflows from Italy, which were expected to increase by Community legislation, declined steadily from 1961 onwards. Greeks could only benefit from free movement in 1988, seven years after their country joined the EC. Spaniards and Portuguese had to wait until 1992, when the six-year moratorium period for the extension of free movement rights to Spanish and Portuguese citizens ended. Even in these cases, the generalization of the rights to move, settle and work in other EC Member States did not revive the traditional sources of European migration. The stock of foreign residents from the

²³ Belot, Michèle and Sjeff Ederveen. "Cultural and institutional barriers in migration between OECD countries." Check: http://www.iza.org/conference_files/TAM2005/belot_m325.pdf

²⁴ "The Social Situation in the European Union." Eurostat and European Commission. http://europa.eu.int/comm/employment_social/social_situation/docs/SSR2002_en.pdf

Southern EU members had already reached its equilibrium level when the free movement was introduced²⁵.

In the 1990s, migration rose in the EU. This is true for both third country nationals and nationals of EU Member States. However, while the proportion of third country nationals in the EU has increased by 33 per cent over the decade, the proportion of EU citizens living in another EU country has grown by a less spectacular 10 per cent. More precisely, foreign population has risen from 14,9 million in 1990 to 18,9 million in 2000 and the number of EU nationals has increased from 5,5 million to 6 million.²⁶ The following table illustrates the low rise in migrant flows and even in some times negative flow. For example, non-national EU citizens in France were 1,3 million in 1990 and decreased to 1,2 million in 1999. The important increase of third country nationals in both Italy and Spain, former traditional emigration countries needs to be underlined.

Table 1: Stocks of foreign and non-national EU citizens in EU-15 countries, 1990-2000 (thousands)

²⁵ Recchi, Ettore, "Migrants and Europeans: An Outline of the Free Movement of Persons in the EU." **AMID Working Paper Series** (Academy for Migration Studies in Denmark), No. 38, 2005.

²⁶ **Ibid.**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
B	904,5	922,5	909,3	920,6	922,3	909,8	911,9	903,2	892,0	897,1	861,7
	555,6	559,3	541,6	548,5	552,3	554,5	559,6	562,0	562,5	563,6	–
DK	160,6	169,5	180,1	189,0	196,7	222,7	237,7	249,6	256,3	259,4	258,6
	38,4	39,2	40,5	42,4	44,6	46,5	48,9	51,2	53,2	53,8	54,3
D	5342,5	5882,3	6495,8	6878,1	6990,5	7173,9	7314,0	7365,8	7319,5	7343,6	7296,8
	1644,8	1698,8	–	1750,2	1779,9	1811,7	1839,9	1850,0	1854,3	1858,7	1872,7
EL	229,1	253,3	262,3	149,1	152,8	155,5	161,1	165,7	–	–	–
	59,1	61,6	64,7	42,9	43,7	44,4	45,0	44,1	–	–	–
E	278,7	360,7	393,1	430,4	461,4	499,8	539,0	609,8	719,6	801,3	895,7
	255,8	289,8	181,8	200,5	219,8	235,6	251,9	260,6	295,3	312,2	375,5
F	3596,6	–	–	–	–	–	–	–	–	3263,1	–
	1311,9	–	–	–	–	–	–	–	–	1195,5	–
IRL	80,0	87,7	94,9	89,9	91,1	96,1	118,0	114,4	111,0	117,8	126,5
	–	–	73,0	67,0	70,7	73,4	86,8	81,3	85,3	85,0	92,2
I	781,1	863,0	925,2	987,4	922,7	991,4	1095,6	1240,7	1250,2	1252,0	1338,2
	163,9	160,7	160,8	120,3	124,9	128,5	133,5	–	–	148,5	153,8
L	113,1	117,8	122,7	127,6	132,5	138,1	142,8	147,7	152,9	159,4	164,7
	–	–	–	–	–	–	127,8	131,4	–	–	–
NL	692,4	732,9	757,4	779,8	757,1	725,4	679,9	678,1	662,4	651,5	667,8
	174,0	181,9	188,7	193,9	193,1	191,1	188,3	190,2	192,2	195,9	201,6
A	456,1	532,7	623,0	689,6	713,5	723,5	728,2	732,7	737,3	748,2	757,9
	–	79,4	–	–	–	–	–	–	–	–	219,8
P	107,8	114,0	123,6	131,6	157,1	168,3	172,9	175,3	177,8	190,9	208,2
	29,9	–	–	32,7	36,2	–	41,5	43,7	48,2	52,4	56,8
FIN	26,3	37,6	46,3	55,6	62,0	68,6	73,8	80,6	85,1	87,7	91,1
	11,4	11,9	12,2	12,5	12,9	13,7	14,1	14,9	15,7	16,3	16,7
S	483,7	493,8	499,1	507,5	537,4	531,8	526,6	522,0	499,9	487,2	477,3
	195,7	190,5	186,3	182,6	180,3	179	178,2	176,8	177	177,4	180,1
UK	1723,0	1750,0	1985,0	2001,0	2032,0	1948,0	1934,0	2066,0	2207,0	2208,0	2342,0
	781,0	818,0	–	812,0	–	818,0	805,0	877,7	859,1	856,2	–
Total foreigners	14975,5			15551,4			16249,7			18915,3	
Total non-national EU-citizens	5501,7			4832,6			5735,8			6014,3	

Source: SOPEMI (2002); Eurostat New Cronos database (2001).

Repeated regularization programmes of illegal migrants since the 1990s reveal that the Treaty, legislative and policy framework for labour mobility could not provide for meeting demand for labour in EU member States. Close intervals between programmes further demonstrate the need to reconsider the present framework. Consistent with the figures in the table above, these programmes were particularly frequent in Italy and Spain. In Italy, regularization took place in 1990, 1996, 1998 and 2002. Spain carried out regularization first in 1985-86, then in 1991, 1996, 2000 and

2001, and is implementing a further programme in 2005. Regularization started in France in 1982 and the last programme was carried out in 1997-98, the same period Greece also implemented one²⁷.

3. The legal frameworks governing labour migration in the Arab region

In contrast to the European region, there is no single regime governing integration in the Arab world. In addition to regional schemes, there are sub-regional arrangements. Neither regional nor sub-regional integration agreements provide for free movement of labour. Bilateral agreements regulate some aspects of labour movements, but without providing for its free circulation.

3.1 Regional schemes

Regional schemes here considered refer to economic, trade and labour agreements concluded at the Arab regional level and open to all Arab countries. They all are of an inter-governmental nature that distinguishes them from the integration scheme of the EC. It will be dealt successively below with three agreements and a declaration concluded under the League of Arab States (LAS) and the Arab Labour Organization (ALO).

3.1.1 The Agreement on Arab Economic Unity and the Resolution establishing the Arab Common Market

The closest scheme to a region-wide integration regime is that instituted by the Agreement on Arab Economic Unity creating the Council of Arab Economic Unity

²⁷ See Awad, "Concept and Practice of Labour Immigration Policies in European Mediterranean Countries", *op. cit.*; see also Awad, Ibrahim, "Dynamics of Labour Migration in the Mediterranean Basin at the Turn of the Century", paper presented to the Third **Mediterranean Social and Political Research Meeting**, Montecatini Terme and Florence, March 2002.

(CAEU)²⁸. After stating the State parties' agreed objective of full Arab economic unity, article 1 of the agreement interprets this unity as implying the freedoms of movement of persons and capital, freedom of exchange of national and foreign goods, freedom of residence and exercise of economic activity, freedom of transport, transit, use of means of transportation, utilities, and civil airports and of the rights of ownership, bequest and inheritance. Article 2 brings out the means to realize the stated objective, pointing to the creation of one customs zone, the unification of export and import policy, the unification of transport and transit systems, the joint conclusion of trade and payment agreements with third countries, the coordination of agricultural, industrial and internal trade policies, the coordination of labour and social security legislation, etc²⁹. Despite the declared objective of full economic unity, it is clear that article 2 only aimed at the establishment of a customs union. It did not mention a common market for goods, services and factors of production among the means of action of the Council. This article only refers to the coordination of policies on labour and social security. This assessment is confirmed by examining the resolution of the Council on the establishment of an Arab Common Market³⁰. The preamble to the resolution provides for all the freedoms characteristic of a common market, including those of trade, movement of persons and capital, and freedoms of residence, work, employment and exercise of economic activity. However, the operational part of the resolution, only mentions freedom of trade in article 2. Articles 3 to 9 regulate this freedom but abstain from even creating a single customs tariff, let alone referring in any way to the other freedoms necessary for the establishment of a

²⁸ See the text of the Agreement in, **Compilation of Conventions and Agreements concluded in the Framework of the Arab League and with certain International Organizations**. Cairo, Secretariat of the League of Arab States, 1965 (in Arabic).

²⁹ For a discussion of Arab integration as envisaged by the Agreement on Arab Economic Unity, see Awad, Ibrahim, "Peace and Development through Integration: Adapting Neo-functionalism to purposes of Arab Integration" in, **In Order to Prevent a New Inter-Arab War: Lessons of the Gulf War**. Proceedings of the fifth annual conference of political research, edited by Mustafa Kamel Al-Sayyid. Cairo, Center for Political Research and Studies, 1992 (in Arabic). See also Awad, Ibrahim, "Théories de développement politique et leur application au monde arabe: étude de deux processus d'intégration et de désintégration dans une perspective néofonctionnelle in, **Universalisme et particularisme dans l'étude de la région arabe**, sous la direction de Nevine Mossaad. Le Caire, C.E.D.E.J., 1990.

³⁰ See the resolution on the establishment of the Arab common market in, **Resolutions of the Council of Arab Economic Unity from June 1964 to June 1975**. Cairo, Secretariat of the C.A.E.U., 1975, pp. 48-54.

common market. In fact, Nye was right in pointing out that despite its denomination, this resolution was only about a free trade area.

It is noteworthy, moreover, that this resolution is a misnomer. Rather than a resolution, this is an international agreement, only signed and ratified by seven members of the Council. This is a far cry from the binding provisions of the successive treaties of the EC and the EU, starting from the Treaty of Rome through that of Nice. Its adoption and the consequences its provisions produce for the legal regimes of State parties are also of an utterly different nature to those of regulations and directives adopted by the EC to give effect to the objectives mentioned in the Treaties³¹.

3.1.2 The Greater Arab Free Trade Area (GAFTA)

The Economic and Social Council of the LAS announced on 19 March 1997 the establishment as of the first of January 1998 of a Greater Arab Free Trade Area (GAFTA), to be completed within 10 years. It also decided to approve the Implementation Programme for the Facilitation and Development of Commercial Exchanges between Arab States with a view to establishing the Greater Arab Free Trade Area. The text of this programme is well in keeping with the theory of stages economic integration. It only provides for the mutual treatment as national of goods covered by this agreement, which are produced in other Arab countries. In fact, services are not included and, as expected in a free trade area, no mention is made of the freedom of movement of factors of production³².

3.1.3 Conventions and Declaration under the Arab Labour Organization

³¹ See Awad, "Peace and Development through Integration...", *op. cit.*, pp. 447-448.

³² **Declaration on the Greater Arab Free Trade Area: Resolution of the Economic and Social Council No. 1317 of 19/2/1997; The Implementation Programme for the Facilitation and Development of Commercial Exchange between the Arab States with a view to Establishing a Greater Arab Free Trade Area.** Cairo, League of Arab States, General Secretariat, General Directorate of Economic Affairs, n.d. (in Arabic).

(ALO)

Two Arab Labour Conventions on the movement of labour have been adopted by the Arab Labour Organization (ALO). Under Convention No. 2 (1967) on the Movement of Labour, State parties only undertake in Article 2 to facilitate the movement of labour between them and the procedures associated with it. Convention No.4 (1975) on the Movement of Labour “revised” goes a little further by providing in Article 2 that, after preserving job opportunities for national workers, preference in recruitment should be given to Arab workers, especially the Palestinian, in accordance with the needs of each State. This convention, however, is only ratified by seven Arab States. No labour receiving country is among these seven States with the exception of Iraq, then starting to be a major country of destination, which ratified it in 1977³³. Not only is freedom of labour mobility nowhere mentioned in the two conventions, but even the preference envisaged by the 1975 instrument is of no practical consequence.

In order to promote the mobility of Arab labour, 30 years after Convention No.4 (1975), the ALO resorted to the adoption of a non-binding instrument. This is the Declaration of Principles on the Facilitation of the Movement of Arab Labour, approved at the 32nd session of the ALO in Algiers in February 2005. As its title indicates, this declaration only bears on facilitating and not freeing the movement of labour. Paragraph 2 again gives priority in employment to nationals and then preference to Arab workers. Innovating, Paragraph 4 provides that Arab States will endeavour to gradually substitute Arab for foreign labour when qualifications and skills required by the labour market are equal. This last sentence allows for discretion at recruitment³⁴. However, more importantly, the non-binding character of the instrument and the experience of previous conventions do not provide for a genuinely freer mobility of Arab labour in the region.

³³ **Arab Labour Conventions and Recommendations.** Cairo, Arab Labour Organization, 2003 (fourth edition) (in Arabic).

³⁴ **Declaration of Principles on the Facilitation of the Movement of Arab Labour.** N.p., Arab Labour Organization, n.d. (in Arabic).

3.2 Sub-regional arrangements

The Cooperation Council of the Arab States of the Gulf (hereinafter Gulf Cooperation Council [GCC]) brings together Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). The preamble to the Statute establishing the GCC mentions different fields, especially, economic and social, as its scope³⁵. Article 4 repeats the different fields where the Statute is applicable, adding to its scope defense, military coordination and common agreements with third countries. Besides its objectives and scope, however, the Statute does not spell out the means to make progress in collective action. The establishment of a common market, therefore, is not mentioned in the Statute. The GCC advances at times, however, without conventional foundation. Thus, the Higher Council of the GCC adopted a Decision in its 14th session in December 1993 on the treatment of GCC citizens as nationals in the public sector. In view of the inflated ranks of public sectors in GCC countries, and the wish of their governments not to increase their volumes, if not to reduce them, this decision should not result in any significant mobility. In 1995, the Higher Council took another decision on facilitating employment and movement of national labour between member countries³⁶. As its title indicates, this decision is only about facilitation and does not provide for free labour mobility. Moreover, even with unemployment in some countries, the clear shortage of labour supply in the GCC as a whole does not make this decision to be of great consequence.

To the west of the Arab world, the Convention establishing the Arab Maghreb Union (AMU) mentions in article 2, among its objectives, the progressive realization of the freedom of movement of persons, but without specifically referring to labour³⁷. The Convention is silent on the process of decision-making. It neither refers to unification, cooperation nor coordination of policies as means to realize its objectives.

³⁵ See the Statute of the GCC in, Khoury, Youssef, **Arab Unitary Projects 1913-1989: a Documentary Study**. Beirut, Center for Arab Unity Studies, 1990 (second edition), pp. 500-504 (in Arabic).

³⁶ International Labour Office, **ILO Migration Survey 2003: Country Summaries**. Geneva, International Labour Organization, 2004 (Social Protection Sector, International Migration Programme).

³⁷ **Ibid**, pp. 751-753.

In the 1990s and early 2000s, political considerations and tensions have interfered with the implementation of the convention. The free movement of persons between certain member States was obstructed by the introduction of previously inexistent visa requirements. Any movement of labour between members of the AMU thus took place without the benefit of a common framework regulating it.

3.3 Movement of Labour in bilateral agreements

Bilateral agreements on reinforcing economic cooperation between sets of Arab countries do not deal with movements of labour. Bilateral agreements however exist, which specifically focus on labour migration³⁸. Their usefulness stems from the fact that migration moves workers from one sovereign State to another. In addition to laying out procedures to recruit migrants, protect them and thus protect local workers, bilateral agreements can deal with issues associated with migrant employment, including irregular migration, protection of migrants in the work place, and the accumulation of rights to social security especially entitlement to old age benefits and pension payments. Clearly, these agreements recognize the existence of sufficiently large labour movements and the need to regulate them, but do not provide for their complete freedom or liberalization. They are not associated with any bilateral integration scheme either, even though they, and the flows and stocks they regulate, could contribute to integrating national markets. The agreements entered into by sets of Arab countries bear out this contention³⁹.

Taken as examples, agreements concluded by Egypt, Morocco, Tunisia and the UAE reveal that their subjects varied from the promotion of bilateral cooperation on

³⁸ Article 10 of International Labour Convention no. 97 (1949) provides that “where the number of migrants...is sufficiently large, the competent authorities of the territories concerned shall, whenever necessary or desirable, enter into agreements for the purpose of regulating matters of common concern”, see **C97 Migration for Employment Convention (Revised), 1949**, <http://www.ilo.org/ilolex/cgi-lex/convde.pl?C097>

³⁹ On definitions and objectives of bilateral agreements on labour migration, see Geronimi, Eduardo, “Acuerdos bilaterales de mano de obra: Modo de empleo”, **Estudios sobre Migraciones Internacionales**, No.65. Ginebra, Oficina Internacional del Trabajo (Sector de la Proteccion Social, Programa de Migraciones Internacionales).

labour issues and the organization of the labour force in State parties, to employment of national workers, manpower cooperation, social security and the organization of labour relations. From 1974 to 1990, Egypt entered into agreements with nine Arab countries, the subjects of which are cooperation on labour issues, organization of the labour force including contracts, work, accommodation, and workers and employers obligations. Morocco has agreements with five Arab countries, dating back to the early 1980s. Their subjects are the organization of migration and the guarantee of Moroccan workers' rights, including social security rights, in countries of employment. Tunisia has entered into agreements with four Arab countries, all from northern Africa. Their subject is the regulation and transfer of social security rights of migrant workers. In total, the UAE, a larger receiving country from around the world, has entered into agreements with five countries, all Arab. The subject of these agreements is invariably the organization of labour relations. Among the six members of the GCC, all labour receiving countries, Bahrain, Kuwait, Oman and Saudi Arabia have no bilateral agreements at all. Qatar and the UAE have a number of agreements with some Arab countries, which do not provide for freedom for labour mobility⁴⁰.

3.4 Actual labour mobility in the Arab region

Deprived of any preference, Arab workers faced competition from extra-regional workers, especially from Asia. But they also were occasionally hampered by political factors that affected relations between their countries of origin and those of destination. These factors not only resulted in reducing demand for Arab labour but went as far as finishing employment relationships and expelling workers. Examples of such political interference with the functioning of the labour market are multiple.

In 1985, Libya deported large numbers of Egyptian and Tunisian migrant workers whose work contracts were still valid, in implementation of decisions of the General People's Committee (Council of Ministers). In 1998, Qatar put an end to the

⁴⁰ International Labour Office, **ILO Migration Survey 2003: Country Summaries**, *op. cit.*

employment of hundreds of Egyptian workers and deported them⁴¹. In 1990-91, the Iraqi occupation of Kuwait and the ensuing war resulted in massive return migration to Egypt, Jordan and Yemen. Some 390,000 Egyptian workers returned to their countries between August 1990 and January 1991⁴². It is estimated that the GCC countries, unhappy with policies of their respective countries, deported more than a million migrants to Jordan, Sudan and Yemen. More than 300,000 Jordanians returned from Kuwait, other Gulf countries as well as from Iraq. Some 730,000 migrants returned to Yemen, the vast majority from Saudi Arabia, but also from Bahrain, Qatar and the United Arab Emirates (UAE)⁴³.

**Table 2: Percentage of nationals and expatriates
in the population of GCC countries
1975-2000⁴⁴**

Country	1975a	1980 a	1985 a	1995 a	2000b	2001-2002d
BAHRAIN						
Nationals	77.1	69.3	63.5	61.8	60.0	60.0
Expatriates	22.9	30.7	36.5	38.2	40.0	40.0
Total ('000s)	261.6	336.7	434.7	586.1	651.8	690.0
KUWAIT						
Nationals	30.9	28.5	27.7	36.1	37.4c	37.0
Expatriates	69.1	71.5	72.3	63.9	62.6	63.0
Total ('000s)	994.9	971.3	1,697.3	1,958.8	2,363.3	2,360
OMAN						
Nationals	86.9	81.8	81.6	72.7	73.3	74.0

⁴¹ Internal Memorandum of the Egyptian Ministry of Manpower and Migration.

⁴² Hallouda, Mokhtar, "Flows and Policies of Labour Migration in Egypt", Paper presented to the **Workshop on Migration policies in Labour Sending Arab Countries**, Cairo 2-4 May 1992 (ILO/UNDP Project on Migration Policies in the Arab Region), p. 57 (in Arabic; however there is an English version of the paper).

⁴³ See Al-Aanani, Jawad, "Policies and Demand for Labour in the GCC Countries", and Shoujaa-Eddeen, Ahmed M. and Abdallah S. Bahaj, "Yemeni Migration: Dimensions and Consequences", Papers presented to the **Workshop on Migration policies in Labour Sending Arab Countries**, Cairo 2-4 May 1992 (ILO/UNDP Project on Migration Policies in the Arab Region) (in Arabic; however, English versions exist for the two papers).

⁴⁴

Country	1975a	1980 a	1985 a	1995 a	2000b	2001-2002d
Expatriates	13.1	18.2	18.4	27.3	22.7	26.0
Total ('000s)	766.0	984.0	1,193.0	2,149.0	2,441.8	2,420
QATAR						
Nationals	43.1	40.9	47.7	29.6	26.3	28.0
Expatriates	56.9	59.1	52.3	70.4	73.7	72.0
Total ('000s)	147.7	206.6	241.0	547.0	580.3	585
SAUDI ARABIA						
Nationals	86.7	75.4	69.3	67.9	74.6	70.0
Expatriates	13.3	24.6	30.7	32.1	25.4	30.0
Total ('000s)	7,026.3	9,688.0	12,642.2	19,534.0	20,278.8	23,000
UAE						
Nationals	37.0	28.7	36.2	25.1	24.3	20.0
Expatriates	63.0	71.3	63.8	74.9	75.7	80.0
Total ('000s)	525.1	977.4	1,116.8	2,378.0	2,889.6	23,000
All GCC countries						
Nationals	77.4	67.1	63.5	61.4	65.1	61.5
Expatriates	22.6	32.9	36.5	38.6	34.9	38.5
Total ('000s)	9,721.6	13,550.7	17,325.0	27,152.9	29,321.7	32.5

Sources:

a Girgis, 2002

b ESCWA, 2001 (Data for 2000)

c PACI, 2002 (Data for 2002)

d *Sources:* for Bahrain, Oman, Qatar, Saudi Arabia and the UAE: The 2001 annual report by the GCC secretariat, released July 27, 2002 as well as *The Economist Country Reports* from mid-2002; for Saudi Arabia reports by different Saudi ministries were used as well; for Kuwait: Ministry of Planning data. Rough estimates made by the author are in italics.

The population of the receiving countries of the GCC grew by 335 per cent, from 9.7 million to 32.5 million, between 1975 and 2001-2002. In 1975, nationals represented 77.4 per cent of the population, or 7.5 million, and migrants 22.6 per cent, or 2.2 million. In 2001-02, nationals only represented 61.5 per cent, or 20 million, while migrants were 38.5 per cent, equivalent to 12.5 million. National population has

grown by 266 per cent, while migrant population increased by 568 per cent. In the UAE and Qatar, the migrant population represented as high as 80 per cent and 72 per cent respectively of the total population. Saudi Arabia's was the lowest percentage in 2001-02, at the still high 30 per cent proportion of a total population of 23 million. The percentages of migrants in the labour force were still sensibly higher. In the year 2000, in the UAE and Qatar, they reached 90 per cent, and amounted to 80 per cent in Kuwait, 64 per cent in Oman, 56 per cent in Saudi Arabia, and 54 per cent in Bahrain. Between 1975 and 1995, the national labour forces grew by 147 per cent, while migrant labour increased by 654 per cent.

Table 3: Percentage of nationals and expatriates in the labour force of GCC countries, 1975-2000^{a45}

Country	1975 a	1980 a	1985 a	1995 a	2000 a
BAHRAIN					
Nationals	18.2	43.0	42.1	40.0	46.0 b
Expatriates	81.8	57.0	57.9	60.0	54.0
Total ('000s)	60.0	142.4	170.6	226.5	-
KUWAIT					
Nationals	18.2	15.1	14.3	16.6	19.6 c
Expatriates	81.8	84.9	85.7	83.4	80.4
Total ('000s)	304.6	491.5	670.4	1,051.5	1,320.1
OMAN					
Nationals	68.9	60.0	48.2	35.8	35.7
Expatriates	31.1	40.0	51.8	64.2	64.3
Total ('000s)	225.0	280.0	369.0	670.3	858.7
QATAR					
Nationals	17.0	17.4	23.5	17.9	10.0 b
Expatriates	83.0	82.6	76.5	82.1	90.0
Total ('000s)	68.7	95.6	100.2	218.0	-
SAUDI ARABIA					
Nationals	74.8	47.3	37.3	36.5	44.2
Expatriates	25.2	52.7	62.7	63.5	55.8
Total ('000s)	1,923.7	3,212.7	4,342.1	6,450.0	7,176.3
UAE					
Nationals	16.0	7.6	9.4	10.2	10.2

⁴⁵ Ibid.

Expatriates	84.0	92.4	90.6	89.8	89.8
Total ('000s)	278.8	706.3	865.3	1,088.2	1,355.7
All GCC countries					
Nationals	61.0	38.4	31.8	26.0	-
Expatriates	39.0	61.6	68.2	74.0	-
Total ('000s)	2,860.8	4,928.5	6,517.6	9,704.5	-

- not available

Sources :

a Girgis, 2002;

b The Economist, print edition, 2002 (latest statistics)

c PACI, 2002 (Data for 2002)

Obviously, the labour markets of the GCC countries were quite open to migrant workers who flooded in response to economic growth fuelled by oil revenues and the need to sustain economic activity. Nevertheless, the absence of preference embodied in regional integration schemes played against the interests of Arab nationals. As shown in Table 4, from 72 per cent of the total migrant population in 1975, the share of Arab nationals, from non-GCC countries, dropped to 31 per cent in 1996. The most spectacular fall was registered in Saudi Arabia where Arab nationals were 90 per cent of migrants in 1975, but only 30 per cent in 1996. The absence of effective integration schemes is forcefully brought out by the retreat in the presence of Arab nationals in the GCC countries and their labour markets.

Table 4
Share of Arabs in Expatriate Population of GCC Countries
1975-1996 (%)

GCC Countries	1975	1985	1996	2000
Bahrain	22	15	12	-
Kuwait	80	69	33	43
Oman	16	9	11	-
Qatar	33	33	21	-
Saudi Arabia	91	79	30	-
UAE	26	19	10	-
Total GCC	72	56	31	-

Source: Kapiszewski, A. National and Expatriates: Population and Labour Dilemmas of the

Gulf

Cooperation Council States. Lebanon: Ithaca Press, 2001. P.

4. Conclusions

The comparative examination of labour mobility in the EU and the Arab region reveals profound differences between collective actions in the two sets of countries. In the EU, it takes the form of a distinct, purposeful integration scheme, which clearly provides for Community preference. It identifies the means to create a single internal market and the associated integrated policies. Labour mobility and the unification of national labour markets are among these means. At the executive level, policies are put in place to operationalize the means and realize the objectives. These policies are not only situated at the labour market level. They also are structural intended to redress the economic conditions of less prosperous regions and groups, and achieving economic and social cohesion between Member States. In the process, these policies create demand for labour, which, along with the very growth resulting from integration, contribute to obviating the need for organized large scale migration between Member States.

Even with free mobility, demand for labour in the EU labour markets cannot be met by the supply of Member States' workers. Therefore, this demand is met by third country nationals who migrate to EU countries. Amendments to the Treaty establishing the EC now provide that this labour migration will be jointly regulated by the EU and Member States. Conditions of access to the EU and circulation in its labour markets are to be regulated at the Community level. In contrast, each country should determine the needs of its own labour market. Regulation at the Community level has not been enacted yet, except with respect to entry to the territory of the Union and short-term stays. Discussions over this regulation stem from the recognition of the importance of labour migration for sustaining a sound economic activity. They also are naturally prompted by the large inflows of undocumented labour migration, which reveal the inadequacy of current policies on the movement of third country workers into and within the territory of the Union. Ultimately,

regulation at the Community level finds its justification in the rationale of the single internal market for goods, services, capital and labour.

In the Arab region, there are no integration schemes, either at the regional, sub-regional or bilateral levels, which provide for free movement of labour. Therefore, there is no preference for Arab workers in countries other than their own. Some inter-governmental instruments include references to such a preference, but these are either not adhered to by receiving countries or unbinding. As a result, in recent decades, Arab nationals have faced increasing competition from extra-regional workers in labour markets where they had been once predominant.

For purposes of integration schemes that pool together the resources of their Member States with a view to realizing the best possible economic outcomes for their populations, the central concept is “preference”. But even when discussing labour mobility, preference should not be construed as referring only to labour from Member States to the scheme. In fact, labour preference will only be possible if trade preference is put in place. Beyond preferences, complete labour mobility cannot be dissociated from the establishment of a single market and associated integrated policies. For example, in the absence of an integrated competition policy for the integration scheme, distortions in markets for goods and services can make free labour mobility impossible without seriously disrupting national labour markets. Erecting a single market is not a simple process, but it is achievable when the objectives and tools are clearly identified and policies and programmes are put in place to realize them. But even when objectives, tools and policies exist, there will still be shortcomings, such as in the existence of undocumented migration and informal employment. These are lessons for the Arab region that can be drawn from the experience of European integration.

Integration and enlargement of the European Union
lessons for the Arab region

Agricultural issues and policies in the European Union and
the Arab region

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Integration and enlargement of the European union lessons for the Arab region

Agricultural issues and policies in the European Union and the Arab region

1. Introduction

The last century has witnessed the highest level of integration movements. All continental regions now have at least a major integration movement. For instance, Europe has the European Union (EU); Asia has the Association of South East Asian Nations (ASEAN), and the Asia-Pacific Economic Cooperation (APEC); North America has the North American Free Trade Agreement (NAFTA); the Arab region has the Council of Arab Economic Unity (CAEU); and the Common Market for Eastern and Southern Africa (COMESA). Many of these integration movements have achieved great deal of success especially as in the case of the EU. The history of the European movement towards integrating the different nations of Europe started after the end of the bloody second world war when in 1950, the French Foreign Minister Robert Schuman proposed integrating the coal and steel industries of Western Europe. Six European nations responded positively in 1951 by establishing the European Coal and Steel Community (ECSC). The six members were: Belgium, West Germany, Luxembourg, France, Italy and the Netherlands.

The history shows that also the Arab nations started the integration movement almost simultaneously with the European movement. The dream of Arabic Unity is still hanging in the minds of almost all Arabs. In spite of all efforts to establish the Arab integration, the economic linkages were very limited compared to other regional integrations such as those mentioned above. Although, regional integration in many parts of the world gained lots of momentum and was developed into tangible benefits to the unified nations, the Arab integration remained as an unachievable project.

The objective of this part of the report is present a comparative analysis and to establish the links between the Arab integration and the EU integration in relation to the agricultural sector. This objective is achieved through providing the following:

1. Description & analysis of the status of Arab Integration in the agricultural sector as compared to the status in the EU;
2. Analysis of institutions(laws and regulations),organizations, and policies that are relevant where the EU experience is presented and compared to the Arab Region case. The pros and cons of the different issues whether in the EU or the Arab region should be discussed and compared; and
3. Drawing lessons on how to build on the EU experience for promoting the Arab Integration within the current context taking in consideration what is feasible and what is not while including economic and political aspects in consideration on both domestic and international levels

2. Description & analysis of the status of Arab Integration in relation to the Agricultural sector as compared to the status in the EU

To provide a clear description and analysis of the status of Arab Integration in the agricultural sector, different sources of secondary data were used in this study. The data was obtained from several sources including, World Bank, Food and Agricultural Organization of the United Nations, European Statistics (Eurostat), Arab Organization for Agricultural Development (AOAD) and UNCTAD. Other sources were also used including the national departments of statistics in many of the Arab countries.

2.1. Importance of the agricultural sector in the Arab region in comparison with the EU

The importance of the agricultural sector in all Arab countries stems from the fact that it is considered as the major source of necessary food stuff and fiber products. The importance of this sector varies from one country to another based on its contribution in the Gross Domestic Product (GDP), number of employments, its value added and its share in the total exports of the country. Figure 1, shows the contribution of the agricultural sector in the GDP of the countries in the Arab region. It is very clear from the figure the variation of the importance of this sector in the economies of the various countries. For instance, agriculture is a major sector in countries like Sudan Syria, and Egypt, while it is a minor sector in countries like Saudi Arabia, Kuwait and Jordan. The figure shows that Sudan possess the highest share amounting 40% and the lowest was Jordan with a 2% share. The contribution of the agricultural sector in other countries is close to zero such as, some of the oil producing countries like Kuwait, Oman and United Arab Emirates. Another reason for variation in the contribution of this sector from one county to another, is the importance of agriculture in comparison to other sector in the same economy such as services or oil production sector as in the case of Saudi Arabia and other oil producing countries. As explained later, a major determinant in the importance of Agriculture is the availability of water resources. In some countries the low contribution is mainly due to the sever shortage of irrigation water and at the same time the high rate of growth in other sectors such as service and industrial sectors.

Another area that shows the importance of the agricultural sector in the Arab region is its contribution in the employment. This sector plays a crucial rule in employing about 23 million workers in direct agricultural activities in the whole Arab countries. Figure 2 shows the development of agricultural labor force during 1970-2002 in the Arab region. It is very clear from the figure that at the overall level, there was a continuous growth of agricultural employment over the last three decades. In certain countries, where agricultural is a major production sector such as Egypt, Morocco and Syria agricultural employment were increasing on annual basis since 1970. However, in the other Arab countries, where other sectors are more important that the agriculture, the number of employed workers diminished over time as shown in Figure 3.

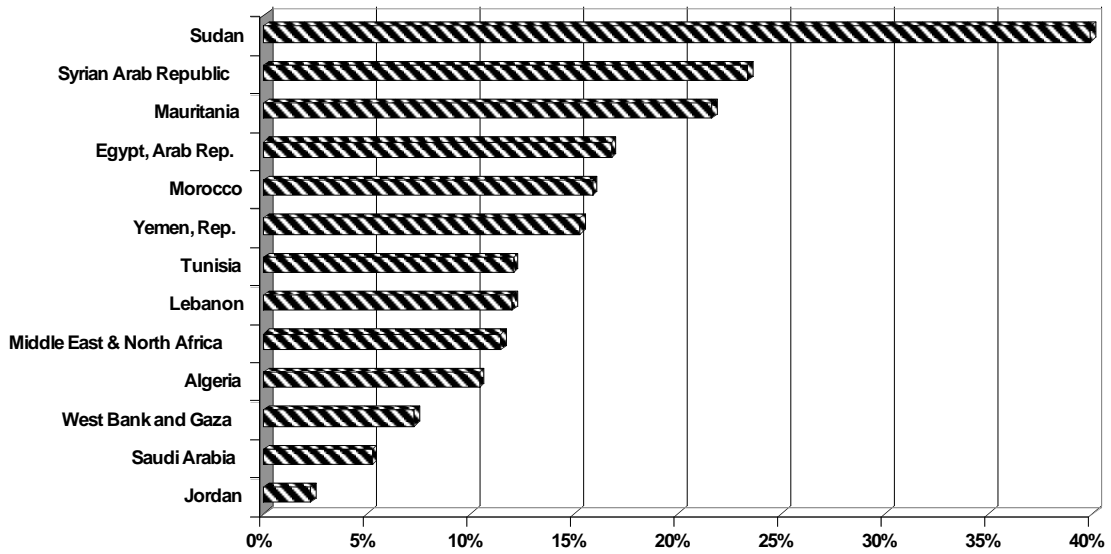


Figure 1 Average Share of Agricultural Sector in the Total GDP of the Arab Countries (1999-2003)

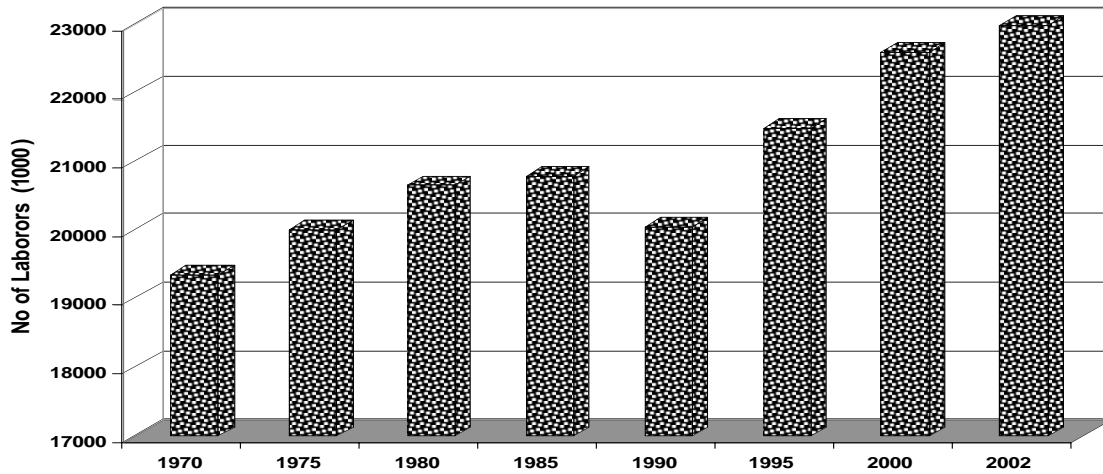


Figure 2 Development in the Total Agricultural Labor Force in the Arab Countries (1970-2002)

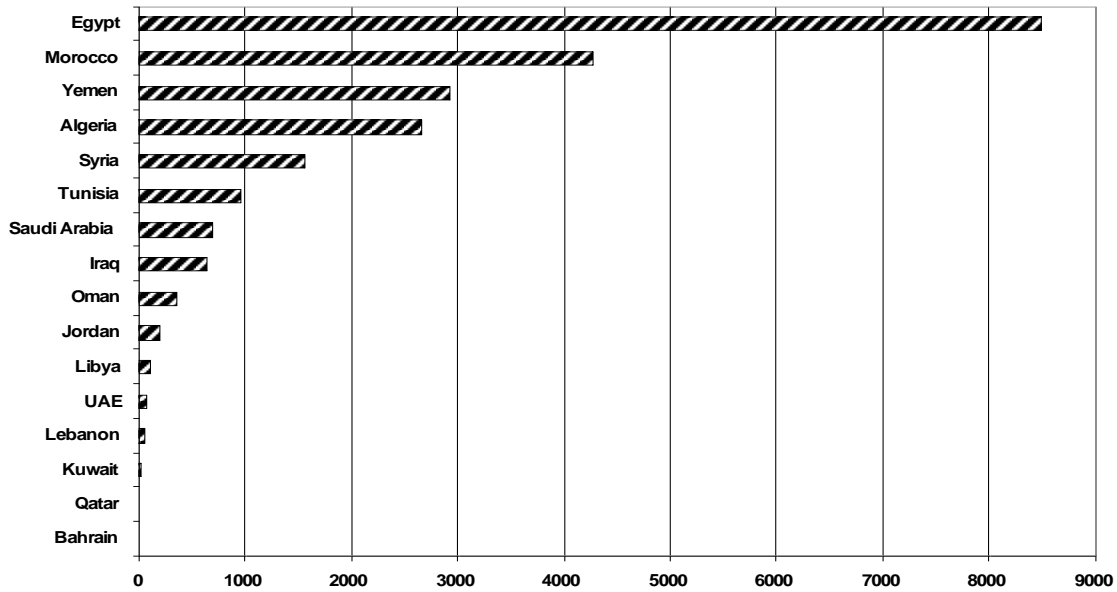


Figure 3 Number of labor force in the agricultural sector in the Arab countries (2002)

The development of agricultural labor force in the EU countries showed a total different trend over the period 1970-2002. The trend showed in Figure 4 clearly indicates that the number of laborers decreased sharply from 19 million in 1970 to about 6.7 in 2002 which could be referred to many factors such as the huge development in the industrial and service sectors and the increased rate of mechanization in the agricultural sector.

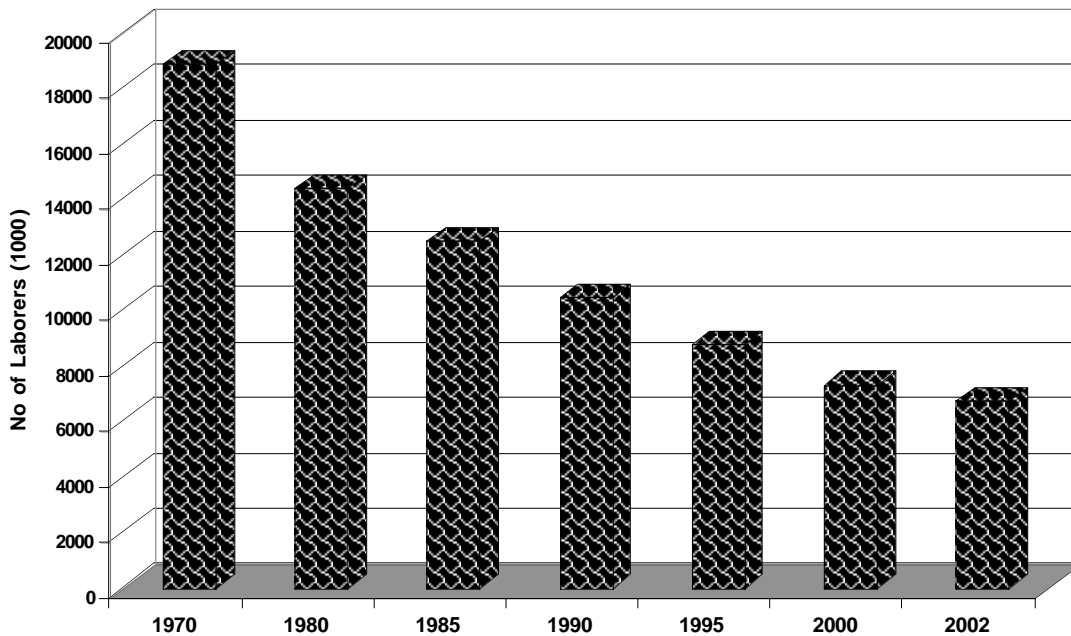


Figure 4 Development of total agricultural labor force in the EU countries (1970-2002)

2.2. The status and analysis of EU Integration in Agriculture

The importance of the agricultural sector in many of the EU countries is totally different from those in the south. This difference is reflected in terms of the contribution in the national GDP as well as in the structures of production. On average, agriculture contributes to about only 2 per cent of the total GDP of many EU countries. Figure 2 demonstrates that Greece is the leading EU country in the share of agricultural production share in the GDP (more than 7 percent) while in the case of the UK or Germany, the share does not exceed 2 percent. Another significant difference between the EU and the Arab countries is the structure of agricultural production as well as the level of specialization. Other significant factors include quality of production, levels of value added, mechanization, exportation, scale of business, utilization of economies of scale, the organization of the sector, the high technological level of production, the intensive care of post and pre-harvest technologies.

2.3. Major Agricultural products in Arab countries vs EU countries

A wide range of agricultural products are produced in the Arab region under both rainfed and irrigated conditions. However, due to climatic variation and levels of rainfall some countries are specialized in certain crops. Table 1 demonstrates the development of production in the main groups of agricultural production in the Arab region over the period 1980-2004. The table clearly indicates that the dominant crops produced in the Arab countries are cereals followed by vegetables and fruits. Egypt is the leading cereals producers in the region followed by Morocco and Syria. Egypt is also the dominant producers of horticultural products followed also by Morocco and Syria. While in tree nuts, Syria is the dominant producer followed by Morocco and Tunisia. In roots and tubers, Egypt is in the first range followed by Morocco. In oil crops, Sudan ranks first followed by Egypt and Syria.

Table 2 shows also the main groups of agricultural products produced in EU. It is obvious from the table that Europe is a major producers of all kinds of plant products. The EU is also know as one of the major exporter of many agricultural products such as cereals and other animal products. Table 2 shows that over the last 25 years, production of almost all agricultural products was on a continuous increase, except for fruit trees which maintained the same pace. The huge increase of cereals since early nineties, is a clear response of what is called “the EU Common Agricultural Policy (CAP)” which will be explained latter in this study. The south European Mediterranean countries are the major horticultural producers, especially Spain, Italy and Greece.

Table 1: Major agricultural production by group in the Arab Countries (M. Tons)

Type of Agricultural Productions	Year					
	1980	1985	1990	1995	2000	2004
Citrus Fruit, Total	3,404,906	3,618,074	5,130,402	5,441,922	6,400,742	6,415,784
Fiber Crops Primary	807,135	855,961	625,455	568,228	653,609	703,920
Fruit excl Melons, Total	9,055,357	10,676,729	13,614,790	16,391,432	19,721,195	20,308,163
Oil crops Primary	1,028,565	818,554	909,778	1,120,472	1,406,380	1,521,519
Pulses, Total	1,176,081	1,317,132	1,418,766	1,314,901	1,223,851	1,536,136
Roots and Tubers, Total	3,639,465	4,638,966	5,005,290	7,154,667	6,599,223	7,742,090
Tree nuts, Total	121,234	183,719	214,861	239,485	369,321	455,403
Vegetables & Melons,	17,278,676	21,938,515	23,793,732	27,374,845	34,968,240	35,167,362
Cereals, Total	21,776,803	24,641,794	31,277,345	31,050,942	31,255,587	42,126,663

Source: FAO, FAOSTAT, 2005

Table 2 : Major agricultural production by group in the EU Countries (M. Tons)

Type of Agricultural Productions	1980	1985	1990	1995	2000	2004
Citrus Fruit, Total	6,613,928	8,073,518	9,056,550	9,032,174	10,152,504	10,659,000
Fiber Crops Primary	266,283	389,457	420,205	613,195	664,434	609,431
Fruit excl Melons, Total	62,085,939	56,343,834	57,272,611	52,355,994	60,843,881	58,779,850
Oil crops Primary	3,338,225	4,782,947	6,183,783	6,577,264	7,537,221	8,207,826
Pulses, Total	1,772,568	3,306,849	6,313,611	4,585,772	4,223,598	4,586,390
Roots and Tubers, Total	54,481,872	60,193,524	49,558,817	46,043,202	49,722,178	47,451,794
Tree nuts, Total	872,451	879,856	799,022	701,715	809,645	626,785
Vegetables & Melons,	45,506,753	51,165,692	51,776,884	51,512,170	57,659,315	55,361,917
Cereals, Total	169,510,551	188,831,011	188,340,712	179,961,606	216,763,977	226,939,266

Source: FAO, FAOSTAT, 2005

2.4. Trade situation of Agricultural products in Arab region

Despite the fact that the agricultural sector in many of the Arab countries is the leading in terms of its contribution in the GDP, the majority of the Arab countries import almost all kinds of food and agricultural products from all over the world. The trade gap between imports and exports is widening at a alarming rate. The total value of trade of all Arab countries with the rest of the world has been increasing during the last three decades as shown in Figure 5. However, imports were exceeding at increasing rate. Agricultural imports increased from 19 billion US\$ to 26.2 billion US\$ in 2003. Exports increased from 3 billion US\$ to 5.7 billion US\$ in 2003. The major trade partners in agricultural products are in the EU and the USA.

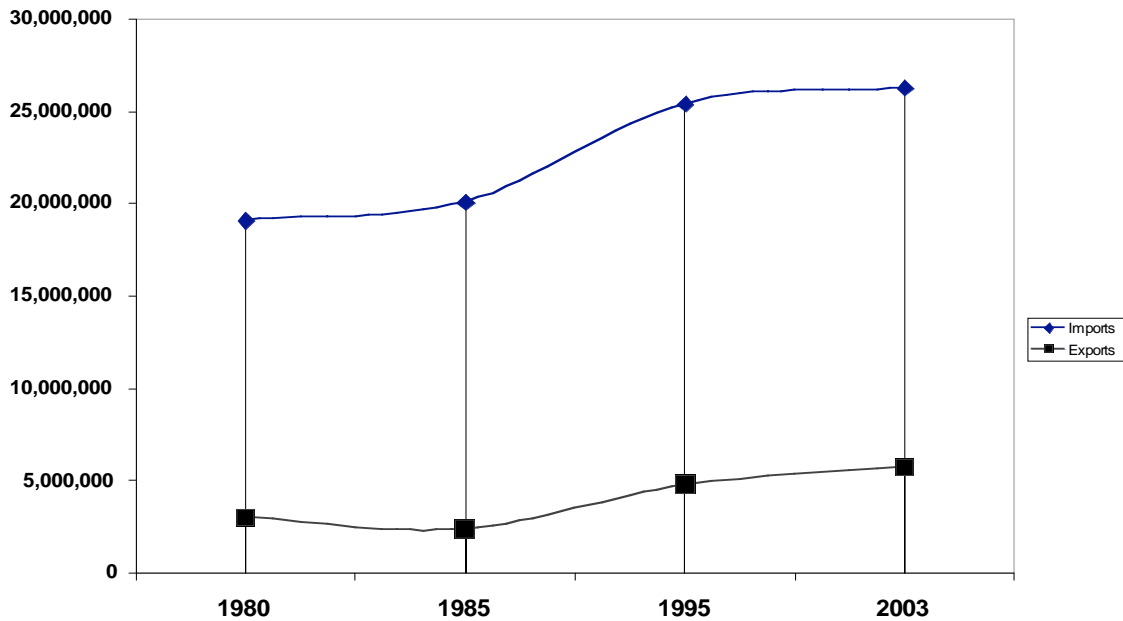


Figure 5 Imports and Exports of Total Agricultural Products in the Arab Region 1980-2003 (US\$1000)

The latest figures published by the Arab Organization for Agricultural Development (AOAD) indicate that the volume of trade between the Arab countries amounted to US\$ 5.3 billion US\$ in 1999 of which 3.0 billion US\$ and 2.3 billion US\$ are imports and exports, respectively. This means that agricultural imports from inside the Arab region represents only one fourth of the total imports. Table 3 shows the intra-Arab agricultural trade between the different Arab countries, The table shows that Saudi Arabia is the major trade partner in the Arab region followed by UAE.

The link between agricultural exports and employment in the agricultural sector is an important indicator for establishing a comparison between the two regions. Figure 6 and Figure 7 demonstrate the contribution of one laborer in the total agricultural exports over the period 1970-2002 in the EU and Arab regions, respectively. Figure 6 shows that despite the huge reduction in the total number of agricultural laborers employed in this sector, the value of agricultural exports per laborer continued to increase at an increasing rate since early seventies reaching to a record number in 2002 of US\$ 28 thousand per one laborer. While in the Arab region, the value of agricultural exports per laborer is still a fraction of the value in the EU region, despite the fact that this share was also increasing since the early seventies at a lower pace that in the EU region. The maximum value of agricultural exports per one laborer in the Arab region was attained in the year 2002 which represents only 10 percent of the value attained in the EU region for the same year.

Table 3: Value Of Intra-Arab Agricultural Trade 1999-2001 (US\$1000)

2001	2000	1999	Country
458,019	363,706	380,001	Jordan
N.A	429,295	670,637	Emirates
173,021	161,844	171,151	Bahrain
233,843	157,331	251,740	Tunisia
27,961	19,191	56,753	Algeria
N.A	N.A	1,031,647	Saudi A.
181,334	161,726	736,585	Sudan
397,557	407,105	446,570	Syria
338,740	182,516	N.A	Oman
N.A	106,389	104,009	Qatar
N.A	N.A	380,539	Kuwait
260,800	216,328	216,957	Lebanon
N.A	N.A	62,588	Libya
282,199	542,805	431,365	Egypt
53,133	92,116	86,236	Morocco
N.A	N.A	N.A	Mauritania
228,200	263,748	243,732	Yemen
2,634,807*	3,104,100 *	5,270,510	Total

* Value doesn't include Saudi Arabia, Kuwait, Libya and Mauritania

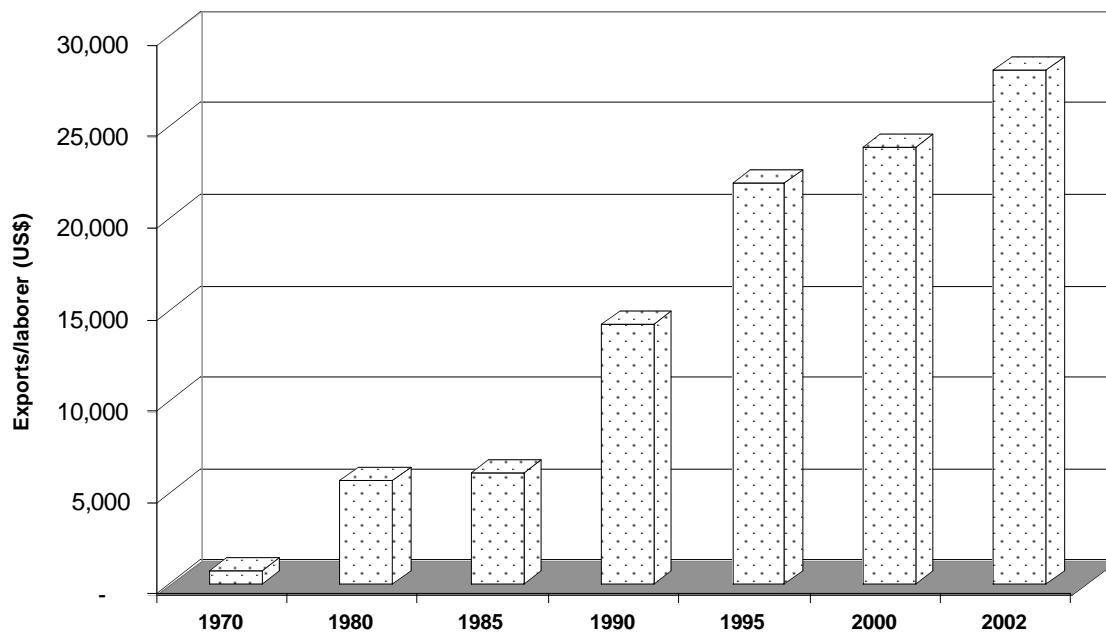


Figure 6 The share of agricultural exports per laborer in the EU region (US\$/laborer)

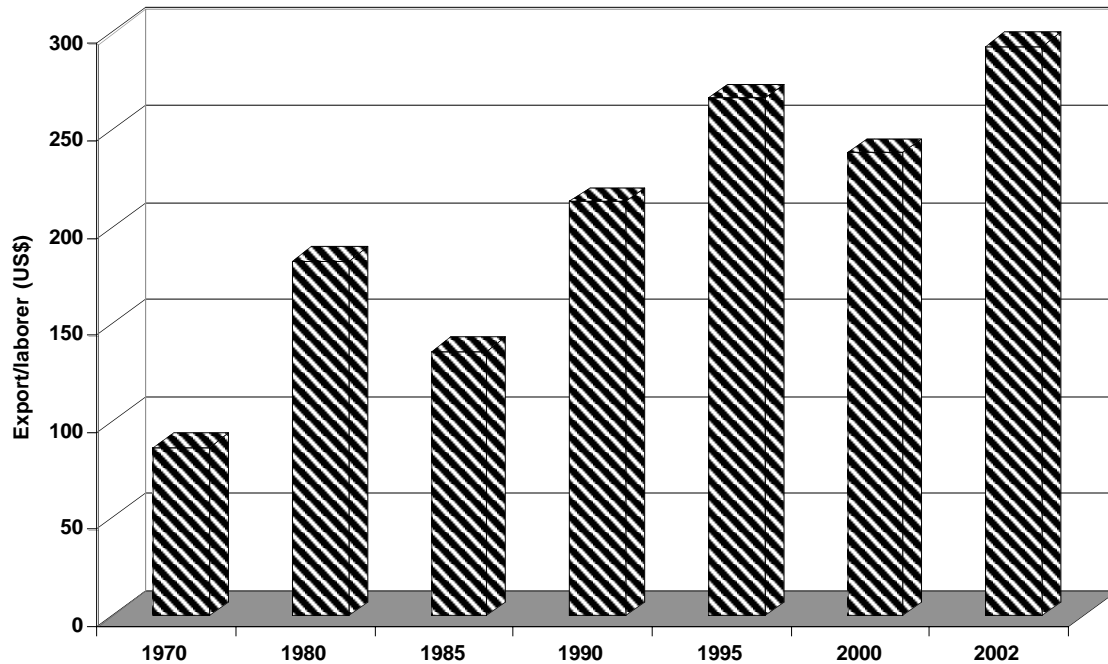


Figure 7 The share of agricultural exports per laborer in the Arab region (US\$/laborer)

2.5. Trade situation of Agricultural products in EU region

The EU is one of the major traders of food and agricultural products in the world. The EU agricultural policies that were geared toward increasing food and agricultural production to achieve self-sufficiency in the EU region, resulted in production surpluses of many food items such as cereals. Despite the tremendous increase in imports of agricultural products, exports have also increased in the same pattern. The harmonized increase between exports and imports resulted in minimizing the trade gap of agricultural and food products as shown in Figure 8. The figure shows clearly the impact of the CAP especially after mid eighties.

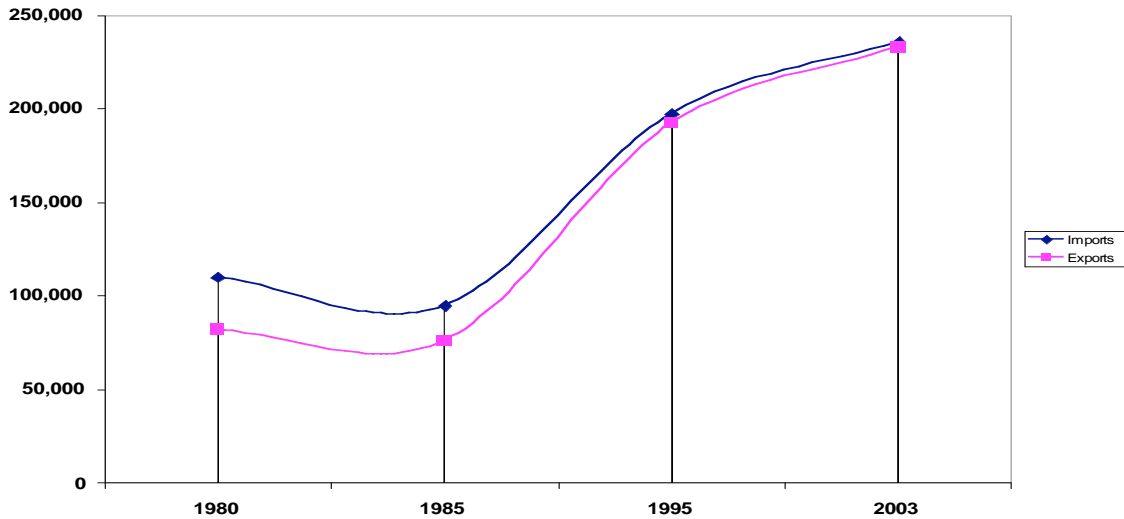


Figure 8 EU agricultural imports and exports in million US\$ (1980-2003)

Intra-trade is an important indicator of market integration in any free trade area. Intra trade of agricultural products is an important component in EU trade. The integration of the EU markets allowed for huge free movement of agricultural products as indicated in Figure 9. The figure shows that there was a continuous increase in all kinds of agricultural products trade during the last fifteen years. It is very clear from the graph that the EU trade of agricultural products depends on the intra-markets more than the external markets. The volume of intra-trade presented here represent the volume of the 15 European countries. This means that the enlargement of the Union which now includes 25 states has resulted in additional intra-trade of agricultural products.

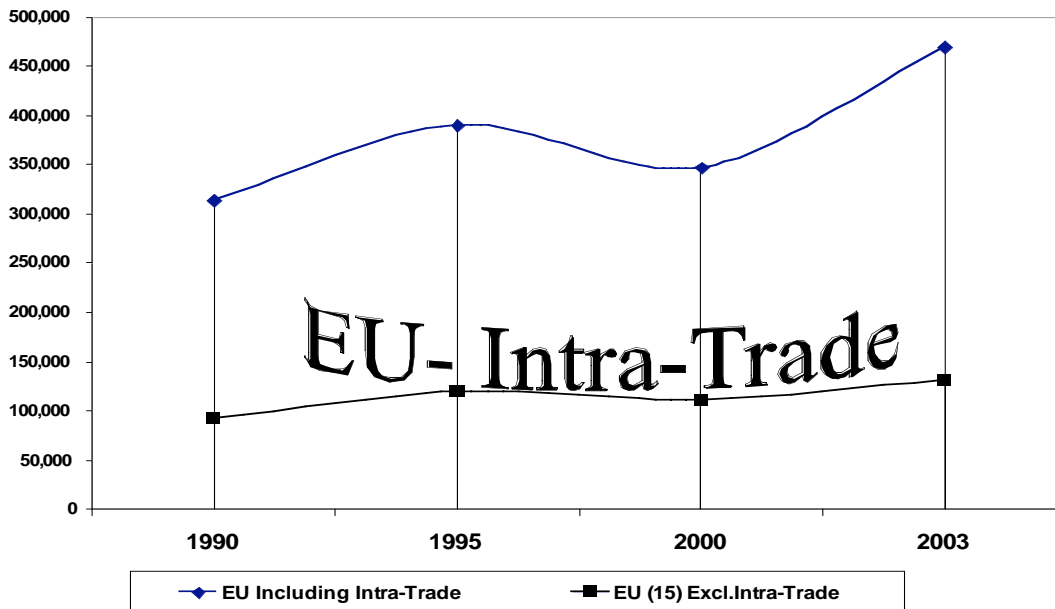


Figure 9 Total EU trade in Agricultural Products Including and Excluding Intra-Trade (1990-2003) in (million US\$)

2.6. Comparison of Extra and Intra trade of agricultural commodities between the Arab and the EU countries

To conduct a fair comparison between the EU and the Arab countries, one of the approaches is to use the per capita trade as an indicator. Two kinds of comparison are conducted here: 1) Comparing the per capita traded agricultural products “including intra-trade” and 2) comparing the per capita traded products “excluding intra-trade”. The indicator of the intra-trade demonstrates the interdependence of the countries in a specified region, as in the cases of the Arab and in the EU region. This indicator shows also the level of dependence of the region on other partners outside the region as in the case of Extra trade. Several factors affects the flow of intra-trade among the nations in a specified region including: 1) trade regulations; 2) the level of integration; 3) level of support provided to producers and exporters; 4) the complementarities between the countries in the region; 5) trade agreements especially agricultural calendars; as well as many other direct and indirect factors.

The growth rate of population in the Arab region was one of the world’s highest rates. The population of the Arab countries increased from 173 million in 1985 to 270 million in 2003 which means that the Arab population increased by about 55% during this period. In the other hand, the population of the 15 - EU countries also increased at a slower pace over the same period by 6 percent, from 358 million in 1985 million to 380 million in the year 2003. Population figures during this period are used to estimate the per capita traded agricultural products and the per capita trade gap between exports and imports in the two region.

Figure 6 indicates that the per capita trade gap in agricultural products in the Arab region has not improved over the last 25 years. The gap continued to be huge despite the efforts of the Arab government to boost agricultural production. However, the high growth rate seems to be the major reason for the continuous gape in trade and this gap is likely to widen if the current conditions continue to prevail in the coming years. On the contrary, the EU per capita trade gap narrowed shapely during the same period from 79 kg/capita in 1980 to about only 8 kg/capita in 2003. Two main reasons could be behind this achievement: 1) the low population growth rate during the same period (6%) and 2) the tremendous increase in the agricultural production as a result of the EU – CAP.

A comparison between the intra-trade indictors in the Arab region and the EU region, reveals that the intra-Arab trade volume is very weak as compared with the intra-trade volume figures among the EU countries. Many reasons underlying this weaknesses in the Arab region that hamper its ability to adjust to global change and meet the new challenges of in the international economic environment. The main reasons can be summarized as follows:

- The existence of many economic structural problems such as the high dependence of many Arab countries on the rents of natural resources base, mainly oil and minerals. This limits the diversity of traded agricultural products in terms of number of exchanged agricultural commodities that produced in the Arab countries;
- High competition in the Arab domestic markets by cheap imported products from outside the Arab region especially processed agricultural and food products which also affects the balance of payments of even the richest countries;
- The main focus of investment programs, especially during the last three decades, was on investment in large public projects that were often unproductive and left the economy with large maintenance costs;
- Government bureaucracies and overlapping duties of the different departments related to trade movement across the borders of the Arab countries;
- Absence of common agricultural policies among the different Arab countries and the existence of different forms of support structures in terms of subsidies directed to inputs and outputs.
- Weak and fragmented private sector in the different export sector including agriculture. Sustainable competitive advantage is well established in a well developed linked clusters.
- Lack of funding for technology and export oriented companies.

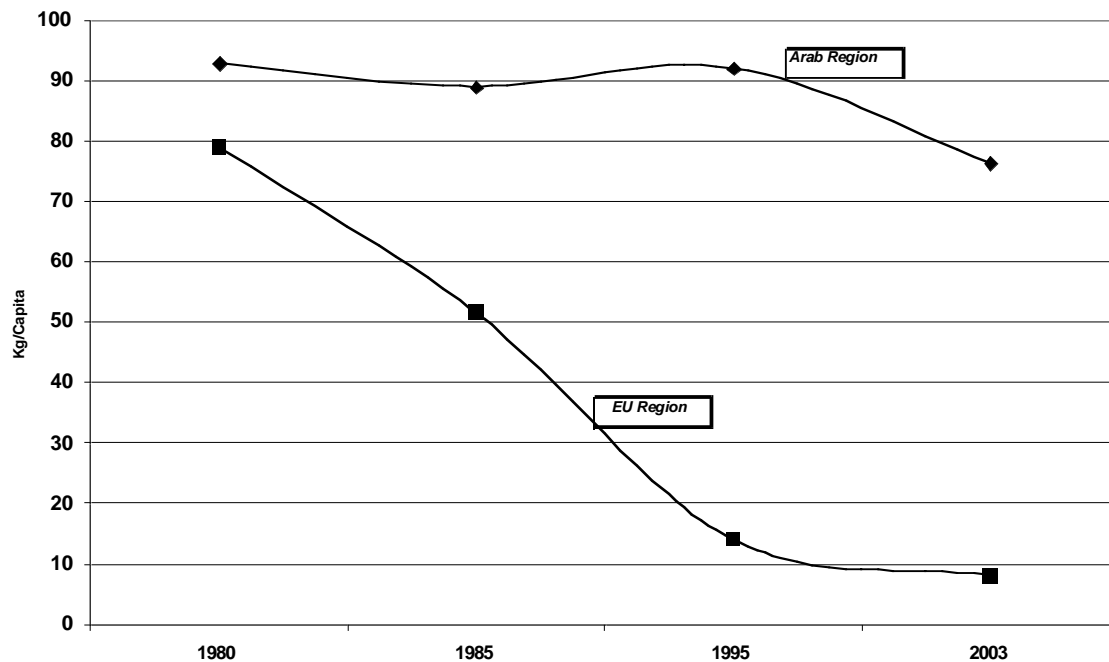


Figure 10: Trade gap in Agricultural Products in the Arab Region VS the EU Region (1980-2003)

3. Analysis of institutions, organizations, and policies that are relevant to the agricultural Sector in the Arab region

In this part of the report, an analysis is conducted for the institutions (laws and regulations), organizations, and policies that are relevant where the EU experience is presented and compared to the Arab Region case. The pros and cons of the different issues whether in the EU or the Arab region should be discussed and compared.

Reviewing the available literature of all attempts of cooperation, alliances or integration among Arab countries in the last four decades one can conclude that big projects always born at the beginning but later, very little or nothing was left at the end. Different types of projects for integration were devised in different forms such as the funds that were established by most of the oil producing countries in the Arabian Gulf and the institutions that were established by the League of Arab states. Many of these projects targeted the economic development in the Arab region through providing financing and technical assistance to wide varieties of development projects covering all sector including the agricultural sector. The following brief analytical review sheds the light on some of these projects that aimed at establishing an economic integration in the Arab region including the direct and indirect links to the agricultural sector. Many, if not all, of the reviewed institutions and organizations are responsible for devising and implementing necessary policies that are supposed to facilitate the economic integration of the Arab countries through funding, technical assistance, building capacity, economic cooperation, ...etc.

Some of the following institutions aim at promoting integration among the Arab countries through establishing joint projects and benefiting from the experience of each other such as those established by the Arab Organization for Agricultural Development, the Arab Authority for Agricultural Investment and Development, Arab Center for the Studies of Arid Zones and Dry Lands, and International Center For Agricultural Research in The Dry Areas.

The brief review covers the following institutions and organization:

- The Arab fund for economic and social development (AFESD)
- Kuwait Fund for Arab Economic Development (KFAED)
- Saudi Fund for Development (SFD)
- Council of Arab Economic Unity (CAEU)
- Arab Center for the Studies of Arid Zones and Dry Lands (ACSAD)
- Arab Organization for Agricultural Development (AOAD)
- The Arab Authority for Agricultural Investment and Development (AAAID)
- Organization of Islamic Conference
- Agricultural Food Marketing Association for the Near East and North Africa
- Regional Centre for Agrarian Reform and Rural Development for the Near East
- Centre For Environment and Development for the Arab Region and Europe
- General Union Of Chambers Of Commerce, Industry And Agriculture For Arab Countries

- International Center For Agricultural Research In The Dry Areas (ICARDA)
- Near East-North Africa Regional Agricultural Credit Association

There are tens of governmental, nongovernmental and international institutions and organization related to Arab integration issues in the Arab region. However, the following section contains a brief preview of the main and active organizations and institutions related directly and indirectly to the integration of the agricultural sectors in the Arab region.

3.1. The Arab fund for economic and social development (AFESD)

The Arab Fund for Economic and Social Development (AFESD) is an autonomous regional Pan-Arab development finance organization. The membership of the fund is consisted of all Arab countries who are members of the Arab League. The Fund was established in 1968 by an adopted agreement by the Economic and Social Council of the League of Arab States.

The intended role of establishing the AFESD as an independent Arab regional financial institution is to be an effective tool for achieving Arab economic integration. The main function of AFESD is to assist the economic and social development of Arab countries through: 1) financing development projects, with preference given to overall Arab development and to joint Arab projects; 2) encouraging the investment of private and public funds in Arab projects; and 3) providing technical assistance services for Arab economic and social development. In 1997, the mandate of AFESD was amended in order to improve the contribution to the financing of economic and social development in the Arab region through establishing additional funds and expand the given loans to additional categories of development projects. The AFESD resources that consists of paid-up capital and reserves amounted in December 2005 to KD 2,170 million (KD 1.0 = US\$3.3) while the cumulative loan disbursements amounted to KD 2,723 million.

As a productive sector, the agriculture and rural development received a good attention from AFSED. During the period 1974-2003, the agricultural and rural development projects received a total amount of KD 886 million representing about one fifth of the total loan commitments by the Fund. The disbursed loans covered almost all countries of the Arab region.

3.2. Kuwait Fund for Arab Economic Development (KFAED)

The Kuwait Fund for Arab Economic Development was established in 1961 as the State of Kuwait's agency for the provision and administration of financial and technical assistance to the developing countries. The Fund was originally established with a capital of KD 50 million, increased to KD 200 million in 1966, KD 1000 million in 1974 and to KD 2000 million in 1981. The KFAED has so far extended development assistance to 86 developing countries.

The original mandate of the Fund confined its assistance to the Arab states but in 1974 the scope of the fund was expanded to include the rest of the developing world. The capital of the fund was increased to reach to KD 2000 million. At the end of 2004, the total disbursed loans reached a sum of KD 2,783 million.

The activities of the KFAED covered almost all development sectors in all Arab countries. The agricultural sector received also a good attention from the Fund. The sector received a sum of KD 338 million in loans representing about 19 percent of total disbursed loans by the Fund covering many agricultural development projects in the region.

Its activities include the provision of loans, guarantees and grants; technical assistance services; participation in the capital of other development institutions; and representing the State of Kuwait in regional and international organizations.

3.3. Saudi Fund for Development (SFD)

The Saudi Fund for Development was established in 1974 and commenced operations in 1975. As in the case of the other funds that were established by the OPEC countries, the basic objectives of the Fund are to participate in financing of development projects in developing countries through granting of loans to said countries, and to encourage national non-crude-oil exports by providing financing and insurance in support of such exports.

The SFD extended loans to many countries in the Arab region as well as other developing countries. The agricultural sector has also received a reasonable attention by this fund through extending about 19 percent of the loans to agricultural projects during the period 1974-2003. The total number of funded agricultural projects reached 71 projects funded with SR 4,540 million.

3.4. Council of Arab Economic Unity (CAEU)

The CAEU is one of the key organizations that was supposed to play a significant role in the economic integration of the Arab region. The council was founded in 1964 to implement the Arab Economic Unity Agreement (AEUA) that was ratified by 12 Countries of the Arab League: Egypt , Iraq , Jordan , Kuwait , Libya , Mauritania , Palestine , Somalia , Sudan , Syria and the two Yemenis. The main functions of the Council as specified in the provision of AEUA include ensuring the 1) freedom of movements of individuals and capital; 2) freedom of exchange of domestic and foreign goods; 3) Freedom of residence , work employment , and practicing economic activities; 4) freedom of transport , transit , and civil airport facilities; and 5) freedom of ownership, bequeath and inheritance

The fundamental objective of the CAEU is to achieve complete economic unity among the member states. Other objectives of the Council include: 1) to formulate regulations , legislations , and tariffs , aiming at the creation of a unified Arab custom area; 2) to co-ordinate foreign trade policies with a view to ensuring the co-ordination of the region's economy vis-à-vis world economy; 3) to co-ordinate economic development and formulate programs for the attainment of joint Arab development project; 4) to co-ordinate policies related to agriculture , industry , and internal trade; 5) to co-ordinate financial and monetary policies with the aim of achieving monetary unity; 6) to co-ordinate legislations for taxes and duties; 7) to formulate unified regulations for transport and transit in the contracting countries; 8) to draft common legislations on labor and social security; 9) to prepare a budget for the CAEU council and its affiliated bodies.

Agriculture was one of the economic sectors that is covered in the mandate of the Council. According to the secretariat of the CAEU, many important achievements have been concluded in the different areas. However, those achievements related to the agricultural sector may include:

- Creation of the Arab common Market in 1964 , for liberating trade of national products from custom duties and other financial , administrative and quantitative restrictions;
- Participation in the establishment of the Arab monetary fund;
- Participating in the establishment of the Arab Organization for Investment guarantee;
- Adopting the following agreements:
 - Agreement on capital investment and movement in Arab States;
 - Agreement on settlement of the disputes of investment between Arab States;
 - Agreement of mobility of labor among the members of CAEU;
 - Sharing the creation of transit agreement;
- Establishment of the following joint Arab ventures:
 - Arab company for livestock Development (Damascus);
 - Arab company for industrialization
- Creation of the following specialized Arab Federations and unions:
 - Arab Businessmen confederation;
 - Arab Distributors Union;
 - Arab Federation for Food Industries;
 - Arab Federation For Leather Industries;
 - Arab federation of chamber of shipping;
 - Arab federation of shipping;
 - Arab Investors Union;
 - Arab Union Of Information Technology;
 - Arab Union Of Land Transport;
 - General Union Of Arab peasants And Agricultural Co-Operatives;
 - The Arab Fertilizer association;
 - The Arab Union Of Fish Producers;

- Union of Arab Co-operatives Federation

3.5. Arab Center for the Studies of Arid Zones and Dry Lands (ACSAD)

Since many of the Arab countries are considered arid or semi-arid, a specialized center was established to cover research issues related to agriculture in the dry lands. The Arab Center for the Studies of Arid Zones and Dry Lands (ACSAD) was established in Damascus by the Council of League of Arab States in 1971. ACSAD consists of national organizations from the following 16 members: Algeria, Egypt, Iraq, Jordan, Lebanon, Libyan Arab Jamahiriya, Mauritania, Morocco, Oman, Palestine, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia and Yemen. ACSAD is financed by contributions from these members and by grants from Arab and international organizations.

The main goal of the center is to assist Arab countries in the following areas: 1) promoting scientific and applied research with regard to the problems of aridity in the Arab region and ; 2) Raising the standard of living of producers in arid regions by increasing both the quantity and the quality of food crops;

3.6. Arab Organization for Agricultural Development (Khartoum)

The Arab Organization for Agricultural Development (AOAD) is a specialized agency in agricultural issues that covers all fields of agricultural including: 1) development of food production; 2) development of natural resources and environmental protection; 3) development of technologies and institutional capacity building; 4) agricultural surveys and statistics; 5) monitoring economic variables and agricultural policies analysis; 5) cooperation and coordination with institutions and organizations in the Arab region; 6) facilitating the exchange of agricultural products between the Arab States and countries; (7) enhancing the establishment of agricultural ventures and industries; and (8) increasing the standards of living of the labor force engaged in the agricultural sector.

AOAD was established by the Council of League of Arab States in 1970. It is consisted of 21 member states: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen.

The AOAD maintains also several centers and institutes related to the agricultural sector and spread over the Arab region for enhancing the cooperation in the different field of agricultural. These institutions and center include: 1) Arab Institute for Forestry and Range (AIFR); 2) Arab Centre for Information and Early Warning; 3) Arab Centre for Agricultural Documentation (ACADI); and 4) Arab Centre for Consultancy and Agricultural Projects.

3.7. The Arab Authority for Agricultural Investment and Development (AAAID)

(AAAID) was established in 1976 with its legal entity as an independent financial agricultural investment institution, where twelve Arab states signed the legal documents of association. The Agreement of Establishment and the Statute came into force on March 22nd 1977, and the first meeting of the Board of Shareholders was held in Kuwait in the same year. Other 7 Arab states joined AAAID later, whereby the total number of shareholder states reached 19 states. The main objectives of this organization are: 1) Development of agricultural resources in member states; 2) Producing the maximum possible amounts of food Products; and 3) Increase the exchange of agricultural products and inputs between Arab Countries.

The Arab Authority is involved in many investment activities related to animal and plant production, agricultural services, processing, and inter-Arab financing.

3.8. Agricultural Food Marketing Association for the Near East and North Africa (AFMANENA)

The Agricultural Food Marketing Association for the Near East and North Africa (AFMANENA) is a regional organization that was established in 1988 with the support of the United Nations Food and Agricultural Organization (FAO). AFMANENA is located in Amman and consisted of 10 member States, namely, Algeria, Egypt, Iraq, Jordan, Lebanon, Libyan Arab Jamahiriya, Morocco, Sudan, Syrian Arab Republic and Yemen. This organization aims at assisting the member countries in : 1) Achieving sustainable agricultural production with the technical support from developing countries both within and outside the region; 2) ensuring adequate stocks of essential crops through the development of agriculture and improvements in food marketing; 3) Promoting, enhancing and coordinating technical and economic ties between members; and 4) developing and strengthening relations with regional and international agricultural organizations.

3.9. Regional Centre for Agrarian Reform and Rural Development for the Near East (CARDNE)

Another regional organization concerned with the regional agricultural integration is the Regional Centre for Agrarian Reform and Rural Development for the Near East (CARDNE). This center is located in Amman and was established in 1983 and became operational in 1987. It was created with the support of FAO in response to the Declaration of Principles and Programs of Action that was adopted by the World Conference on Agrarian Reform and Rural Development in 1981.

CARDNE is an independent, intergovernmental organization. Its members include: Egypt, Iraq, Jordan, Lebanon, Palestine, Sudan, Syrian Arab Republic, Tunisia and Yemen. The objectives of the Centre are: 1) to establish a network of local institutions

designated by member States with the aim of improving production, income and living conditions of small farmers and needy groups in rural areas; 2) to provide member States with technical assistance and consultancy services in the field of agricultural reform and rural development; 3) To encourage the exchange of ideas and experiences.

3.10. General Union Of Chambers Of Commerce, Industry And Agriculture For Arab Countries (GUCCIAAC)

Chambers of commerce are another tools that were established to enhance economic integration in the different fields. As a nongovernmental institution, the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries (GUCCIAAC) was one of the early established organization in 1951. GUCCIAAC is located in Beirut and it represents the Arab private sector on the regional and international levels.

The purpose for establishing GUCCIAAC was to improve economic development in the region following a growing awareness for the need to pool Arab economic resources and markets. Through highlighting the role of the private sector in the Arab region, the Union is aiming at strengthening the economic integration and development in the Arab region through synchronizing socio-economic plans and policies, especially those related to trade. The other goals of the Union include: 1) Presenting a forum for Arab businessmen to reflect their views and submit their recommendations to Arab Governments with regard to economic cooperation and integration; 2) to improve the investment environment in the region by focusing on opportunities for Arab joint projects; 3) to represent the private sector in the Arab Free Trade Area Scheme, which is sponsored by the Economic and Social Council of League of Arab States; and 4) to organize specialized seminars and workshops on various subjects of interest to the business community.

3.11. International Center For Agricultural Research In The Dry Areas (Aleppo, Syrian Arab Republic)

International organization also play an important role in enhancing integration in the agricultural sector among the countries in the region. One of the important organization that was established in 1977 in Aleppo- Syria is the International Center for Agricultural Research in the Dry Areas (ICARDA). This center is one of 18 non-profit research and training centers that are supported by the Consultative Group on International Agricultural Research (CGIAR).

The center was established to assist the developing countries, including the Arab region, in fostering sound water management programs in arid regions and in improving the yields of barley, lentils and broad beans. The other objectives of ICARDA include: 1) to improve the welfare of agricultural workers through research; 2) to promote technology transfer activities in among the countries of the region; 3) to strengthen research through implementation of a large number of on-farm trials

involving researchers and farmers; and 4) To improve and integrate the management of soil, water, nutrients, plants and animals in ways that optimize sustainable agricultural production.

3.12. Near East-North Africa Regional Agricultural Credit Association (NENARACA)

As in the case of AFMANENA and CARDNE, the FAO helped in establishing the Near East-North Africa Regional Agricultural Credit Association (NENARACA) in Amman. The Association was established in 1977. It was formed in response to the World Conference on Credit for Farmers in Developing Countries, organized by FAO in 1975, which called for the introduction of Regional Credit Associations (RACAs). NENARACA is a voluntary association consisted of credit institutions and agencies that deal directly or indirectly with agricultural credit operations and development. All Arab states are members in this association in addition to Afghanistan, Cyprus, Iran, Pakistan and Turkey.

The objective of the Association include: 1) assisting members in the field of agricultural credit with training and exchange programs; 2) developing plant and animal production by providing financial and technical assistance; 3) implementing programs that help in improve the living standards in rural areas; 4) to cooperate with member States establishing needed agricultural infrastructure; 5) to establish companies for the production and storage of seeds, transportation, communication and tourism.

4. Bilateral Free Trade Agreements in the Arab Region

A number of Arab Countries have signed a new generation of bilateral free trade agreements following the establishment of the Great Arab Free Trade Area (GAFTA) in 1997. According to article 9 of the establishment measures included in the announcement of the agreement, GAFTA encouraged the signing members to conclude bilateral trade agreements even before the full conclusion of the agreement that was expected to take place in 2007 although import duties among GAFTA countries were fully eliminated on January 1, 2005.

Under GAFTA almost all the Arab countries concluded trade agreements between them for instance Lebanon has signed a number of free trade agreements with Arab countries. Lebanon has signed a number of bilateral free trade agreements with Arab countries to expedite trade integration which include Syria (effective 1999), Egypt (effective 1999), Kuwait (effective 2000), UAE (effective 2001), and Iraq (effective 2002).

Jordan has also signed more that 16 bilateral trade agreement with many Arab countries in the Mashraq and Magreb regions as well as with the countries of Gulf Cooperation Council. Some of these bilateral agreement were signed with Sudan (2003), Algeria

(1997), Tunisia (1998), Yemen (1995), Morocco (1998), UAE (2001), Libya (1992), Lebanon (1992), Palestine (1997).

Egypt has also concluded several bilateral trade agreements following the adoption of GAFTA. The Egypt-Tunisia FTA was completed in 1998. A positive and negative list approach to phasing out tariffs and other import charges was pursued, and a three-tier liberalization scheme was adopted. Another bilateral trade agreement was concluded between Egypt-Morocco in 1998. Egypt has also concluded an FTA with Lebanon in 1999 that aimed at achieving bilateral trade liberalization within the framework of GAFTA but in a more 'expeditious way".

The signed bilateral FTA among the different Arab countries aim at encouraging and promoting greater Arab economic integration and coordination which could be considered as means to reach the full economic integration. Consequently, to achieve this integration, it is a must that Arab countries should raise productivity in almost all sectors; improve competitiveness in the international arena; build efficient and sustainable structures and institutions; raise the overall standard of living of the population at large; and protect their value and specificity.

5. Analysis of institutions, organizations, and policies that are relevant to Agricultural Sector in the EU region

Several institutions, organizations and policies have been shaping the agricultural sector in the EU region over the last few decades.

5.1. EU institutions and Organizations

The main institutions involved in the agricultural sector at the EU level are:

5.1.1. The European Union Commission

The European Commission (formally the Commission of the European Communities) is the executive of the European Union. Its primary roles are to propose and enact legislation, and to act as 'guardian of the treaties' which provide the legal basis for the EU. The role of the European Commission has some parallels with the executive body of a national government, but also differs in some ways. The commission is consisted of 25 commissioners one from each member state of the EU, supported with administrative staff of several thousands. Each commissioner takes the responsibility of a particular area of policy. The Commission differs from other institutions in the EU system through its "power of initiative". This means that only the Commission has the authority to initiate legislation in the areas known as the "first pillar" (a category which includes most areas of policy).

The big issues facing the EU commission are: Agriculture and food, the EU enlargement and trade.

5.1.2. The Council of European Union Commission

The "Council of the European Union" forms, along with the European Parliament, the legislative arm of the EU. It contains ministers of the governments of each of the European Union member states. The Council of the European Union is sometimes referred to in official European Union documents simply as the Council, and it is often informally referred to as the "Council of Ministers.

The Council has a President and a Secretary-General. The President of the Council is the Foreign Minister of the state currently holding the Presidency of the Council of the European Union. The Secretary-General is a civil servant, the head of the Council Secretariat. The Secretary-General also serves as the High Representative for the Common Foreign and Security Policy. The Council is assisted by COREPER, which consists of representatives of the member-state at the level of diplomats or high-level civil servants. COREPER generally prepares the Council agenda, and negotiates minor and non-controversial matters, leaving controversial issues for discussion by the Council.

Legally speaking, the Council is a single entity, but it is in practice divided into several different councils, each dealing with a different functional area. Each council is attended by a different type of minister. Thus, for example, meetings of the Council in its Agriculture and Fisheries formation are attended by the agriculture ministers of each member state. There are currently nine formations including agriculture and fisheries which is one of the oldest configurations, this brings together once a month the ministers for agriculture and fisheries, and the commissioners responsible for agriculture, fisheries, food safety, veterinary questions and public health matters. Another formation linked to trade issues is the competitiveness which was created in June 2002 through the merging of three previous configurations (Internal Market, Industry and Research). Depending on the items on the agenda, this formation is composed of ministers responsible for areas such as European affairs, industry and scientific research.

5.1.3. The European Parliament

The European Parliament is the parliamentary body of the European Union which is directly elected by EU citizens once every five years. Together with the "Council of the European Union", it comprises the legislative branch of the institutions of the Union. It meets in two locations: Brussels and Strasbourg.

The European Parliament cannot initiate legislation, but it can amend or veto it in many policy areas. In certain other policy areas, it has the right only to be consulted. Parliament also supervises the European Commission, must approve all appointments to it, and can dismiss it with a vote of censure. It also has the right to control the EU budget.

The European Parliament represents around 450 million citizens of the European Union. Its members are known as “Members of the European Parliament (MEPs)”. Since June 2004, there have been 732 MEPs. Elections occur once in every five years, on the basis of universal adult suffrage.

It is conventional for countries acceding to the European Union to send a number of observers to Parliament in advance. The number of observers and their method of appointment (usually by national parliaments) is laid down in the joining countries' Treaties of Accession.

Observers may attend debates and take part by invitation, but they may not vote or exercise other official duties. When the countries then become full member states, these observers become full MEPs for the interim period between accession and the next European elections.

The Parliament deals with laws and policy issues. Once a proposal for an EU law or EU directive has been introduced by the Commission, it must usually receive the approval of both Parliament and Council in order to come into force. The fact that the European Parliament cannot itself propose laws makes it different from most national legislative assemblies. The Parliament may amend and block legislation in those policy areas that fall under the co-decision procedure, that currently make up about three quarters of EU legislative acts. Remaining policy areas fall under either the “consultation procedure”.

The European Parliament has a number of organs, governing bodies and many committees, and a number of delegations from external bodies. The three committees that are related to agricultural internal affairs are:

- Committee on the Environment, Public Health and Food Safety;
- Committee on Agriculture and Rural Development; and
- Committee on Fisheries

5.1.4. European Investment Bank (EIB)

The main job of the European Investment Bank, the European Union's financing institution, is to be an important factor towards the integration, balanced development and economic and social cohesion of the Member Countries.

At the EU level, the EIB raises substantial volumes of funds which it directs on the most favorable terms towards financing capital projects according with the objectives of the Union. Outside the Union the EIB implements the financial components of agreements concluded under European development aid and cooperation policies.

Agriculture and rural development is one of the area that received funding at both EU level and outside the Union. Several loans were awarded in the area of agricultural and rural development. The EIB is one of the world's largest borrowers on international

capital markets that offers a variety of products to investors, ranging from large, liquid benchmarks to investor specific, tailor-made issues.

5.1.5. European Food Safety Authority (EFSA)

The European Food Safety Authority (EFSA) is the foundation of EU risk assessment regarding food and feed safety. In close collaboration with national authorities and in open consultation with its stakeholders, EFSA provides independent scientific advice and clear communication on existing and emerging risks. EFSA is made up of four distinct bodies: 1) the Management Board; 2) the Executive Director and staff; 3) the Advisory Forum; and 4) the Scientific Committee and Panels.

The EFSA Management Board comprises 14 members, appointed from across the European Union, and in addition a representative of the European Commission. Its main role is to ensure that EFSA functions well and efficiently. It therefore adopts, on proposals from the Executive Director, the draft budget and work programs, monitors their implementation, and approves internal rules and regulations. It also appoints the Executive Director and members of the Scientific Committee and Panels.

The Executive Director, is the legal representative of the Authority. He is in charge of day-to-day management and is responsible for all staff matters. The post is for five years, renewable, and is answerable to the Management Board. It was filled on the basis of a list of candidates proposed by the European Commission after an open competition and confirmed following a hearing in the European Parliament. Assisting the Executive Director is the EFSA Management Team.

The Advisory Forum , EFSA's consultative body, also assists the Executive Director and advises on scientific matters, priorities and the work program. It is an important forum for exchange on risk assessment and food and feed safety issues, including assistance in the identification of emerging issues. The Forum may also resolve contentious scientific disputes through discussion. Its members, one per Member State and - from May 2004 - the 10 new Member States, come from national bodies that play a similar role to that of the Authority.

EFSA's risk assessments and other scientific work are undertaken by its Scientific Committee and eight scientific Panels , each responsible for a different aspect of food and feed safety . The scientific work is also supported by external Scientific Expert Working Groups, each specializing in a specific subject.

5.2. EU Policies related to agricultural sector

Agriculture is a pivotal issue to the EU people and governments. The agricultural lobbying and pressure groups are the most influential at the policy making level. Several major questions are raised by the communities across the EU: What is the future of agriculture and food in Europe? How can EU policy enhance economic, environmental and social sustainability in agriculture? What does food quality mean and how does quality relate to price?

A recent Commission survey showed that as a top priority, the EU citizens expect from what is known as “the Common Agricultural Policy (CAP)” to ensure that agricultural products are healthy and safe, promote the respect of the environment, protect medium or small sized farms and help farmers to adapt their production to consumer expectations.

The EU community foresees the farm sector to be accustomed with the environment and animal welfare. The majority believes that there is a need to develop an even more sustainable farm and food sector for the future. Sustainable agriculture in Europe is foreseen as the means of ensuring that future generations can enjoy the benefits of Europe's unique environmental heritage and natural resources. However, achieving sustainability, implies encountering three challenges:

- An economic challenge that can be achieved through strengthening the viability and competitiveness of the agricultural sector;
- A social challenge that can be attained by improving the living conditions and economic opportunities in rural areas; and
- An environmental challenge which can only be reached through promoting good environmental practices as well as the provision of services linked to the maintenance of habitats, biodiversity and landscape.
- Sustainable agricultural production must also reflect the concerns of consumers, particularly as regards quality, safety and traditional/organic production methods.

Several policy areas related to the agricultural sector are currently of major concern by the EU, namely: 1) Agricultural markets; 2) Rural development; 3) Agriculture and environment; 4) Forestry measures; 5) Organic farming; 6) Quality policy; 7) Promotional measures; 8) Financing the CAP; and 9) State aid.

5.3. The Common Agricultural Policy (CAP)

The enlargement process is expected to bring more policy and structural changes to both the new accessioned countries and the old members of the EU. This section sheds the light on the main policy that shaped the agricultural sector in the EU (the Common Agricultural Policy (CAP)) and the other instruments that were applied by the EU to facilitate the integration of the new states in the Union.

The CAP was among the first most detailed policies developed in the EU to regulate the agricultural sector. The CAP is considered as one of the most important policies ever

adopted by the EU. This is rationalized because of its cost of the EU budget, the huge number of people affected and the extent of the impacted geographical area across the continent. At present, the importance of the CAP stems from the fact that it is directly related to the two key areas related to European integration,; 1) the Economic and Monetary Union (EMU) and 2) the Single Market.

The history of the CAP is back to the early 1960s. It was based on the Treaty of Rome which concentrated on encouraging better productivity in the food chain for food security reasons and to ensure that the EU had a viable agricultural sector and that consumers had a stable supply of affordable food.

The main policy instruments that was implemented to achieve the objectives of the CAP were subsidies and guaranteed prices to farmers that were used to provide incentives for farmer to increase agricultural production of several crop and livestock products.

Starting in the mid sixties and throughout the 1970s, the CAP developed and financial assistance was provided for the restructuring of farming in terms of supporting farm investment that was targeted towards ensuring that farms are developed in size and in management and technology skills so that they were adapted to the economic and social climate of the day.

From the point of view of the European community, the CAP was very successful in achieving its objectives. However during the 1980s, the EU was challenges with almost permanent surpluses of the major farm products, some of which were exported (with the help of subsidies), others of which had to be stored or disposed of within the EU.

The adopted policy instruments to implement the CAP resulted in a high budgetary cost in addition to the distortion of world markets and increased the burden on farmers of other nations, especially poor farmers in South Mediterranean countries and Africa.

The CAP was subjected to some reforms in early 1992 and more reform packages were adapted to meet the needed to the enlargement. The adoption of the new reform package is expected to take place during the period 2000-2006. The new reforms were set support the changes made in 1992 and puts the emphasis on food safety, environmental objectives and sustainable agriculture. In addition, the reforms are intended to improve the competitiveness of Community agricultural products, simplify agricultural legislation and how it is implemented and strengthen the Union's position at the World Trade Organization negotiations and stabilize the huge agriculture expenditure.

The huge spending on the CAP is made through what is known as “the European Agricultural Guidance and Guarantee Fund (EAGGF)”. Pressures exerted by the international community, especially the most recent rounds of the WTO on the EU, resulted in the Agenda 2000 for the CAP reforms which brought greater clarity to CAP funding, as well as stabilizing overall CAP expenditure and allocating additional funds

for rural development measures. The reforms reshaped the agricultural expenditure within two pillars: 1) Market and income support; and 2) Rural development. The first pillar is focused on market management tools that aims at improving the competitiveness of the EU agricultural product as well as boosting product quality and sustainability through helping farmers, meeting society's requirements and better respect of standards. The second pillar focuses on rural development measures and investments in farm businesses. The provided financial assistance is intended for investments in farm businesses that improve farm incomes, living standards and the working environment of farmers. The designed investments must meet specific objectives including: 1) reducing production costs; 2) improving product quality; 3) meeting hygiene and animal welfare conditions; and 4) encouraging diversification in agricultural activities.

The most recent measures for reforming the CAP which was adopted by the EU in June 2003 covered issues related to food quality measures in which two new measures are being introduced: 1) temporary support was made available to help farmers adapt to the tough (statutory) EU standards on the environment, public, animal and plant health, animal welfare and occupational safety; and 2) financial assistance for farmers was made available to help with the costs of using farm advisory services to assess the performance of their farm business against the new cross-compliance standards being introduced.

The main difference between the Arab region and the EU countries is the existence of a common agricultural policy adopted by the member states of the EU. The common agricultural policy of the EU that is known as the CAP is one of the most controversial issues that is linked to the trade negotiations of the EU with many of its partners in the Arab World as well as many other countries in the world. As it is stated in the glossary of the EU: "The common agricultural policy is a matter reserved exclusively for the Community. Under Article 33 of the EC Treaty (former Article 39), the aims of the common agricultural policy are to ensure reasonable prices for Europe's consumers and fair incomes for farmers, in particular by establishing common agricultural market organizations and by applying the principles of single prices, financial solidarity and Community preference".

As mentioned earlier, the CAP is considered as one of the most important European Union policies especially in terms of spending from the community budget. It has been estimated that about 45 percent of the budget is spent on agricultural issues through different forms of subsidies.

Available data on agricultural production and trade shows clearly that the CAP enabled the Community to become self-sufficient in a very short time. Nevertheless, this costly achievement came on the expense of domestic European prices that were too high by comparison with world market prices.

5.4. National Programs for the Adoption of the Acquis (NPAAAs)

The importance of the EU integration stems from the fact that all the EU member states are considering their future inside an enlarged EU. The EU integration process requires harmonization of national policies and laws with the EU regulation. This implies that the candidate country should start reforming its national programs for adopting of the Acquis. The NPAA lay down in detail how the candidate country in question intends to fulfill the priorities of the Accession Partnership and to prepare for their integration into the EU. By doing so, the NPAA complements the Accession Partnership: it contains a timetable for achieving the priorities and objectives and, where possible and relevant, indicates the human and financial resources to be allocated

5.5. Financial instruments applied by the EU to accelerate agricultural integration

The EU was expanded in last year to include additional 9 countries from the EU continent in addition to Malta and the Greek part of Cyprus from the Mediterranean region. The accession of these countries was completed after years of hard restructuring their economies to meet the minimum requirements of the EU. Financial instruments have been intensively used by the EU as a part of pre-accession strategy to incorporate the new states in the Union. Some of the significant instrument to accelerate agricultural integration of the new member states are:

5.5.1. Pre-accession structural instrument (SAPARD) and (ISPA)

Many of the newly independent states in central and east Europe were suffering from lack of resources and technical experience for conversion to free-market economy. This situation assured that the pre-accession strategy of the EU cannot be achieved without recourse to the instruments of support and financial aid. The strategy was designed to meet the needs of the applicant countries. To achieve this pre-accession strategy in the agricultural sector, the European Council of Berlin decided to double pre-accession aid from the year 2000 and to create two specific instruments (SAPARD) and (ISPA).

5.5.1.1. Pre-accession agricultural aid (SAPARD)

The aim of the Special Accession Programme for Agriculture & Rural Development (SAPARD) is to help the 10 beneficiary countries of Central and Eastern Europe deal with the problems of the structural adjustment in their agricultural sectors and rural areas, as well as in the implementation of the “Acquis communautaire” concerning the CAP (Common Agricultural Policy) and related legislation. It is designed to address priorities identified in the Accession Partnerships.

In June 1999, the SAPARD was established by Council Regulation 1268/1999. Since the year 2000, pre-accession aid to agriculture has amounted to EUR 520 million a

year. It is deployed in priority fields such as the improvement of conversion structures, marketing channels and food quality control.

5.5.1.2. Pre-accession structural assistance (ISPA)

The Instrument for Structural Policies for Pre-Accession (ISPA) was established in 1999 by Council Regulation No. 1267/1999. This program was designed to address environmental and transport infrastructure priorities identified in the Accession Partnerships with the 10 applicant countries of Central and Eastern Europe. Its main aim is to accelerate Economic & Social Cohesion in terms of bringing the applicant countries closer to Community standards in the fields of environment and transport infrastructure. Since the year 2000, ISPA as a pre-accession structural instrument, has had a budget of EUR 1 040 million.

5.5.2. Phare Program

Another important financial instrument is the Phare program. The main objective of this instrument is to prepare the applicant countries for accession through focusing on the two key priorities involved in the adoption of the Community Acquis, i.e. "institution-building" (strengthening of administrative and institutional capacity of applicant countries) and financing of investment projects, which will account for 30% and 70% respectively of its budget for the applicant countries with the exception of the investments funded by the pre-accession structural and agricultural instruments.

Since the year 2000, the Phare program has been endowed with EUR 1 560 million annually. The effect of this endowment has been enhanced by reformed management methods including:

- focusing on projects on the Acquis implementation priorities programmed by the Accession Partnerships;
- improved budgetary implementation;
- major increase in the size of projects;
- continued decentralization of management to the advantage of the recipient countries.

6. Lessons learned on how to build on the EU experience for promoting the Arab Integration in agriculture

Quite a few lessons could be learned from the successful integration by the EU countries and the continues enlargement process of integrating new member states in Europe. However, before proceeding in the learned lesions on how to build on the EU experience for promoting the Arab integration within the current context taking in

consideration what is feasible and what is not while including economic and political aspects in consideration on both domestic and international levels, it is worth to review the main strengths, weaknesses, opportunities and threats (SWOT) among the Arab countries.

6.1. SWOT Analysis

Zineldin, 1998¹ conducted some SWOT analysis among Arab countries in which he identified some of the following points that can be applied to all sectors including the agricultural sector:

Strengths

- The countries of the Arab region have in common strong historical, religious, cultural, and language affinities. They have also common and unique values and moral standards;
- The region is endowed with all kinds of resources including capital, intellectual, skilled and unskilled human resources;
- Many countries have adopted the free-market system which allows for privatization and liberalization;
- In terms of agricultural strengths, the climatic variation from one country to another gives the region great comparative advantages in producing and exports almost all kinds of horticultural products;
- The total population of the Arab region exceeded 270 million in 2003, which makes it a huge market for all kinds of goods and services including agricultural and food commodities and services
- The Arab region is located on the across roads between Europe, Africa and Asia. The proximity to the rich European market gives the region excellent competitive advantages in exporting many fresh agricultural products at low transport costs.

Weaknesses

- Lack of commitment for integration among the majority of Arab countries
- Lack of technology and proper technological infrastructure
- Lack of a healthy investment environment and capital market
- Economic and political independence on Western Countries, e.g. USA and EU
- Struggle between private sector and governmental bureaucracy
- Lack of reliable statistics and professional studies
- Weak and inefficient applied science and technology

¹ Mosad Zineldin, 1998 Globalisation and economic integration among Arab countries, "The fourth Nordic conference on Middle Eastern Studies: The Middle East in globalizing world , Oslo, 13-16 August 1998

- Despite of the establishment of Arab Free Trade Area, there are still many existing non-trade barriers that inhibits intra-trade in the form of sanitary and phytosanitary regulations
- Restrictive ownership rules
- Close financial markets that limits the flow of foreign direct investments (FDI)
- The overlapping of agricultural production calendar and lack of coordination in the international markets.

Opportunities

- Effective use of resources by improving the quality of their human and capital resources
- Be strong enough to be more global competitive union
- Economic Integration and Arab Common Market
- Creating incentives for Arabs abroad to return to their lands and help their countries

Threats

- The existing economic and political blocs and globalization
- Lack of vision at both national and regional levels
- Lack of clear and well-defined banking and monetary systems and procedures
- Individualism in terms of negotiation of bilateral agreements Foreign economic blocs
- Heavy Foreign debt
- The current tension situation between Arabs and Israel
- Internal competition among Arab countries
- Fundamentalist and radical movements
- The heavy intervention of foreign sources to evaluate the region's countries economic significance

6.2. Lessons learned

Several lessons can be learned from the accumulated experience of the EU integration which started in the late forties and still evolving. The learned lessons cover a wide range of aspects in all fields including: the institutional setup of agricultural related institutions, agricultural and trade policies, rural development and farmers welfare, food safety, environmental related issues, future planning and agricultural resource allocation.

The institutional setup

Despite the claims that the institutional setup of the EU is such that there is a serious lack of democracy in its decision-making structure, the EU has achieved lots of successes in maintaining the welfare of both EU producers and consumer. The current institutional setup allows for coherence and coordination among the member states. Over the last four decades, the EU has established many functional institutions that paved the road for an effective agricultural integration and smooth enlargement in the different directions. Although several national and regional institutions were established in the Arab region to facilitate and comprehend the integration of the agricultural sectors, these institution failed to achieve any tangible success in the ground.

Standards, food safety, sanitary and phytosanatry

A major issue which is also linked to the institutional setup in the EU, is the safety of consumed food and agricultural products. The EU has established a strict standards for all kinds of food and agricultural products produced and consumed in the Union. In addition, the private sector has also initiated its own food safety measures for imported fresh products to the EU in the form of what is called European Good Agricultural Practices (EuropGAP). The GAP is a protocol that was established by a group of large chain-stores across Europe to protect human health through a long list of safety measure that the importing agents to the EU market have to practice during production and preparation stages in their own countries.

Negotiations with economic blocs (EU and USA)

The existing European Union is a fruit of long and hectic negotiations that started in the late forties among few countries in Europe and still on-going to add more new member states to Union. Over the last tens of years, the EU established solid basis for negotiations with other partners (either single countries, organizations or economic blocs). The lesson learned here is that, the Arab countries should negotiate with the EU or with any other organization (WTO), as one party or one economic bloc to gain good terms of trade and to have a word in the international arena.

Arabian Common Agricultural Policy

Every Arab country has it's own agricultural policy that was designed to serve its own interests. In many occasions these national policies are not harmonized among the Arab countries despite the formation of many regional bodies to overcome this problem. The lack of harmonization among the Arab countries in adopting and implementing sound policies is causing improper allocation of scarce resources and losses in market opportunities within the and outside the Arab region. The EU member states have tackled this problem through establishing the European Common Agriculture Policy

(CAP). The Treaty of Rome provided for the establishment of a common agricultural policy (CAP) that has been based on the three principles of: 1) A single market; 2) Community preference; and 3) Common financing.

The CAP was established to achieve the following objectives:

- to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labor;
- thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- to stabilize markets;
- to assure the availability of supplies; and
- to ensure that supplies reach consumers at reasonable prices.

Despite the fact that the EU is currently in the process of reforming the CAP in response to pressures by WTO and other economic blocs, the Arab region should establish a common policy similar in objectives to the CAP.

Incentives and financing instruments

One of the main obstacles facing the Arab economic integration is the lack of incentives at all levels. In the agricultural sector, this is mainly due to the unidentified and unexploited opportunities that can be obtained from agricultural production and trade. Recent work by FEMISE, concluded that many of the Arab countries enjoy great advantages in producing and exporting many types of horticultural products. However, due to the lack of incentives in terms proper technologies, extension services, marketing information systems,...etc.

The lesson learned here from the EU is that, as part of the CAP, the EU established a financing instruments that come from the European Agricultural Guidance and Guarantee Fund, (EAGGF or FEOGA) which is an integral part of the EU Budget. The Guidance Section of the EAGGF provides part-financing for measures of structural improvement and the Guarantee Section provides 100% financing for market supports and direct payments as well as part-financing for certain rural development measures e.g. agri-environment improvements. These incentives have boosted agricultural production and exports and consequently improved the welfare of EU farmers.

Arabian Model of Agriculture

There is an immense need to establish an Arabian Model of Agricultural similar to European Model of Agricultural that was presented in 1998 by the Irish commission member for agriculture, Franz Fischler. The model provided guidelines for the

necessary reforms in the European agricultural sector and policies. The core of this model is: strengthening the market orientation, transition to a sustainable and qualitatively high-grade production, maintaining a diversity of agricultural systems in a vital rural area, simplifying the CAP, a proper division of the responsibilities between Europe, Member States and the region, and a CAP that provides services that society demands and with which it can justify the expenditure.

Infrastructure and financial institutions

Despite the number of funding institutions that were established to provide the necessary funding for establishing agricultural development project across the Arab region, the investment in sustainable agriculture is still limited. Infrastructure , development banks, and credit institutions are necessary but not sufficient conditions to for regional development. Pro-active regional development agencies and finance to foster and support success of small and medium firms is vital especially in the area of rural development. This has been an evidence from the shift of in investment activities the EIB to establish new investment activities. The delay in establishing the needed infrastructure and financial tools at the regional level will result in lowering economic growth, discourage the flow of FDI and will result in an increase in unemployment rates.

CAP Related research

Another lesson learned from the EU – CAP is that: there is an immense need for academic research for establishing an Arabian CAP. Available literature at the EU level, shows that there is a huge stock of research studies that was conducted by the different institutions, especially at the academic level, which helped in shaping the CAP. The same research institutions are currently involved in providing the different stakeholders with the needed knowledge for restructuring the CAP. There is a huge shortage in the area of agricultural policy research in the whole Arab region. Once this gap is bridged, especially by academic research institutions, it would provide the concerned stakeholders across the Arab region with needed information for devising the proper policy tools for improving integration in the agricultural sector.

From “Trade Liberalization” to “Full Integration”

A valuable lesson learned from the EU agricultural integration process is that: the EU has surpassed the stage of trade liberalization of agricultural commodities (the stage where the Arab region is now going through” into an era of full integration. This means that there are several levels of integration which may starts at the exchange of information level, then to coordination level and so on, until reaching to the decision level. The smooth and gradual movement from one level to another in similar to that of the EU should help in achieving a robust agricultural integration in the Arab region.

Integrated Social Policies in Arab Countries

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I-Introduction

The concern of social development and social policy is to meet basic human material and moral needs, namely, those needs that have a direct bearing on human beings, including food, health, education and culture. Consequently, development is a complex process with economic, social, political and cultural dimensions, and that interference with any of those dimensions may disrupt that process;

Achievements have been made towards sustainable development covering the economic, social and environmental areas with clear implications in the daily life of Arab Citizens in terms of health, education and economic conditions, including increase of per capita income, better health care and urban services, reduced illiteracy rates, increased women share in education and job opportunity, reduction in the population growth rate, increased life expectancy, strengthening of environmental and development institutions, issuing and upgrading legislation, improved capacity building, positive participation in the implementation of regional and international conventions and agreements, as well as the strengthening of regional cooperation in various fields, such as the establishment of the Greater Arab Free Trade Zone, transportation, gas and electricity networks, strengthening the Arab specialized councils and the role of civil society organizations.

However, social policies in Arab countries are characterized by their weak integration and uncoordinated programmes executed by various ministries and NGOs. Even in countries where the Ministry of Planning is still functional these Ministries are more involved in resource allocation than in formulating a socio-economic framework from which an integrated social vision can be generated. This situation has led to a waste of human and financial resources and increase unemployment that threaten the well being of society. It is not expected that these trends will alter in the near future since most of the countries in the region have embarked on economic and structural reform in one way or another, leading to the privatization of some basic services and a reduction in social expenditure. Hence, a critical review is required to formulate a comprehensive socio-economic framework that will pave the way toward an integrated social vision.

Generally, the role and structure of the State have been transformed and social priorities have been downgraded. Globalization has eroded the political, economic and social foundations of the welfare state, and social policies are no longer a matter of purely national concern and are subject to external factors. While social rights have been considerably eroded, globalization has also led to an increased recognition of the political and civic rights of individuals. Furthermore, the globalization of social movements, trade associations, NGO networks and professional associations has had an impact on the content and goals of social policies. UNDP notes the importance of the human rights-based approach to development and refers to the requirements for implementing that approach. The human rights-based approach is also embodied in social policies of the EU. Social development has become the central goal of development.

The objective of this paper is to review social policies in Arab countries, investigate main actors in integrating social policies and the challenges that hinder their effectiveness and then based on EU experience on integrated social policies, derive lessons to be applied in Arab regions.

The paper is organized as follows; apart from the introduction, section two provides trends in social indicators in Arab countries. Section three and four describe the status of social policies in Arab countries and the major players in integrated social policies. Section five demonstrates integrated social policies in EU and section six derives lessons for the Arab countries. The study concludes in a set of recommendations in section seven.

II. Progress in Social Indicators

Arab countries have achieved remarkable progress in the areas of maternal, infant and child mortality, life expectancy, adult literacy, increased enrolment in schools, access to safe water, and the incidence of poverty. But there is still much that needs to be done. Arab Human Development Report states that the above mentioned advancements have been slow in coming, and have by no means been universal, as millions of citizens across the region have not been reached. It underlines how far behind the Arab countries are in information and communications technology, and how much needs to be done if we are to catch up to the rest of the world. It highlights deficits not only in education, knowledge, technological know-how, creativity, and deficits in freedom, participation, democracy, justice; the absence of voice, opinion and choice in shaping individual and collective lives of the people of the region. All of which are as important to human dignity as access to health care, quality education, clean water, food and shelter.

Notwithstanding the high per capita share of the gross national product for the Arab region as a whole compared to other developing nations (\$4140 compared to \$3270), as well as the relatively higher health indications, still the education rates are alarmingly low, especially in a world that considers information and technology primary sources of power. **The rates of literacy** amount to 59.7% in the Arab world compared to the average of 72.3% in the developing world as a whole. On the regional level, literacy rates are lower in Algeria, Egypt, Morocco, Oman, Sudan, Tunisia and Yemen, noting that those nations have lower incomes. However, one should not jump into conclusions. A comparative study of both Jordan and Oman indicated that the national product in Oman is three times higher than Jordan, meanwhile, literacy rates in Jordan are 19.8% higher. The total sum of Arab nations does not reflect discrepancies between the different nations, nor does it indicate

similar discrepancies between males and females. Statistics indicate a larger gender gap in our Arab region than in the rest of the developing world.

Poverty-related facts and data, such as the rates of illiteracy and participation in the labor force, all indicate the width of the gender gap in the Arab world. With the possible exception of Qatar and the United Arab Emirates, levels of literacy are higher among females, while literacy of females stands at less than two thirds of the predominant rates of literacy among males in Egypt, Morocco, Sudan, Syria, Tunisia and Yemen. However, this gap narrows considerably, when we cast a look at the primary and secondary school as well as university registration rates. Enrolment **rates** for females amount to more than 75% of the total enrolment rates of males in all the Arab nations with the exception of Yemen. Rates are even higher in Bahrain, Kuwait, Lebanon, Libya, Qatar and the UAE. Enrolment rates at schools reflect the efforts exerted on the short and medium terms to develop the educational sector. Literacy rates, on the other hand, are not so sensitive to improvements in the level of educational services offered. Literacy requires longer time spans to show improvements. The narrowing of the gender gap in terms of school registration rates is a function of the efforts exerted by Arab governments to put an end to the gender discrimination in relation to educational services. School registration rates for females amount to 83.8% of the male registration rates in the Arab region as a whole, while they stand at 87.3% in the developing world, which indicates a greater gender discrimination in the Arab world than elsewhere in the developing world.

Major progress has been made since 1950-1955 in life Expectancy where it attained 62.6 for males and 65.2 for females in 1990-1995 compared to 40.5 for males and 42.6 for females in the fifties. Infant mortality rate ranged from 10.2 to 75.3 and differences in infant mortality are very pronounced among rural versus urban areas, Under five mortality rate ranged from 3-39 with Lebanon having the lowest percentage and Yemen the highest one, Maternal mortality rate ranged from 3-550 and Only Kuwait and the UAE have reduced maternal mortality to a level that is low by international standards. Disability years at birth amounted from 5.7 to 10.9 where females in the Arab countries have higher expectation disability years at birth of disability than males thus losing most of their initial survival advantage by spending more life-years in disability. Total health expenditure (% of GDP) ranged from 1.5 to 10.1 percent with predominant curative expenditure, only one Arab country (UAE) scored well on the scales evaluating the responsiveness and the fairness of the health systems and finally public expenditure on health represents about 55 percent of total public expenditure; but lack of capacity in health policy making People of lower classes pay disproportionately higher percentage of their income on health care

Compared to men, the rate of economic activity among females amounts to 38.9% of the rates recorded among men for the whole Arab region, which is again an indication of the widening gap between the economic conditions of women and those of men, noting that the predominant percentages of economically active women stands at 66.1% of the economic activity rates of males in all the developing nations. The narrowest gap between the economic activity rates of females and males is recorded in Morocco, followed by Kuwait, Tunisia and Egypt. The largest gap, on the other hand, is found in Oman, Iraq and Saudi Arabia. Some visible improvements materialized in the rates of female participation in the labour force in the period between 1985 and 1997, where participation rates increased by 11.7% in the Arab world as a whole. The rest of the developing nations witnessed an increase of only

2.3%. A closer look at female labour indicates that the ratio of female technicians and professions to the whole stands at 30%. The ratio of female workers in the public sector (the most stable sector which provides workers with health insurance and pensions) does not exceed 5% with the exception of Tunisia, where the rate stands at 7.9%.

It is also expedient to consider the expenditures on public services and subsidies as an indicator of the levels of public services and social security systems provided. It is also an indication of the state commitment to support the low-income sectors of society. **Public Expenditures** in Saudi Arabia amount to 30%, followed by Kuwait (28%) and Jordan (25%). The expenditure rates recorded in Syria and Egypt are lower, amounting to 12% and 10% respectively. The ratio of the funds allocated to public education to the GNP does not exceed 7% in the whole Arab region. Only Jordan, Tunisia, Kuwait, Saudi Arabia and Algeria record rates higher than 5%. On the other hand, the ratio of subsidies to the total public expenditures has recorded a general decrease in all Arab nations in 1997 from the predominant rates of 1990, with the exception of Morocco and Yemen. In 1997, subsidies amounted to the highest percent of public expenditures in Yemen (35%), Syria (29%) and Algeria (26%). The percentage of subsidies provided by other nations such as Morocco, Egypt, Tunisia and Jordan, on the other hand, did not exceed 15%. One should note, however, that those nations have all implemented the economic reform programs advocated by the World Bank, which call for the reduction of general subsidies and their substitution with subsidies that are directed to the poverty stricken only, as a means of reducing public expenditures and lowering the state budget deficits.

III-The Status of Social Policies in Arab Region

Social policy in Arab countries refers to the range of government policies and social services that aim to improve the welfare of citizens. Thus, it is referred to the social administration of citizens by the State, at that time the main and often unique provider of welfare.

Recently, most Arab countries have adopted broader concept of social policies within which poverty, inequality and social justice are also considered. The insights provided by social development studies have led to growing recognition of the importance of investment in social concerns and human resources for economic growth and thus social development seek instead to foster a social policy approach based on investment and production rather than redistribution and consumption. This approach does not discard state interventions in social welfare but instead, it necessitates a wider role played by non-State actors such as non-governmental organizations (NGOs), civil associations, unions and family support networks in the formation of social policy and provision.

Most of the Arab nations have made plans and designed programs to help its citizens and specially the poor. These programs encompass subsidies, financial assistance and the provision of free services in the fields of health, education and employment. However, such programs remain inadequate compared to social policies adopted by other developing nations. Most of the Arab nations still suffer from illiteracy, poverty (income or human) and unemployment.

The essence of social policies are the diligent efforts to increase human capital through the amelioration of the education and training systems, especially basic

education, as well as the reinforcement of health care and social security measures to enhance the effectiveness of the labor force. Education, especially of females, helps in reducing poverty through the empowerment of the poor to increase their sources of income. It covers birth control mechanisms, health improvement measures, and helps the poor to acquire the necessary knowledge and skills. These elements enhance the opportunities of the poor to find better employment and to positively participate in the development process. Education could also be a determining factor in expanding social equity and eliminating the marginalization and exclusion of the poor from the development process.

All Arab countries have given utmost priority to the issues of education and training, as well as to the health and social assistance to the poor, with a special emphasis on the provision of legal and political protection. Arab nations have worked on the provision and improvement of health services, birth control mechanisms and the elimination of the subtle discrimination practiced against women. Nevertheless, rural, beduin and poor residential areas still suffer from the deterioration and sometimes absence of health services. Arab nations have shown their commitment to international standards in the field of female employment and in fighting the discrimination endured by women in a number of areas, such as the limited female participation in income generating activities and their occupation of jobs that require no skills and generate minimal income. Poor households, specially headed by females, have recently enjoyed a number of protective measures crystallized in social security legislations that provide a monthly pension to help poor women manage their affairs and to protect them from falling prey to poverty. A number of mechanisms were adopted to that effect, the major burden of which falling on the shoulders of the ministries of social affairs, health, education and the labour forces. However, other actors, such as the social funds, took their share of the responsibility.

Most Arab nations have adopted comprehensive social policies, some of which date back to the fifties, but the majority was implemented in the nineties. However, no special ministry or governmental authority was assigned the task of putting down a comprehensive social policy. Social policies are translated into plans, programs and projects by the relevant ministries, such as the ministries of social affairs, labor, health and education. Everywhere in the Arab world, with the exception of Palestine, policies are designed by the central government. The participation of people, and specially the poor, in designing those policies or in translating them into plans has been denied to them in most Arab world. However, various institutions, such as national committees, do take part in designing and implementing those policies. Policies and plans were generally guided by the resolutions and recommendations of the International conferences such as Women Conference of 1995, the Social Development Summit of 1995, the International Conference for Development and Population of 1994 and World Summit for Sustainable Development 2003.

3.1 Components of Multi-Dimensions Social Policies

The main components of the multi-dimensions social policies, adopted by Arab states, include economic as well as social aspects, and could be summarized as per following:

1- Accelerating economic growth rates to outreach population growth rates, thus creating a clear, direct and positive impact on the income levels. Economic and investment chances for the poor are to be enhanced through the financial support of small-scale enterprises.

- 2- Achieving equality of opportunities and justice in the distribution of the benefits of the development process on all social groups.
- 3- Fighting poverty through a host of social security measures and ameliorating the living conditions of the poor through the development of the surrounding physical and social infrastructure.
- 4- Developing educational, training and awareness raising programs.
- 5- Narrowing the gender gap on all social and economic levels, Equipping women with skills, knowledge, credit and appropriate technology to enhance their ability to perform the activities of their choice.
- 6- Strengthen primary health care and expand its coverage.
- 7-Addressing the rapid increase in population in the Arab countries, which in spite of the observed reduction over the last 10 years still remains high.
- 8-Enhancing the employment opportunities for the poor and providing training and rehabilitation programs to help integrate them in the labour market.
- 9-Safety Nets; All Arab nations have systems of social support provided by national assistance funds and the relevant ministries, such as the Egyptian Ministry of Social Affairs. These systems cover permanent and temporary financial aid, as well as the provision of the basic infrastructure such as water and electricity supply and a sewage system. A social security network is also provided. However, the scarcity of funds and the slow pace and complication of the procedures are among the most important hurdles that stand in the way of providing the necessary financial assistance or social services.

Multiple mechanisms are adopted to translate these policies into programs, and their implementation is supervised by the relevant ministries, the social funds, local governments, the national committees and the non-governmental organizations. These programs and other related projects are financed by the state, the various contributions of private sector and the donor agencies.

Programs include income generating activities, human capital accumulation and safety nets.

3.1.1 Income generating activities

The following procedures were undertaken for the integration and reintegration of poor, women and unemployed within the productive labor force.

- 1- Empowering the poor to help them acquire capital and resources.
- 2- Giving the poor access to credit-making institutions, including young women who do not have access to traditional sources of collateral security.
- 3- Simplifying banking procedures, such as the minimum level of deposits required.
- 4-Participation of the poor in the decision-making processes of credit making institutions and service providers.
- 5-Providing technical and professional training, as well as appropriate training that corresponds to their needs and those of the labor market.
- 6- Providing financial and technical support to the relevant organizations.
- 7- Increasing the financial and technical support offered to the voluntary associations, which provide training services to the poor.

3.1.2 Human Capital Accumulation

States have adopted a set of training policies with the aim of rehabilitating the poor, reducing illiteracy, especially among females, and increasing the rates of

comprehension of the education curricula. Arab nations have taken measures to that effect, including:

- 1- Opening adult teaching centres in all areas plagued by high rates of illiteracy.
- 2- Constant cooperation between the Ministry of Education and civil society organizations, especially women`s organization working in that field, through the provision of every possible help including the necessary teaching materials and staff.
- 3- Passing legislations which make education obligatory till the age of 16.
- 4- Improving school conditions and time in the rural areas, to correspond to the peculiarities of those areas.
- 5- The expansion of schools in all urban and rural areas ensuring their proximity of the families.
- 6- Establishing a national culture, which calls for the education of the two sexes.
- 7- Providing poor girls with assistance to limit the percentage of drop outs.

3.1.3 Safety Nets

All the nations surveyed have systems of social support provided by national assistance funds and the relevant ministries, such as the Egyptian Ministry of Social Affairs. These systems cover permanent and temporary financial aid, free educational and health services, as well as the provision of the basic infrastructure such as water and electricity supply and a sewage system. A social security network is also provided. First among the measures undertaken to help women access financial and social assistance is the activation and the expansion of the services provided by the National Assistance Fund, as well as the simplification of the procedures required to provide women with the necessary financial aid. Women are also made aware of the donors providing this kind of assistance. However, the scarcity of funds and the slow pace and complication of the procedures are among the most important hurdles that stand in the way of providing poor women with the necessary financial assistance or social services.

Social Funds for Development:

Social Funds have become a recurrent phenomenon in the Arab World in the past few years. Those funds aim at fighting poverty, reducing unemployment rates, improving the level of social services and giving the deprived access to those services. Through those funds, states succeeded in giving political legitimacy to economic reforms and encouraged social participation in the development process. The management of social development programs has improved and its transparency has increased accordingly. Social Funds act as mediators who channel governmental and donor funds to finance small projects proposed by individuals or other institutions. They enjoy a high level of institutional independence, noting that employment policies are not subject to the state employment criteria. They also adopt simpler measures to compare between the numerous projects proposed.

However, the level of institutional independence enjoyed by those funds varies from one nation to another. Whereas the Jordanian and Lebanese funds enjoy a high level of independence, half the board of directors of the Egyptian Social Fund consists of government employees, which adds to the bureaucratic character of the institution.

Even though the first and foremost aim of Social Funds was to reduce the social costs associated with economic reforms, they have come to embrace wider goals, which allowed them a closer cooperation with the numerous ministries in all relevant states. Social Funds worked on creating job opportunities, reinforcing the infrastructure and providing basic services to the poor.

Social Funds cooperate with NGOs to access the poor in both the rural and urban areas. They are faced with a host of challenges, first among which is the difficulty of reaching decisions on the number of loans afforded to projects as opposed to the quality and effectiveness of the projects which receive finance. A number of necessary steps such as the evaluation and follow-up of the projects are abandoned for the sake of budgetary cuts. Social Funds are also faced with the problem of their temporary nature, in spite of the constant increase in their budgets and the difficulty of deciding on the priority given to loans or infrastructure grants to help the poor and unemployed.

Arab Union for Small Enterprises

The Arab Union for Small Enterprises was established last June as a regional organization with the participation of 12 member states and many Arab economic organizations. The Union joined the membership of specialized organizations working under the umbrella of Arab Economic Unity Council.

The idea of establishing an Arab Union for small enterprises emerged as a by-product of the First and Second Small Enterprise Forums, which SFD of Egypt had organized in partnership with Union of Arab Banks, and Arab Economic Unity Council. The Arab Union for Small Enterprises would develop small enterprises in Arab countries, help increase their competitive edge, achieve Arab economic integration and assist small enterprise institutions and syndicates in:

- Exchanging know-how on small enterprises among member states.
- Mitigating unemployment by expanding the base of small enterprises.
- Providing technical and managerial assistance.
- Promoting entrepreneurial culture.
- Developing the Arab human potential.
- Achieving integration among small and medium-scaled enterprises in Arab countries and emulating successful experiences.
- Encouraging Arab investments and stimulating small enterprises as an approach to Arab joint action.
- Bolstering Arab cooperation on industry, agriculture, services, commerce and information technology.
- Setting up Arab and international exhibitions for small enterprise products.
- Mobilizing Arab and international financial resources for small and medium enterprise sector.
- Coordinating Arab policies relating to small and medium enterprise development, investment and trade exchange.
- Improving quality and competitiveness of Arab products.
- Conducting research and feasibility studies for viable small enterprises in Arab countries and seeking assistance of specialized Arab and foreign expert houses.
- Encouraging Arab small franchisers and deep-rooting coordination between large and small enterprises.
- Elaborating proposals to establish specialized companies in Arab countries to be submitted to Arab Economic Unity Council, Arab Organization for Industrial Development and Mining, or any other Arab organization for approval.
- Developing training curricula for upgrading the efficiency of the Union's staff.

Non Governmental Organization

Since the 1980s, non-governmental organizations (NGOs) have emerged as an important force in the Arab Region working to democratize decision-making

processes, protect human rights and provide essential services to the most needy communities; and that the 1990s have marked significant set-up of social development institutions in the region including NGOs and civil society contribution. In the appendix, country specific social policies for certain Arab countries are described.

3.2 Obstacles That Hinders Social Development Efforts

Notwithstanding the noticeable achievements made in formulating and implementing social policies, there are still a number of **obstacles** that limit the utility of those programs. These could be summarized as per following:

1- Dangers inherent in the current political situation in the region, entailing increased military expenditure at the expense of social issues, and the deliberate impoverishment of the Palestinian and Iraqi peoples.

2- Unemployment, the situation of youth, and the failure of the education system to provide human capital with adequate professional and scientific preparation.

3- The difficulty of specifying the target groups. Some of the drawbacks suffered by development institutions and organizations include: the absence of appropriate leadership, inefficient administrative capabilities, lack of concern with empowering the target group through awareness and potential building efforts, inadequate auditing organizations and financial systems, as well as a thin base of financial and human resources, coupled with the lack of expertise, skills and commitment among the working staff. Poor judgment and the limited capabilities to mobilize financial as well as human resources and to make a noticeable impact on the state policies are among the major obstacles.

4- The unavailability of funds to expand the implementation of projects and programs on a wider scale.

5- Continued population increase and the unbalanced distribution between rural and urban areas, spreading of slums around major cities, increased pressure on the natural resource base, as well as on the public utilities and services, air pollution, and solid waste accumulation.

6- The relatively limited experience of the civil society in participating in the process of development and implementation of sustainable development programmes and activities.

7- Lack of coordination between different government and non- governmental agencies working in the field of social policies; this applied to intra-ministerial coordination, inter-ministerial coordination, coordination between government agencies and NGOs and between the different NGOs. Lack of coordination- among the providers of assistance to the people- results in minimizing the effectiveness of these efforts, duplication of efforts or conflicting initiatives.

8- Centralization, , spread of corruption and weak institutional and capacity building, in both governmental and non- governmental organizations, are major drawbacks in implementing poverty reduction policies. The absence of good governance has been a major obstacle to the proper execution of policies and programs.

9- Most of social policies applied in the Arab world are a type of crisis management aimed at neutralizing the impact of certain policies or events; however they failed to deal with the social impact of the economic reform and structural adjustment policies that have been imposed by globalization-related policies. Such failure is primarily the

result of social policies in those countries that are inadequate and uncoordinated and which are, in some cases, no more than programmes and projects implemented by disparate institutions. Furthermore, those projects are not linked within a single framework of an integrated vision or policy.

In summary we may conclude that (a) State intervention in social affairs began by focusing on specific sectors, including the poor, the illiterate and the ill, and aiming to change society by means of social policy. This was the case in Egypt, Iraq, the Syrian Arab Republic and Tunisia. The focus was on employment as the right of the citizen and one of the duties of the State, in addition to making education and health services more widely available and undertaking to employ graduates; (b) that social concerns remain secondary to economic issues and it is social services that are being provided, rather than social policy being pursued. The vast majority of policies relating to social action are linked to basic or essential development goal; (c) NGOs focus on providing services prompted by a community of interests, and are dependent on grants, endowments and voluntary work; and (d) There is an urgent need to conduct an empirical evaluative study of social policies in Arab countries and a need to develop legislation, and follow up and perfect mechanisms to activate social policies.

IV. The Major Players in Integrated Social Policies in Arab Countries

The Arab League was the first to call for agreements for economic cooperation among Arab countries. It made the proposal some forty years ago before most of the international economic cooperation projects now underway were even mooted. But the Arab politicians paid no enough attention to economic cooperation and integration and began to talk about political and military cooperation. Economic cooperation was thus omitted from their agenda. The Arab League has never been able to grasp the importance of the economy as a means of realizing political goals. Business and commerce were things that Arab politicians looked down on. They considered them the effects, not the causes, of political action. But now, with the emergence of various international blocs, the issue no longer needs to be argued, (Zeineldin 1998).

Reviewing all attempts of cooperation, alliances or integration among Arab countries in the last four decades we find numerous initiatives and projects in the field of economic and social development with very little impact on economic and social policy's integration. ***Most of integration efforts were in the form of providing funds needed to achieve certain social development goals.*** Some of these projects are:

1. The emergence of new centres of social development and investment finance;
2. Arab fund for economic and social development
3. Kuwait Fund for Arab Economic Development
4. Gulf Cooperation Council (GCC)
5. Arab Bank for Economic Development in Africa
6. Arab Maghreb Union: Algeria, Libyan, Mauritania, Morocco, Tunisia (AMU)
7. Arab Reform Forum;
8. Arab Women's Organization;
9. Arab Organization for Human Rights.

Of course, we can not exclude the possibilities of achieving some success for schemes of partial economic and social integration on a limited scale, say between some regional countries such as GCC.

Most Arab Countries had signed up declarations on economic and social development including, International Women Conference of 1995, the Social Development Summit of 1995, the International Conference for Development and Population of 1994 and World Summit for Sustainable Development 2003. The Economic and Social Commission for Western Asia (ESCWA) and the League of Arab States reviewed Programmes of Action and their corresponding implementation programmes in the region. Member States proposed future actions on economic, social and environmental development strategies and comprehensive social policies and programmes. They emphasized the importance of inter-sectoral coordination among social services providers, including NGOs, the private sector and government institutions. They also called for international collaboration to create reliable indicators and mechanisms to measure progress in implementing programmes of action, particularly the integration of economic and social policies.

Several countries of the region reported that comprehensive national strategies had been developed, including social development strategies that take into account equity and access to basic social services, create new economic opportunities, strengthen government awareness of issues such as poverty and catalyse efforts to rehabilitate social sectors. The ESCWA recommendations also emphasize advocacy for decision makers and officials in charge of programme implementation

4.1 Regional Report on Integrated Social Policies.

Since the beginning of 2001, the Economic and Social Commission for Western Asia (ESCWA) has been considering the issue of integrated social policies with a view to forging a harmonized social vision that takes into consideration the social and economic priorities of each member country. The Commission realized the importance of integrating social policies during the 1990s while implementing a series of activities related to poverty eradication. These activities demonstrated the need for genuine political commitment to poverty eradication and a specialized administrative mechanism responsible for drafting the relevant policies and coordinating between the various actors, including the Government, the private sector and civil society.

In 2003, ESCWA is embarking on a region-wide project that will include Country Profiles in each of the countries of the region and a periodic report entitled *Regional Report on Integrated Social Policies*. The social policy project aims to provide a reference framework that may be used by member countries in planning and developing comprehensive social policy. The aims of the project include (a) to increase understanding of social policies by studying the planning and application of such policies and measures for coordinating related activities and following up implementation; (b) to strengthen the role of Governments and the other relevant parties in improving the provision of social services, by applying integrated social policies; (c) to support national and regional capacities in respect of social policy analysis and provide consultancy services for Government institutions and NGOs; (d) to review the decision-making apparatus in respect of the design of strategies and priorities relating to the various social policies, including the alleviation of poverty, the promotion of productive consumption and strengthening of

social integration; and (e) to promote popular participation through supporting the capacities of organizations and ensuring that they are supplied with information and participate in the decision-making process.

With the preparation of Country Profiles of the condition of existing social policies planning, their formulation, implementation and monitoring mechanisms, the long-term aim of this project is develop an integrated social policy framework targeting social issues at the country level in the Arab region. The Country Profiles will include reference material for decision-makers and researchers alike, and will serve as platforms for the exchange of information and experiences in national social policy formulation, implementation and monitoring. Particular attention will be given to the influence of social policies on women, youth, the aging as well as other vulnerable groups. Ultimately, these groups will benefit most from well-informed, equitable social development strategies in their respective countries. The Profiles will be vital sources of updated data and information on social policies in each country of the region and will be instrumental as an input to the Regional Report on Integrated Social Policies.

The Report has been designed to empower governments, decision-makers, civil society, the private sector and researchers in the region - at both the national and regional, levels - to formulate and implement integrated social policies. In order to achieve such a broad level of coverage, a well-planned, coordinated communication and dissemination strategy will be a crucial component of project development and the analysis of major issues will be presented in a reader-friendly style with illustrative graphics and indicators. Aside from the traditional media channels (TV, radio and printed press) the internet will be used extensively to disseminate information pertaining to the Report. The Report, which will be published every two years and updated regularly, will serve as a principal forum for the exchange of ideas on social issues and problems affecting countries in the region.

4.2 Arab reform forum

Arab reform forum was established in 2004 issued Alexandria declaration that announced Arab reform vision and implementation including political, economic, social, culture reforms. Arab reform forum was established in the Bibliotheca Alexandrina to act as an open forum for initiatives, intellectual dialogue and Arab projects. This will include all initiatives whether those relevant to Arab reform or other initiatives that are related to all forms of dialogue and cooperation with the international civil society. This will be done through arranging joint seminars and dialogues, both on the Arab and international levels. Such seminars will discuss general development issues, while particularly highlighting the roles of youth and women in development, in addition to carrying out joint projects in various fields of development. Linked to this activity is the creation of an Arab Societal Observatory, to follow the activities of Arab civil society and evaluate political, economic, social and cultural reform programs through a comprehensive list of qualitative and quantitative indicators. .

All participants agreed that the current performance of Arab economies does not meet the challenges that need to be confronted, nor does it reflect the latent potential of our financial and human resources. This deficient performance of Arab economies and the requirements of the future call for a radical economic reform to change the current

situation. Slowing down the implementation of the economic reform has an enormous cost that will only increase with time.

Social Reform

Recognizing that the Arab community as a whole possesses great social and cultural resources, it is time to make maximum use of these resources to establish a viable, cohesive Arab society that is capable of solving its problems and, subsequently, moving forward to effectively achieve progress and participate in forging its own future and the future of the world. Directing Arab societies towards acquiring, disseminating and producing knowledge. This requires focusing on five integrated and interrelated issues that work towards achieving a society of knowledge. These are:

- Confirming the need for human development and setting education as a priority.
- Achieving technological development and providing the basis for its infrastructure.
- Developing strategies for scientific research.
- Supporting free enterprise and encouraging creative innovation.
- Providing a supportive environment for a society of political, economic and cultural knowledge.

To insure this, the participants recommend the following:

- a) Setting Arab criteria for education output at all levels in keeping with international criteria that provide a baseline for gauging and evaluation. However, adopting these criteria should be only the starting point that each country can build on and add to.
- b) Establishing organizations to evaluate the quality of education in each Arab country. These organizations must be independent of Ministries of Education and should be connected regionally, allowing for exchange of graduates and the free movement of citizens in the job market.
- c) Keeping the state's financial support of and responsibility for educational institutions while maintaining the academic independence of these public and private establishments. Furthermore, private financing of higher education should be allowed provided that it is for non-profit purposes.
- d) Promoting scientific research and increasing its financial and human resources, linking it with the institutions responsible for production and development, and erasing all red tape policies that hamper the freedom of research and the production of knowledge.
- e) Aiming at de-centralization and flexibility in running these institutions.
- f) Coordinating the output of the educational system with the changing needs of the job market, economic growth, and the building of competitive capacities.

- g) Inviting the civil society to share in financing education and contributing in running and monitoring it in Arab societies.
- h) Granting students the privilege to practice their political rights including peaceful demonstration, free expression of their opinions, and democratic elections in student unions. Students must be permitted to participate in running their own educational process and allowed difference of opinion.
- i) Eradicating illiteracy, especially among women, in no more than ten years.
- j) Focusing attention on the Arabic language, developing its curricula and agreeing upon a set of criteria to conduct comparative studies in that area.

Working towards achieving social stability in Arab societies; This requires the reformulation of effective policies that secure justice in the distribution of wealth. Thus, there is also a need to end the social marginalization of certain social groups through establishing policies that emphasize respect and implement international declarations of human rights. There is also a need to focus on the empowerment of women, promoting their participation in the development of society and eliminating all forms of discrimination against them. This is closely related to the issue of integrating youth, enhancing their participation in society and providing immediate solutions for the issue of youth employment. Last, but not least, there is a need to develop the conditions of Arab childhood and formulate the effective social policies to deal with people with special needs and the elderly in the Arab world. Furthermore, the problem of the increase in the rate of poverty requires an effective strategy to address this in the light of the solutions suggested by the United Nations and other international organizations.

New social contract; It is necessary to formulate a new social contract between the state and the citizen in Arab society. This contract should define clearly the rights of the state and its duties towards the citizen and, likewise, outline the rights of the Arab citizen and how to safeguard them.

Establish a follow up committee, which will convene, at least once every six months, to review the achievements and provide support for the dialogue forum.

4.3 The Arab Fund for Economic and Social Development

The Arab Fund for Economic and Social Development (AFESD) is an autonomous regional Pan-Arab development finance organization, ("the Fund"). Its membership consists of all states who are members of the League of Arab States.

The Agreement Establishing the Fund was adopted by the Economic and Social Council of the League of Arab States on 16 May 1968, ("the Agreement"). The General Secretariat of the League of Arab States declared the Agreement effective as of 18 December 1971. The first meeting of the Board of Governors was convened on 6 February 1972, and the Fund commenced operations in early 1974.

The AFESD is an Arab regional financial institution, having an independent juridical personality. Its function is to assist the economic and social development of Arab countries through:

- 1- Financing economic development projects by making loans on concessionary terms to governments and to public enterprises and corporations, giving preference to projects which are vital to the Arab world, as well as joint Arab projects.
- 2- Financing private sector projects in member states by providing all forms of loans and guarantees to corporations and enterprises possessing juridical personality, and participating in their equity capital; as well as providing other forms of financing and furnishing the requisite financial, technical and advisory services in accordance with such regulations and subject to such conditions as may be prescribed by the Board of Directors of the Fund.
- 3- Forming or participating in the equity capital of corporations possessing juridical personality for the implementation and financing of private sector projects in member states, including the provision and financing of technical, advisory and financial services.
- 4- Establishing and administering special funds whose purpose is compatible with that of the Arab Fund, and whose resources are provided by the Fund or other sources. The constituent instruments of such special funds shall define their purpose and functions, and set out the regulations governing their operations and administration.
- 5- Encouraging the investment directly or indirectly of public and private capital in a manner conducive to the development of the Arab economy.
- 6- Providing expertise and technical assistance in the various spheres of economic development.

The AFESD seeks to assist member countries in eliminating development constraints, increasing absorptive capacity and achieving higher rates of growth, and to foster economic integration and cooperation among member countries.

The Fund's cumulative loan commitments since the commencement of its operations in 1974 and up to the end of 2003, reached KD 4,460.7 million, representing about 27.2% of the total cost of the projects it helped finance. The cumulative disbursements amounted to around KD 2,722.9 million, representing about 68.0% of the net amount of effective loans. Of the loans extended, priority was given to the infrastructure sectors which made up 61.2% of the total value of the loans, followed by the productive sectors (28.3%), social services (9.3%) and other sectors (1.2%).

Table (1) Loan Commitments by Sector, 2003 and Total Loans Committed, 1974-2003

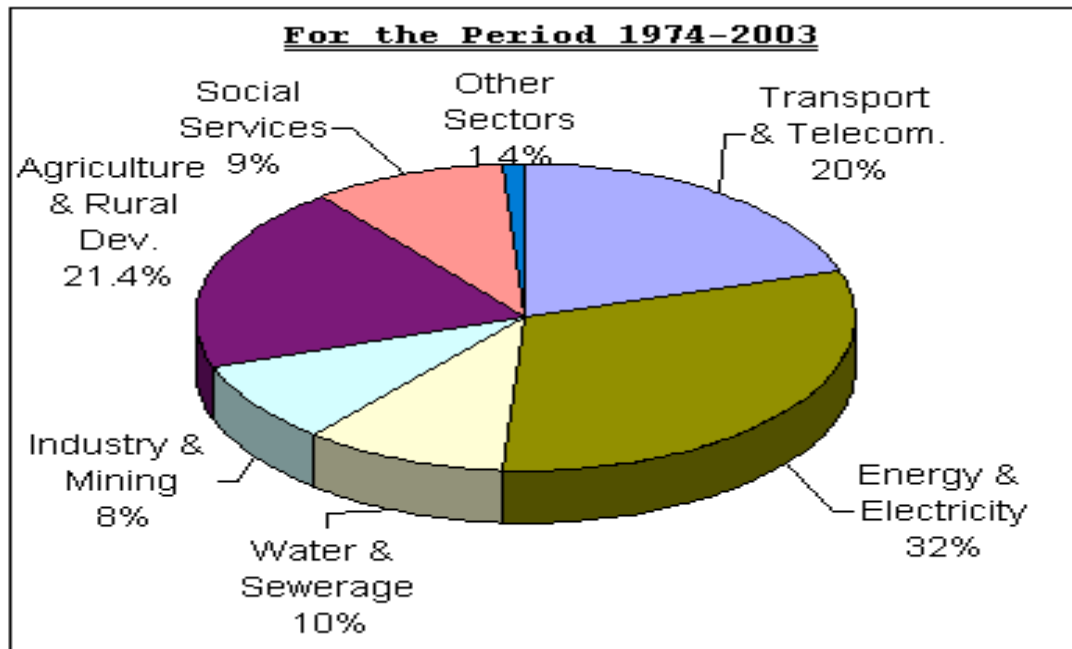
(KD Million, KD 1 = \$ 3.3)

Sector	<u>2003</u>		<u>1974-2003</u>	
	Amount	%	Amount	%
1. Infrastructure Sectors				
Transport and Telecommunications	69.50	22.5	895.90	20.1
Energy and Electricity	193.00	62.6	1,388.75	31.1
Water and Sewerage	0	0	445.25	10.0
Subtotal	262.50	85.1	2,729.90	61.2
2. Productive Sectors				
Industry and Mining	0	0	374.70	8.4
Agriculture and Rural Development	0	0	885.80	19.9
Subtotal	0	0	1,260.50	28.3
3. Social Services*	46.00	14.9	416.50	9.3
4. Other Sectors	0	0	53.83	1.2
Grand Total	308.50	100.0	4,460.73	100.0

The Fund's financing program, during 2003, concentrated mainly on projects that dealt with electricity, roads, ports and education in view of the member states' increased interest in improving efficiency, and reducing bottlenecks, in these sectors. During 2003, the Arab Fund extended 16 loans, amounting to KD 308.5 million, contributing to 16 projects in 10 Arab states. The total cost of these projects is estimated at about KD 925.5 million. The majority of loans extended this year gave priority to energy and electricity projects, which received 62.6% of total funding. Transportation projects received a share of 22.5%, while social services projects received 14.9%. Eight loans were extended to the electricity sectors in Egypt, Djibouti, Libya, Yemen, Morocco, Tunisia and Syria, to finance electricity generation and transmission networks projects in order to meet the increased demand for power and energy in these countries. The total value of these loans was KD 193.0 million, and accounted for about 62.6% of the total value of loans extended this year. Five loans, totaling KD 69.5 million, were extended to finance transport projects in Morocco, Oman and Yemen, and comprised 22.5% of the total value of loans. In the education sector, three loans were extended to Egypt, Lebanon and Jordan. These loans were valued at KD 46.0 million, and represented 14.9% of the total value of

loans approved during 2003. In addition to financing the main components of the projects, the Fund's loans also financed activities related to institutional support and training in order to enhance the performance of organizations dealing with these projects.

Figure 1: Loan Commitments by Sector



With respect to grants, the Fund gave priority to institutional support for its member states, enhancing efficiency in project implementation and conducting technical and economic studies related to vital development issues. During 2003, the Fund extended 27 grants, reaching a total amount of about KD 7.0 million. Two of these grants, amounting to KD 3.3 million and making up 47.1% of the total value of the grants, were allocated to Sudan for the implementation of emergency programs for drinking water in South Sudan and other conflict-afflicted areas, and the rehabilitation of the infrastructure and service facilities affected by the flooding of the Al-Qash River in Kassala province. KD 2.2 million (31.4% of total grants) went to institutional support and training, with the aim of enhancing the capabilities of recipients in the areas of project planning, preparation and implementation. Another KD 0.98 million (14.0%) was allocated to the preparation of general studies and research, KD 0.4 million (5.7%) for feasibility studies and project preparation, and KD 0.13 million (1.8%) for conducting seminars and conferences. Thus, the cumulative number of grants extended by the Fund since its inception reached 735, with a total value of approximately KD 100.2 million, 77.0% of which has already been disbursed.

The AFESD also provides secretariat services for the Coordination Secretariat of Arab National and Regional Development Institutions, which meets periodically to discuss ongoing and planned development projects with the intention of streamlining operational procedures among the member institutions. Members of the coordination group are the Abu Dhabi Fund for Development, the Arab Bank for Economic Development in Africa, the AFESD itself, the Islamic Development Bank, the Kuwait

Fund for Arab Economic Development, the OPEC Fund for International Development, and the Saudi Fund for Development.

4.4 Arab Gulf Programme for United Nations Development Organizations; AGFUND

The Arab Gulf Programme for United Nations Development Organizations (AGFUND) is a regional developmental institution, established in 1980 upon the initiative of HRH Prince Talal Bin Abdul Aziz, and with the support of the Leaders of the Arab Gulf States that constitute its membership and contribute to its budget. AGFUND is concerned with the support of sustainable human development efforts, targeting the neediest groups in the developing countries, particularly women and children, in cooperation with the organizations and institutions active in this field.

AGFUND Objectives

First : Contribute to the support and funding of programmes and projects in the sector of health, especially for motherhood and childhood, through: Projects aiming at raising health awareness; primary health care projects; and environmental health projects.

Second : Contribute to the support and funding of educational programmes and projects targeting women and children, particularly the disadvantaged groups, through Basic education; preparing of educational curricula; establishing and equipping of educational institutions; establishing and equipping of vocational training centres; research and studies in the domain of education development; projects for open universities and distance learning.

Third : Participate in the establishment, promotion and development of institutional capacity building of organizations active in the fields of sustainable human development, especially those devoted to women and children, through :establishing of organizations concerned with sustainable human development; developing the structures and systems of organizations active in the domain of sustainable human development; developing the performance of workers in developmental institutions, with emphasis on training of trainers; organizing conferences, seminars and workshops intended to serve human development issues; and Establishing databases and communications centres.

4.5 Major Challenges in Integrating Social Policies

With all these efforts, integrations among Arab States are very weak compared to other regions. Without the political will, a strong policy framework, emphasized in sound, achievable goals, linked to economic and development priorities, the integrated social policies will remain weak. What seems also to be lacking are:

1-Utilization of available resources and the establishment of conducive environment for investment;

2-Integrated mechanism between the Arab countries that gives priority for employment Arab labour force;

3- Sound management of the use of natural resources, especially water resources and energy that requires promoting of sustainable production and consumption, cooperation and integration between Arab countries towards the rational use of these resources and achieving Sustainable Development;

4-Giving greater emphasis on the education of women, strengthening of social programmes, which will raise the level of awareness of the importance of family planning, childcare and the uncontrolled population increase.

5- Dealing with the increase in the young people component of the population as a positive indicator of human resource, raising the challenge of providing the suitable environment for their education, training and employment.

6- A regional economic block on the bases of the social, cultural and economic background to utilize the advantages that may be associated with globalization.

7-Making tangible the institutional set up, infra-structure including transport and communication to facilitate the transfer of information, personnel and capital between Arab states, with the view of achieving integration and establishment of a true partnership between the civil society, private and public sectors.

Moreover several factors have contributed in limiting efforts of integration; Arab countries often compete each other rather than cooperate with each others. Thus, one could not assume that the current circumstances of Arab countries are favourable for an Arabic form of economic and social integration. Arab countries are in a great need to cooperate, build up *trust* and alliances with each others to achieve some synergy effects. Without socio-economic integration between Arab countries there is no interdependence relationship between Western and Arabs. Too dependent on western nations or blocs is not of the benefit of the Arab countries. Unless Arabs create mutual trust, commitment, and coordination and learn from other nation's economic experiences, they will always remain the last in everything and ultimately the biggest losers. The real issue is the trust, commitment between Arab governments, and between civil societies. Arab counties should be flexible enough to adopt the idea and treat it as a matter of strategic importance to be implemented in the shortest possible time. They should ignore the talk about domination of countries. All will realize after a while that whatever domination there is, it will be win-win relationship, mutual interdependence, and mutual interest of all. (zeineldin).

V. The Integration of Social Protection Policies in the European Union

The first point to make is that, as far as Europe is concerned, the European Social Fund has had only a very small role to play in the integration of European approaches to social policy and social protection policy in particular. The emphasis has rather been on securing agreement over objectives and ensuring a degree of parallelism or convergence in institutions.

Gosta Esping Andersen has argued that there are at least three separate social policy traditions in Europe leading to at least three different “worlds of welfare capitalism.” Nevertheless, in the post Second World War period, there appears to have been a

process of convergence—in outcomes if not in institutions—in Europe. There are effectively two institutional frameworks through which European social policies in general—and social protection policy in particular—are co-ordinated: The European Social Charter and the so-called European Social Model.

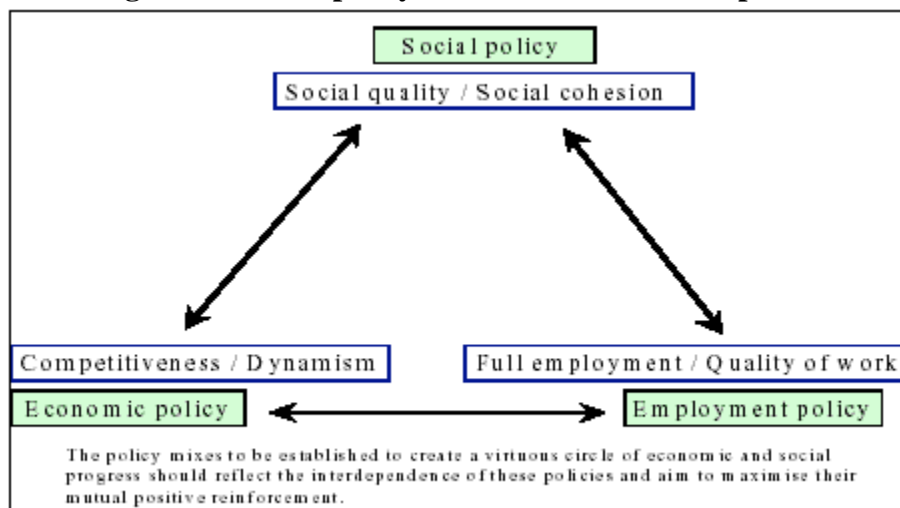
The European Social Charter was formulated under the auspices of the Council of Europe in 1961. For those countries that ratify it, it constitutes a legally binding set of undertakings. Monitoring mechanisms adopted in 1961 were weak and sanctions for non-compliance were virtually non-existent. The Charter was revised and extended in 1996; for those countries that have ratified the new version, undertakings are still legally binding; further, although strengthened, enforcement mechanisms (and sanctions) remain weak. Further, the new framework provides for some involvement by so-called social partners.

The European Social Model has been developed by the European Union—for the most part since about 1990. Apart from a clause enjoining equal pay for men and women, the treaty of Rome was virtually silent on social policy objectives: social policy was clearly left to national governments. But change in both economic context and ideological attitudes led to a greater acceptance of a role for the European Union in the formulation of social policy. In the last thirty or forty years, technological change and globalisation have resulted in significant changes to employment security. These have been affected by both social change—particularly the increased prevalence of divorce—and demographic evolution. Furthermore, both acceptance of the single market and the consequences of globalisation have eroded the autonomy of national governments in determining the instruments of social policy and the acceptance of a single currency—and the growth and stability pact that accompanied it—have limited the range of policy instruments available to national governments;

At the same time, the European Commission made use of the equal pay clause in the Treaty of Rome to propose more extensive initiatives in social policy. These have been supported by a number of member states. As a result, the Treaty of Maastricht was accompanied by a Social Charter, which became a social chapter after the British withdrew their veto in 1997. Since 1997, the EU has moved towards a new methodology for the co-ordination of social policy: the Open Method of Coordination.

To a limited extent, the EU has also made use of Social Cohesion Funds to encourage the adoption or maintenance of minimum standards of social protection. But substantially this has been left to the resources of individual states.

Figure 2. Social policy framework in the European Union



Source: Commission of the European Communities, *Communication From the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions: Social Policy Agenda*, (Brussels, 28 June 2000), p. 6.

5.1 The European Social Charter

The Council of Europe is an inter-governmental body, set up in the wake of the second world war, and comprising at the present time some 45 countries. In 1961 it adopted the European Social Charter. Embodying almost all fundamental social rights. In 1996, the text of the Charter was revised—and extended: the 1961 text contained 19 substantive articles, the 1996 text contains 31 substantive articles. The 1996 text includes the following rights:

- i) To earn one's living in a freely chosen occupation,
- ii) To freedom of association for both employers and employees
- iii) To special protection against physical and moral hazards at work for children and young persons,
- iv) To social security, social and medical assistance and access to social welfare services,
- v) To equal opportunities and equal treatment in matters of employment and occupation—without discrimination on the grounds of sex,
- vi) To protection against poverty and social exclusion.

To ratify the Charter a country is required to: consider itself bound by at least six of the nine articles (rights) set out in Box 5.1; and to consider itself bound by an additional number of articles or numbered paragraphs which it may select—provided that the total number of commitments is not less than sixteen articles or sixty-three numbered paragraphs.

Box 5.1

Core Rights in the European Social Charter (1996 Version)

The core rights specified in the 1996 text of the European Charter are:

- i) The right to work; this includes:
 - (1) A government commitment to the maintenance of full employment;
 - (2) The provision of free employment services;
 - (3) The provision of appropriate vocational guidance, training and rehabilitation;
- ii) The right to organise;
- iii) The right to bargain collectively,
- iv) The right of children and young persons to protection;
- v) The right to social security;
- vi) The right to medical assistance;
- vii) The right of the family to social, legal and economic protection;
- viii) The right of migrant workers and their families to protection and assistance,
- ix) The right to equal opportunities and equal treatment in matters of employment and occupation without discrimination on the grounds of sex;

The European Social Charter (ESC) provides for a complex system of supervision, based on national reports submitted periodically by states that have ratified the Charter. Contracting parties are only bound by those provisions that they have accepted, but the European Committee of Social Rights undertakes a systematic legal assessment of the conformity of national practice to the ESC. Their assessments are based on universally accepted criteria; they also involve the International Labour Organisation and, recently, a consideration of EU directives. This procedure implies that, in principle, the social policies pursued by contracting parties are bound by the standards set by the European Social Charter.

It is claimed that the ESC imposes legally binding commitments upon its signatories; in contrast, the EU's Social Charter remains little more than a political declaration. Further, the ESC guarantees social rights to the population as a whole (of those countries that have ratified it.) In contrast, the EU's Social Charter applies only to workers. Finally, the ESC has enforced a degree of co-operation upon European countries in safeguarding the fundamentals of a democratic way of living. In addition, after the 1996 revision the supervisory machinery has become simpler, faster and politically more worthwhile; it has also involved NGOs and social partners more deeply and explicitly. Substantively, the 1996 version of the Charter has disconnected welfare rights from employment. It has also focused more attention on poverty and social exclusion, on social protection of the elderly and children and on the full social integration of the disabled.

5.2 The European Social Model

Article 119 of the Treaty of Rome allowed the European Commission to develop initiatives in the area of equal pay—and gender relations. After 1975 the European Commission (EC) also initiated a number of action programmes on poverty and social exclusion; but this activity was challenged—by Germany—on the grounds that the EC did not have a mandate to operate in this area. This put a temporary halt to European initiatives in the field of social policy.

The Single European Act (SEA) led to significant progress towards market integration; this was reinforced by EMU—and preparations for it—after the Treaty of Maastricht. This market integration was accompanied by both globalisation and technical change. These developments resulted in more or less extensive changes to European labour markets—and some recognition of a need for common policy responses. At the same time, the SEA provided some capacity for joint action: it extended the areas in which qualified majority voting could be used, in particular, to modify actions or institutions that resulted in distortions to competition; and to cope with situations which threatened the health or safety of workers. This led to proposals for a social chapter to be included in the Treaty of Maastricht. As is now well known, this was opposed by the British but insisted upon by the French. To resolve the dispute, the Social Charter was signed by eleven member states—and a so-called Social Protocol attached to the treaty. With the election of a Labour Government in 1997, the dispute was resolved and Britain signed the Social Charter.

The European dimension to social policy has been developed in part through the decisions of the European Court of Justice (ECJ) in the wake of the adoption of the Single European Act (SEA). These include so-called negative reforms due to the ECJ's imposition of market compatibility requirements. The ECJ has limited state autonomy over the payment of benefits to foreign (EU) nationals working in member countries. As a result, it is suggested that "exportability" of benefits is more compatible with so-called Bismarkian (contribution-based) systems than with Beveridge (universal flat-rate) systems.

Further, In pursuit of the labour mobility objective of the SEA, the ECJ has limited a state's control over its social policy in the following ways: states may no longer restrict social benefits to their own citizens; they no longer possess the right to decide whether other EU nationals are entitled to particular benefits. States may no longer confine the payment of benefits to their own territory. States may no longer entirely prevent other social policy regimes from competing with themselves on their own territory. States no longer enjoy the exclusive right to determine who is entitled to receive benefits under their regime.

Positive reforms due to social policy initiatives by the ECJ or the EC include indirect pressures to adapt social policy to avoid potential negative consequences of market integration. The SEA provides for a free market in the provision of services. The ECJ has interpreted this as *not* applying to non-market provision of services but as applying to market or mixed systems—and hence as applying to the French and German healthcare systems but not the British National Health Service.

It has been pointed out that the two principles—of the free market in services and national autonomy over social policy—contradict one another. If the ECJ insist that the free market principle applies to social services, either: competence of the EC to regulate and control this market must be extended; or member states must coordinate and harmonise their systems voluntarily; or, possibly, national systems must opt out of market supplied services. This potential contradiction has yet to be resolved.

5.3 European Employment Policy

The next step towards the development of a common European approach to the formulation of social policy occurred in the field of employment policy. The persistence of high levels of unemployment in Europe in the 1990s led to calls for a community initiative in this area. This was provided by the White Paper on Employment prepared by the EC under Delors. This claimed that unemployment in Europe has common roots and, hence, should be tackled by a common response—even though at the time the EC lacked the competence to do so. The Delors White Paper linked the solution to unemployment with the ideas of economic growth and improved competitiveness. The White Paper's proposals were rejected by the European Council, but its analysis was accepted. This led to the formulation of the so-called Essen Priorities—decided upon at the European Council meeting in Essen. These were to be translated into an action programme by each member state; programmes were to be reported to the Employment and Social Affairs Council and to ECOFIN. These two bodies would examine members' employment policies and report on them to the European Council. The Dublin Council proposed complementing the Essen priorities with a common set of employment indicators. Member states were to be required to make use of these indicators in characterising the employment situation in their territories—and measuring progress. It was expected that the use of common indicators would strengthen the process of peer

review—and hopefully would achieve a degree of convergence in policies. The Treaty of Amsterdam consolidated the developments of the preceding five years or so: it provided a definition of common objectives in employment policy; it also established the Employment Committee with a mission to monitor the employment situation and employment policies in member states and to formulate evaluative assessments in accordance with Art 128 of the treaty.

5.4 European Social Fund

In the context of Agenda 2000, the European Social Fund was reorganised to provide a degree of financial support for the objectives of the European employment strategy. But, given the size of the fund and the opposition among members to any significant increase in the EU's budget, financial incentives have never played more than a minor role in the formulation and implementation of policy.

5.5 The Open Method of Coordination

The procedure by which European employment policy had been developed in the 1990s was generalised to other areas of social policy and defined as the Open Method of Coordination. This is the latest step in the process of developing a *European* competence in the area of social policy. The so-called Open Method of Coordination (OMC) is defined as consisting of the following five components: the definition of common objectives—formulated at a supra-national level; the establishment of a common set of quantitative and qualitative indicators by which to describe performance—and assess best practice; the translation of EU objectives\guidelines into national action plans—formulated at the national level; the possible use by the EU of financial instruments and incentives in support of national action plans and the attainment of community objectives; and, finally, the evaluation and benchmarking of national performance by a process of peer review; this is the fundamental element that allows OMC to be a learning process. The European Council, meeting in Lisbon, not only extended the so-called OMC to areas other than employment policy—and in particular to the fight against poverty and social exclusion—it strengthened the logic of mutual learning, benchmarking of best practice and peer pressure to achieve commonly agreed objectives.

In summary; The European Union has developed a regulatory system, based on a human rights approach, to which all member States are subject. According to its charter, the European Union “respects and promotes the universal principles as laid down in the Universal Declaration on Human Rights and its complementary International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights. The Union’s activities are also based on the main international and regional instruments for the protection of human rights, including the European Convention on Human Rights”. This approach is further enshrined in the Amsterdam Treaty, signed in 1999, into which a new article was introduced that reaffirms that the European Union “is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law, principles which are common to the Member States”. These principles include social security, education and health policy.

VI. Lessons for the Arab World

Arab countries can integrate. The integration and globalisation of Europe is a result of the common factors and behaviour (e.g. flexibility, adaptations, coordination, trust

and commitment) among these countries. The Arab countries too have common factors, e.g. religion, language, customs, traditions, etc. but they are yet not able to integrate in order to create a balance in the globalisation era.

The European experience of attempts to integrate social protection policies reveals that states have relied upon two mechanisms:

1-The European Social Charter devised by the Council of Europe in 1961 and revised in 1996;

2-The Social Charter of the European Union—and more recently—the so-called Open Method of Coordination of Social Policy.

The Council of Europe is an intergovernmental organisation and its Social Charter is, formally, a treaty. Such a framework may be more appropriate for the co-ordination of policies between Arab states.

The European Union is more than an intergovernmental organisation; it contains a set of supra-national institutions—particularly the European Commission and the European Court of Justice. These have played a significant role in the coordination of the social policies of member states—even though the EU has lacked formal competence in the area for much of the last half-century. Such a framework may be less appropriate for Arab states—which lack an equivalent supranational organisation.

The Council of Europe's approach allows states a degree of choice over the social rights that they undertake to maintain for their populations. The European Social Charter provides a menu, as it were, of possible social rights that European states collectively think it both feasible and desirable for states to guarantee for their citizens. Individual states may select from among these rights/policies those which are both affordable and which conform to local cultural, social and political values. The EU approach is somewhat more prescriptive. Once member states have agreed to the priorities—formally chosen by the supranational level, but in fact agreed upon by the European Council (a meeting of heads of government or state of all member countries) they are imposed upon all members, although member states enjoy a degree of autonomy in deciding how European social (or employment) policy priorities are to be implemented. The pick-and-mix approach of the Council of Europe may be more appropriate for Arab states, characterised by differences in social ideology and values as they are.

Formally, the EU approach contains the possibility that Social and Cohesion Funds can be used to support the social protection policies adopted by individual member states. But, given the size of the EU budget and the resistance of member states to increasing it, this option has played a small role at best in the integration of the social protection policies of member states. The absence of an equivalent supranational organisation of Arab states, with its own budget, means that such an instrument would not exist among them.

Despite organisational differences, both frameworks involve the evaluation and assessment of their social policies. Both frameworks involve experts and social partners in this exercise. The Council of Europe approach also involves the International Labour Organisation.

a) In neither case are there explicit sanctions for states that fail to honour their commitments in the realm of social policy; b) Compliance is achieved—insofar as it is—by the publication of expert assessments and the desire on the part of signatory states to avoid adverse publicity of criticism. If Arab states are to adopt either

framework as a means of bringing about greater integration of their social protection policies, it is important that censorship not be used to frustrate transparency in the assessment and evaluation of policies.

VII. Recommendations

1- It is important to formulate and adopt a clear social vision or policy based on the integration of social and economic development, in order to form a broader concept of human development in its widest sense. In this way, it will be possible to avoid viewing social policies as merely secondary to economic growth and to ensure that concern is not given to social development at the expense of the economic dimensions of development, or that high rates of economic growth and economic progress are not viewed as essential preconditions for achieving social development goals;

2-It is important to promote in decision makers the political will to carry out all the economic, social and cultural dimensions of that comprehensive concept of development, and to incorporate that will in such specific documents as the development plan and the State budget and in specific legislation and laws that enable the plan to be carried out and make it possible for the political and cultural conditions to be met that are necessary to the successful meeting of its goals;

3-Realizing that the ultimate goal of social development is to improve the quality of life for all people, It is required to establish democratic institutions, to respect for all fundamental human rights and freedoms, to increase adequate economic opportunities, establish the rule of law and the active participation of civil society;

4-In dealing with social development issues, the starting point should be the reality lived in each country and its particularities. The benefit of other countries experiences should be in determining the general principles and the basic expertise, taking into account cultural specificities and the national characteristics of our societies and interacting positively with the loftiest humanitarian values that comprise the basis and content of contemporary human culture, to the development of which our societies have contributed.

5-Lessons should be learned from the experience of EU in dealing with cultural differences and their success in using social development policies to achieve social integration for a wide range of culturally and racially disparate population groups.

6-Each country should be careful to ensure that the formulation, implementation and follow-up of social policies take place as part of the process to increase participation by NGOs, civil society, the media, research centres and Government bodies, and that each party has specific responsibilities to undertake, which are coordinated between them. Sufficient material, monetary and human resources must be allocated to ensure that policy goals are achieved and continuously adjusted in the light of social needs and problems and regional and international circumstances. Coordination committees should be formed, comprising representatives of all the parties, including the private sector, in order to activate their partnership.

7-Participation should be increased at all levels and stages of the formulation and implementation of social policies, identification of needs, formulation of texts, application, follow-up and evaluation. The greatest possible number of institutions should be involved, including political parties, labour unions, trades unions, the private sector, NGOs, academic institutes and the media. Mechanisms for the

advancement of women must be supported and appropriate mechanisms and strategies must be adopted for coordinating between them;

8-Attention should be given to the preparation of qualified human cadres for the efficient administration of the social development process;

9-Research should be undertaken into various means of increasing the financial resources available for social policies. The importance should be emphasized of the role of *zakah* (alms) and the allocation to it of funds that can take from the rich and spend on the poor, through institutions that have the confidence of society with respect to their handling of their funds. The role of *awqaf* (religious endowments) should also be more effectively exploited in Arab countries.

10-Assist local communities in the implementation of local activities , and overcome the limitations present, which include centralization of decision-making, lack of local funding mechanisms, and government bureaucracy, to give a chance for local NGOs and local communities to share in decision making, planning, implement and evaluation.

Appendix

Country Specific Social Policies in Some Arab Countries

Tunisia

Special programs aimed at reinforcing the social dimension of the comprehensive development strategies. Funds allocated to cover social services, reached up to 500 d per capita in 1999 as compared to 200 d in 1987. The rates of social funds were sustained at 20% of the Gross National Product, in spite of the implementation of economic reforms, which usually have negative effects on social expenditures.

Special programs concerned with the reduction of poverty and the amelioration of the living conditions of the poor, could be subdivided into three categories:

- 1- Social Assistance programs based on the social concept of exclusion.
- 2- Programs concerned with upgrading the peripheries based on the geographical concept of exclusion.
- 3- Special mechanisms to support women, based on the concept of gender-based support.

1- Social Programs: Social Assistance and Health Care Programs:

These are basically relief programs aimed at providing assistance to the poverty stricken families, who have lost their providers , or whose members were unable to engage in income-generating activities due to personal reasons (such as chronic disease, disability , old age or childhood), or due to social reasons such as widowhood or divorce, that are coupled with the necessity to provide for young children, who are unable to work. Most of those programs aim at providing a minimum amount of income or services to help the target families in meeting their needs. These programs could be classified into:

- The National Program for Poor Families.
- The free medical assistance program.
- Seasonal and circumstantial assistance.

The National Program for Poor Families

It is considered one of the most important social relief programs on account of the number of families served and the size of funds provided. Services delivered by the program are mainly periodical financial assistance offered to the poor families, based on the criteria specified by the relevant authorities in the Ministry of Social Affairs, in charge of managing the program. The annual grant amounts to 436 dinars that are dispensed to the beneficiary once every three months. The overall amount of the funds allocated for the year 2000 amounted to 49.6 million dinars. According to the survey carried out by the Ministry of Social Affairs, the total number of beneficiaries reached up to 370000 individuals. 90.2% of those beneficiaries are the heads of the families, 62.2% among which are females, while 69.2% are the elderly (above 60 years) and 17.7% are disabled.

The Free Medical Assistance Program

This program is a crystallization of the motto ` every citizen is entitled to health`, which has been propagated by the Tunisian law (law no. 91 - 93 of 1991). It aims at providing treatment opportunities and health care for the needy families. This program enables the poor to benefit from all the free health care services provided by the public hospitals. Needy families that are not covered by any kind of social

insurance system could make use of the above mentioned services for a symbolic fee. In addition to this health coverage aimed at assisting poor families and especially women, complementary programs are also offered to provide mother and child care, as well as birth control programs directed exclusively at women.

The Seasonal and Circumstantial Assistance Program

This program, supervised by the Tunisian Union for Social Solidarity, a state-sponsored NGO, provides assistance to poor and needy families on religious and national occasions, as well as in the cases of family emergencies. According to data available at the Tunisian Union, the size of funds supplied at the beginning of the school year or on religious feasts, from 1997 till 2001, exceeded 60 million dinars. The average number of the recipients per year amounts to 400,000, noting that those funds are delivered to families, which signifies a gender balanced distribution.

As to the assistance provided in emergencies or personal circumstances, statistical data provided by the Union reveal a percentage of female beneficiaries, which exceeds 57% of the total. Among those, 16.5% are allocated to widows, while 7% are allocated to divorcees, which indicates that women are more vulnerable to the difficulties and hardships of the daily life.

2- Economic and Social Dimension Programs

Following the economic transformations witnessed by Tunisia in the eighties and nineties in the aftermath of the economic structural adjustments plans carried out by the Tunisian state and its opening up to the outside world, a strong need was felt to tackle the ensuing problems of poverty and unemployment. Those two related phenomena were considered a national priority, due to their impact on the stability of the state. Henceforth, a score of initiatives were made by the state starting from the early nineties up till the end of the 20th century. Those initiatives included the establishment of special institutions to deal with the two phenomena actively:

- Programs for the reintegration of the youth into the labor market, in force since 1987
- The establishment of the National Solidarity Fund in 1993
- The establishment of the Tunisian Bank of Solidarity in 1997
- The establishment of the Micro-Finance Fund in 1999
- The establishment of the National Employment Fund in 2000

A survey of the above mentioned programs has revealed the following:

- 1- The diversification of those programs, which take the social, economic and geographical aspects of poverty into account.
- 2- These programs target the family as the basic social unit in need of support and care.
- 3- The increasing importance of economic and social integration programs.
- 4- Women have had their fair share of all these programs in the late nineties.
- 5- The increased concern with helping women to lead an economically active life and to force their way into the labor market.
- 6- The priority assigned to small-scale enterprises and to self-employment by the programs dedicated to the reduction of female poverty.

Bahrain

The importance of the Bahraini approach to social development lies in its attempt to achieve a balance between economic growth that is realized through diversification and moving away from dependence on the oil sector, and ensuring that economic growth is in tandem with the human capital. It also attempts to improve the population's living conditions by facilitating opportunities for it to meet its basic needs. While the concept of social policy has developed in Bahrain since the 1990s, and social policies are being reformulated with a view to their becoming a mechanism for achieving comprehensive development and encouraging greater coordination between the various ministries involved with sectoral social policies, the social remains subordinate to the economic, and there is no complementarity between the inputs and outputs of each, as is indicated by the fact that there is an unemployment problem, amongst young people in particular, while certain professions are shunned and foreign workers must be used. Bahrain has announced its interest in income distribution, achieving greater social integration and full employment and in dealing with poverty. It is therefore attempting to abandon social policies that are based on Government charitable work in favour of social development as understood by the United Nations Development Programme (UNDP) and United Nations Population Fund.

Nevertheless, the question remains whether it is possible for Bahrain to continue to be a welfare state, or whether the global changes have made it imperative to develop bridges of participation between the private sector and civil society organizations, in order to compensate for what the State is unable to achieve alone.

The activation of the Bahrain National Charter, which was promulgated in 2001 and provided basic guarantees with respect to civil society and its participation, will help to continue the successes that Bahrain has achieved in the field of social policy.

Lebanon

Foremost among the particularities that distinguish Lebanese society from other Arab societies are the multiplicity of ideologies and sects; the small population; and the small area of the country, which makes it more dependent on the service economy. Its human capital is highly skilled, experienced, dynamic and ready to improve itself. Lebanon has suffered from the occupation and civil war, which ruined many of the basic components of the infrastructure and had a profound impact on social issues. The Lebanese Government has interested itself in social affairs since 1958. In the 1960s, the institutional and organizational frameworks for social action were established and the amount of public expenditure on basic social services was increased. Nevertheless, not a great deal of difference was made to the social divide in the country. With respect to economic growth policies, an economic environment that is conducive to social development, based on the balanced economic growth of the widely different social and economic sectors and the various regions, has yet to be established in Lebanon. Furthermore, political participation is of especial qualitative importance in such a multi-confessional society as Lebanon, where religion can be a mechanism for achieving social cohesion and integration. When considering some of the important qualitative issues including unemployment, poverty, the gender divide and social integration, it may be concluded that State-undertaken social activity in Lebanon is sufficient in neither quantity or quality to deal with all the problems and, in particular, that of unemployment, narrowing the discrepancies in income distribution and the eradication of poverty. It cannot be expected that, when it comes to priorities at economic and social level, a comprehensive, integrated official social policy can be formulated in the absence of a proper database. The likelihood that

social problems can be resolved or alleviated is dependent upon economic success, which is hampered by the size of the national debt and the unstable political situation.

Palestine

Social Development efforts in Palestine have been the focus of local and international attention, due to their serious effects on the current political developments. Donor nations have allocated a major part of their assistance funds to the basic social services such as health and education, as well as to the finance of projects that have direct and visible effects on the standards of living, which have recently gone from bad to worse. Thus funds were allocated to the subsidy of the employees of the Palestinian Authority, and were mainly channeled through the emergency employment or relief programs.

Means applied to Social Development

1- Assistance

The aid received by the needy is usually their major source of income. The Ministry of Social Affairs is the most important institution in charge of providing material and financial assistance to the poor. Poor needy families receive help on the basis of a number of criteria, such as widowhood or old age (48.6%), physical disability (34%), the absence of the husband (31%), the absence of the income provider (7.9%), orphanage (5.5%) and the insufficiency of income (5.9%). The second largest institution in charge of assisting the poor is the Relief and Employment Agency for Palestinian Refugees, which usual extends assistance to the poor refugees. As to the third institution in charge of assisting the poor, these are the alms committees, which extend their assistance seasonally, especially during the month of Ramadan and the feasts. Other services are also provided such as education, vocational training and health care. A score of charity organizations contribute financial and material assistance to the needy families. Direct voluntary charities extended by the families and kin of the poor are one major manifestation of the feelings of social solidarity. However, such acts are not constant and involve no commitment or obligation on the part of the donor.

2- Vocational Training and Rehabilitation

A host of governmental and community organizations provide free training services to the poor, with the aim of empowering them and enabling them to find employment , to ensure them a decent standard of living. Being the poorest social group, women were the target of a number of special programs. The Ministry of Social Affairs has implemented a sewing training program, helping women directly in obtaining employment. The needs expressed by factories and the required skills were assessed and women were trained and employed by those factories accordingly. The Relief Agency has also contributed through the establishment of Youth training centers in the refugee camps, which provided training services to women, helping them to open up workshops .Women `s cooperatives were also established to help in the employment of women.

3- Job Opportunities

Due to the fact that unemployment has been the major source of poverty in Palestine, a score of institutions have contributed to the provision of employment opportunities to young men and women. Bekdar ,the Palestinian Institution for Reconstruction and

Development is one of the major institutions which extend their assistance to those looking for a job. However, since its major activities are in the area of infrastructure, women are not a major recipient of its services. The Ministry of Agriculture, on the other hand, adopts a program, providing employment to agriculturalists and farmers with minimum wages. A number of women have benefited from those programs, noting that female farmers were assigned home-based activities.

4- Official Institutions implementing female lending programs

Women have been generally unable to meet the basic lending stipulations imposed by the banks. Therefore, a number of official institutions, such as the **Ministry of Social Affairs**, have decided to adopt a lending program to help women in starting small enterprises. Those women were offered the necessary training in the fields of administration, accounting and marketing. They were also provided with the collateral guarantees required by the lending institutions, thus empowering those women through self-employment. The Ministry of Social Affairs has also set up a bureau for poverty alleviation, in charge of extending financial assistance and health care services to the poor women.

5- Local and international NGOs establish special female lending projects¹

In the mid eighties a number of local NGOs have worked on establishing lending and development institutions, with the objective of improving the living standards of the Palestinian family. Loans were extended to be invested in income-generating enterprises.

6- Empowerment Programs

Deprivation is the twin of poverty. Feelings of deprivation among the poor lead inevitably to a score of psychological and social problems. Most of the needy families have imposed some kind of social isolation on themselves, due to their inability to pay the costs associated with social visits.² Researchers have traced numerous manifestations of frustration and despair among the poor, a great number of which resorted to some kind of fatalistic explanations to justify their poverty and to feel better about their conditions. A number of women's organizations such as the Women's Affairs Team have adopted empowerment programs that are directed at women, especially in the rural areas, to help them restore their self-confidence and their power to change. Those programs attempt to increase women's awareness of their political and social rights, and provided them with the necessary information to access services and lending institutions.

Attempts were made to approach different mass media to change the predominant view of women and their role in society and to refute common misconceptions. Most of the ministries have assigned a department to handle the affairs of women. The role of those departments vary from one ministry to another. The National Committee for Upgrading Women has been formed lately to follow-up the implementation of the Beijing resolutions. A statistical department which handles the two genders has also been established.

¹ The Palestinian National Authority, Ministry of Planning and International Cooperation, Department of Planning and the Development of Women's Participation, Lending policies, and the equality of access to men and women

² The Development Studies Program, Beir Zeit University, Poverty in Palestine, Case Study, Hadil Risk Al Qazaz and Nader Ezzat Said, 1999

Still one could say that the political situation in Palestine is the major cause of the deteriorating economic situation. The absence of social equity, as well as the unbalanced access to wealth are among the major causes of poverty. The socially marginalized are the most prone to fall prey to poverty. Those are represented by the elderly, the disabled, the women, the residents of the remote villages and the refugees. A comprehensive assessment of the psychological and material conditions of the poor is a prerequisite to escaping poverty. Support should be extended to poor women in the form of training, as well as the opportunity to participate in the productive process. Women should be allowed to make an input in the making of decisions, which affect them, noting that participatory decision-making is one of the major factors of success of a project. This in turn dictates upon the policy makers of the Palestinian Authority, the need to formulate a medium-term development strategy, which is based on the upgrading of the infrastructure, as well as the amelioration of the educational and health services delivered in the villages and in the refugee camps. Special attention should be dedicated to the task of bridging the enormous gap in the distribution of the national income. Investments should focus on the productive sector, as well as the development of the infrastructure. Such measures would be helpful in abandoning the concepts of relief work and philanthropy in the fight against poverty for a more balanced and sustainable development concept. Until such a vision is fulfilled, the existence of social protection networks would help in providing a reasonable amount of protection for the poor. The coordination between those institutions within a framework of partnership, would help the poor in diversifying their options and would boost their abilities to make a better use of the available alternatives.

Egypt

Most of the economic indications refer to Egypt's success in the implementation of the structural adjustment program, as well as its ability to attain economic stability. Egypt currently enjoys a robust financial position, which would undoubtedly improve its chances of attaining rapid growth rates as per the forecasts of the World Bank (1997). However, such achievements have to be viewed in a more comprehensive framework, which takes into account the many challenges facing the state, especially those of poverty and unemployment. In 1995, unemployment in Egypt amounted to 10-13% of the total labor force. A high level of unemployment was recorded especially in the informal sector. Poverty rates are still rather high, amounting to 28% in 1996. Some studies indicate an increased rate of poverty between 1991 and 1996. The continued existence of the phenomenon of poverty among specific social and economic groups during that timeframe is an indication of the existence of a number of economic and social factors, which are at the root of the phenomenon. The question now is, what are the measures undertaken by the state regarding the elimination of poverty and the redistribution of wealth?

State efforts for Social Development

Poverty is a very critical issue. Its existence is denied by most of the public officials, who are well aware of the negative effects of the structural adjustment policies on the standards of living of the low-income social sectors. Thus, a number of policies aimed at supporting those classes, were formulated and executed.

Notwithstanding the absence of a specific state authority, which bears the responsibility of planning, monitoring and coordinating the numerous programs and

activities directed at the poor, the Egyptian state has adopted a multi-dimensional strategy to improve the living standard of its citizens. These included income generating activities, human capital and social network strategies.

The Ministry of Planning has formulated general economic and social development plans on the short , medium and long terms, that were translated into action plans by the different ministries and state institutions. The government is also attempting to fight poverty in a number of ways, such as the direct assistance extended by the Ministry of Social Affairs, the provision of free education, literacy campaigns carried out by the Ministry of Education, free health services delivered by the health clinics and a host of local hospitals affiliated to the Ministry of Health ..etc. Goods subsidies are also provided by the Ministry of Supply and Internal Trade, and rural development projects are implemented by the Ministry of Agriculture.

Efforts exerted on the total economic level

The Egyptian price-fixing experiment is one of the most impressive of its kind at the international level. It succeeded within a relatively short timeframe in rectifying most of the errors in the overall economy, and was able to reduce the inflation rate from around 20% to 3.8% in 1997-98 . In addition, a breakthrough was made in mending the basic shortcomings of the economy (such as the real negative interest rates). Efforts were made to accumulate extensive foreign currency reserves.

On the other hand, social protection measures were sustained . Basic food items such as bread were still subsidized, while the overall number of subsidized goods was reduced. However, the subsidy system has become more focused. Educational and health services provided by the state were extended, which was gradually reflected in a lower rate of infant mortality, life expectancy at birth, as well as increasing literacy rates.

The Social Development Fund was established to address the negative effects of the economic reforms on the short-term. Social expenditures were thus sustained, while budgetary cuts were only restricted to the domain of public investments.

Human Capital Accumulation Efforts

Educational Policies:

The Egyptian government is well aware of the importance of education as an important means of realizing economic growth, reducing poverty and enhancing social equality. The productive capacity of the state depends highly on its accumulated human capital.

Illiteracy:

Illiteracy has been identified as the main reason for the exacerbation of poverty. Thus, the fight against illiteracy is imperative and should be the target of collective governmental and nongovernmental efforts. In addition to the improvement of the internal capacity , and the amelioration of the services provided by literacy programs, efforts must be channeled to invigorate the nongovernmental sector, to take part in delivering those services.

Since the early nineties, the state allocated increased funds to the reduction of illiteracy. The General Association for Literacy and Adult Education (GALAE) was consequently established with the support of the Social Development Fund, extending

its literacy programs to cover the whole country. Enormous governmental funds were allocated to those literacy campaigns, increasing from LE 6 million in 1992-93 to LE 97 million in 1995-96. An additional LE 105 million fund was contributed by the Social Development Fund. Governmental services in the field of fighting illiteracy, thus, covered all 26 governorates. The contribution of the nongovernmental sector was extremely effective, noting that fighting literacy has been a basic element of the services delivered by the NGOs to the community (in addition to health services and small loans). (Asaad 1998)

Health Care:

Egypt has a relatively efficient network of institutions and health care facilities, which cover rural as well as urban areas. Egypt has been one of the pioneer states in the region to put up a comprehensive health care system on the national level. However, in spite of the latest developments in the occurrence of some diseases, as well as the extensive number of the employees of the health sector, health indicators remain relatively low compared to the criteria of other developing nations. Most of the health problems witnessed in Egypt could be attributed to poverty, the unhealthy environment as well as the limited financial resources allocated to that sector. In addition, the treatment approach adopted by the health care system in Egypt has failed to address the real problems facing the health care sector, which are epidemic in nature, thus necessitating the adoption of preventive medical techniques.

Safety Networks:

Safety networks were formed in Egypt prior to the economic reform and structural adjustment era. They were a function of a complicated system of diffused subsidies, financed by the state budget and covering basic food items, housing, transportation, electricity, energy, education and health services. In addition to the assistance delivered to numerous families, and the financial aid extended to the poor sector through the Ministry of Social Affairs, interest-free loans were provided by the Nasser Social Bank, as well as soft loans which were extended to the unemployed youth, to finance their income generating micro-enterprises.

The Social Development Fund

The Social Development Fund was established in January 1991 a per decree No.40. However, it became officially active in 1993. The Social Fund is one of the important and effective models in the field of the development of small-scale economic enterprises. Its achievements are impressive even when compared to other funds at the international level.

The Social Development Fund is a semi-autonomous governmental institution under the direct supervision of the prime-minister. It is funded by the Egyptian government in cooperation with the World Bank, the International Development Agency, the European Union and a score of other Arab funds and donors. The Social Development Fund was established to protect and ameliorate the living conditions of the poor and the unemployed throughout the economic reform era. Its mission is to facilitate the implementation of Egypt's economic reform plans through the dilution of the negative effects, that structural adjustments have on the low-income sector, as well as through the reinforcement of Egypt's institutional capacities both at the governmental

and non-governmental level, to develop new social programs and to update existing ones.

The objectives of the Fund are realized through the reinforcement of income generating activities and labor, as well as the provision of basic social services, the encouragement of local participation and awareness with the help of five basic programs: The Public Works Program, the Community Development Program, the Enterprise Development Program, the Human Resources Development Program and the Institutional Development Program.

NGOs

There are currently around 14,000 nongovernmental organizations registered as per Law No.32 for the year 1964. They are affiliated to the Ministry of Social Affairs. As per the above mentioned law, those organizations are to be registered, whether they are welfare organizations active in one specific area, or community development institutions with multiple activities. The financial resources of those NGOs are mainly the service fees obtained in return for the services they deliver, or the sales revenues of their products, as well as local charities, and the donations made by the Ministry of Social Affairs and other governmental agencies, as well as some foreign funds. At any rate, the nongovernmental sector is still not ready to assume a larger role in fighting poverty (Asaad,1998). In spite of their relatively large number, (14,000 active in different fields and covering an extensive geographical area), the majority of those NGOs suffer from institutional problems and restraints, as well as limited financial capacities, which prevent them from playing an effective role in the development process.

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Annex Tables

Table (1) Human Development Indicators according to gender

Per Capita National Product		Enrolment rates		Literacy		Life Expectancy		Human Development Guide According to gender	Nation
males	females	males	females	males	females	males	females		
				94.2	82.6	59.1	71.8		Jordan
24758	5398	66	72	73.4	77.1	74.1	76.7	0.793	UAE
19355	4799	78	82	90.2	81.2	71.3	75.5	0.803	Bahrain
7982	2772	74	68	97.4	57.9	68.6	71	0.688	Tunisia
7467	2051	71	64	76.5	54.3	67.7	70.6	0.661	Algeria
16179	2663	58	54	82.8	64.4	70.2	73.7	0.715	Saudi Arabia
2139	645	37	31	68	43.4	54	56.8	0.453	Sudan
4530	1218	63	56	87.2	58.1	66.9	71.5	0.636	Syria
5352	966	57	44	63.9	43.2	62.3	65.3	0.548	Iraq
16404	2651	60	57	78	57.5	69.1	73.5	0.697	Oman
28508	6624	72	75	79.8	81.7	70.2	75.6	0.807	Qatar
36466	13347	56	59	83.7	78.5	74.3	78.4	0.827	Kuwait
6777	1985	76	77	91.5	79.1	68.3	71.9	0.718	Lebanon
10634	2452	92	92	89.6	65.4	68.5	72.4	0.738	Libya
4463	1576	77	66	65.5	41.8	65.1	68.3	0.604	Egypt
4743	1865	56	43	60.3	34	65.2	68.9	0.57	Morocco
1122	311	70	27	65.7	22.7	57.9	58.9	0.389	Yemen
6341	1837	65	54	71.5	57.3	64.6	67.5	0.612	Arab nations
4334	2169	63	55	80.3	64.5	63.2	66.4	0.634	Developing nations

Source: Human Development Report 2003

Table 2: Illiteracy ratio of population aged 15+ and population 15-24 for ESCWA countries by gender for 1980 and 2000

				Country
Population 15+ (%)		Population 15-24 (%)		
2000	1980	2000	1980	
12.4	28.6	1.6	9.7	Bahrain
44.7	60.7	30.4	48.2	Egypt
42.3		24.1		Iraq ⁽¹⁾
10.2	31.6	0.5	8.9	Jordan
17.7	32.4	7.1	19.4	Kuwait
13.9	27.6	4.7	12.4	Lebanon
28.1	63.2	2.0	39.7	Oman
13.9		2.9		Palestine ⁽²⁾
18.7	30.2	5.1	16.7	Qatar
23.0	47.7	6.9	25.9	S. Arabia
25.6	46.7	12.9	29.4	Syria
23.5	34.4	9.0	24.5	U.A.E.
53.8	79.8	35.6	68.4	Yemen

Economic and Social Commission for Western Asia, Statistical Abstract of the ESCWA region, 20th issue, United Nations, 2000.

Table 3. Female to Male ratio according to Human Development Indicators

	Literacy Rate (+15)		Literacy rate (15-24 years)		Enrolment Rate in basic Education	
	Female	Gender Equality index (female/male)	Female	Gender Equality index (female/male)	Female	Gender Equality index (female/male)
Jordan	85.1	89	99.4	100	94	1.01
UAE	79.8	106	94.7	108	87	1.02
Bahrain	83.2	91	98.7	100	97	1.01
Tunisia	61.9	75	89.8	92	99	0.99
Algeria	58.3	76	84.6	90	97	0.97
Saudi Arabia	68.2	82	91.0	96	56	0.92
Sudan	47.7	68	72.9	87	42	0.83
Syria	61.6	69	79.7	83	94	0.95
Palestine						
Iraq	63.5	78	96.8	97	64	0.99
Oman	..	..	..	..	98	1.02
Qatar	83.7	104	97.3	105	96	1.01
Kuwait	80.3	95	93.6	102	65	0.95
Lebanon	81.0	88	93.3	96	74	1.00
Libya	69.3	76	93.5	94	..	..
Egypt	44.8	67	63.7	83	90	0.95
Morocco	37.2	59	59.7	78	74	0.91
Yemen	26.9	39	48.5	58	49	0.58
Arab countries	48.8	68	69.6	83	73	0.90

Developing countries	67.1	82	80.9	91	79	0.93
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Source: Human Development Report 2003

Table 4. Participation rate in the labour force

	Female Participation rate in the labour force	Index (1990=100)	Gender Equality index (female/male)
Jordan	27.1	160	35
UAE	31.8	109	37
Bahrain	33.8	119	39
Tunisia	37.2	113	48
Algeria	30.2	158	40
Saudi Arabia	21.6	145	28
Sudan	35.1	114	41
Syria	28.9	122	37
Palestine			
Iraq	19.6	154	26
Oman	9.3	148	13
Qatar	41.6	126	46
Kuwait	36.5	96	48
Lebanon	29.9	123	39
Libya	25.3	123	34
Egypt	35.4	117	45
Morocco	41.6	107	52
Yemen	30.6	109	37
Arab countries	32.7	117	41
Developing countries	55.7	101	67

Source: Human Development Report 2003

Table 5. Percent of education expenditure

Country	Percent of education expenditure (as % of)		السنة Year
	Gross national product	Government expenditure	
Bahrain	4.4	12.0	1997
Egypt	4.8	14.9	1995
Iraq	4.0	6.5	1985
Jordan	7.9	19.8	1985
Kuwait	5.0	14.0	1997
Lebanon	2.5	8.2	1996
Oman	...	16.4	1997
Palestine	...	...	...
Qatar	2.6	7.2	1980
S. Arabia	7.5	22.8	1997
Syria	4.2	13.6	1996
U.A.E.	1.8	16.3	1995
Yemen	6.3	21.6	1994

Economic and Social Commission for Western Asia, *Statistical Abstract of the ESCWA region, 20th issue, United Nations, 2000.*

Table 6. Child health and nutrition Indicators

Weight-for-age (-3SD)	Height-for-age (-3SD)	Year	Immunization (All)	U-5 MR	IMR	Year	Country
2.42	0.51	1995	1.00	0.82	0.87	1995	Bahrain
1.00	1.03	1992	1.01	1.07	1.01	1995	Egypt
1.00	0.72	1997	1.01	0.81	0.79	1997	Jordan
1.04	0.87	1996	0.97	0.79	0.92	1996	Kuwait
...	0.76	1996	1.04	0.95	0.95	1996	Lebanon
3.90	0.95	1995	1.00	0.93	0.93	1995	Oman
...	...	...	1.00	0.94	0.94	1998	Qatar
0.67	0.72	1996	1.00	0.89	0.89	1996	S. Arabia
1.14	0.85	1993	...	0.90	0.90	1993	Syria
0.97	0.82	1995	1.01	0.74	0.74	1995	UAE
1.12	1.16	1999	0.93	0.89	0.89	1997	Yemen

Economic and Social Commission for Western Asia, *Statistical Abstract of the ESCWA region, 20th issue, United Nations, 2000.*

Table 7. Percentage of health expenditure of GDP, public health expenditure of total health expenditure, and physicians and hospital beds per 100,000 population in countries of the ESCWA region

Integrated Social Policies in Arab Countries

اسرة لكل 100000 مواطن Beds per 100000 population	اطباء لكل 100000 مواطن Physicians per 100000 population	الانفاق الحكومي من اجمالي الانفاق الصحي % Public of total health expenditure	نسبة الانفاق الصحي من الناتج المحلي % Health expenditure of GDP	السنة Year	Country
304	106	58.5	4.4	1997	Bahrain
176	77	27.0	3.7	1997	Egypt
140	51	58.9	4.2	1997	Iraq
177	53	67.2	5.2	1997	Jordan
288	173	87.4	3.3	1997	Kuwait
...	107	29.6	10.1	1997	Lebanon
222	122	54.5	3.9	1997	Oman
114	103	...	...	1997	Palestine
200	163	57.5	6.5	1997	Qatar
226	155	80.2	3.5	1997	S. Arabia
113	131	33.6	2.5	1997	Syria
280	163	81.0	2.5	1995	UAE
49	23	37.9	3.4	1997	Yemen

Source Economic and Social Commission for Western Asia, Statistical Abstract of the ESCWA region, 20th issue, United Nations, 2000.

Competition Law and Trade Integration in the Arab Region: Lessons from the European Union

Bahaa Ali El Dean*

I- Introduction

The purpose of this paper is to assess the relationship between competition law and trade integration in the Arab region and what lessons can be learned from the experience of European Union ("EU"). At the outset, it is important to note that in the view of some, it would be meaningless to discuss regional competition policy in the absence of any form of meaningful trade integration in the Arab Region or the existence of domestic competition laws in most Arab States let alone a regional competition law or any discussions in that regard. The present writer while not disagreeing with the fact that Arab economic integration remains, after fifty years of first considering it, elusive or a mere project,¹ firmly believes that the project of integration lacked, *inter alia*, the legal and regulatory structures needed not only to bring about the benefits of integration but to get the project started and on track for success. As such it is paramount to consider as an integral part of the institutional and regulatory design (or re-design) of the integration process where and how to place competition law and what lessons can be learned from the EU's experience.

The sophisticated regulation of competition found in the EU and its Member States today is very different than how it started some half a century ago. The EU's experience suggests that having well structured and flexible legal, institutional and regulatory settings implemented gradually are a condition precedent for a competition system that supports the expansion of trade. At the end of the day, if the benefits of economic integration are not enjoyed and felt by citizens of member states than integration would have failed in satisfying its objectives. It is an effective competition

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¹ Galal, A. and Hoekman, B.,(2003), "Between Hope and Reality: An Overview of Arab Economic Integration" (In: Galal, A. and Hoekman, B. (eds.), *Arab Economic Integration: Between Hope and Reality*, p.1

system that ensures that conduct and structures that negatively affect competition are prohibited. This is what the EU competition system has delivered and the fact that it was in place while trade was expanding allowed trade expansion and the benefits thereof to materialize. An equally important feature of the EU experience is the flexibility of the regulatory system that allowed it to develop and positively interact with the national systems of Member States.

Legal instruments regulating Arab trade integration have, unfortunately, not set out provisions prohibiting acts that would restraint competition and as such it might be argued that a legal vacuum does exist. This does not mean that the matter was left unnoted; the Arab League has and is undertaking efforts in this respect. It can be safely said that competition on the regional level is currently under formation and it would be a great mistake, in the context of searching for institutional and regulatory vehicles necessary for integration, to ignore efforts undertaken. Moreover, efforts have and are taking place on the national levels of Member States of the Arab League: Algeria, Tunisia, Morocco, Jordan and most recently Egypt (February 2005), these countries have introduced and are implementing them competition law, with different degrees of success.

This paper shall commence by addressing the need for competition law both on the national level and in the context of economic integration discussing the challenges of enforcing regional competition laws. This shall be followed by an analysis of regulation of competition in the context of trade integration in the Arab region. The paper shall then turn to address the EU's experience on the regulation of competition and trade integration with a view of tracing the development of the system. The EU's experience shall be contrasted with integration efforts in the Arab region and finally the paper shall conclude with remarks on the way forward.

I- Competition laws on the national and regional levels: an overview

It is estimated that in 2005 over 110 countries have adopted national competition laws; the main purpose of which is to sanction anti-competitive conduct and structures that would deprive the market from the benefits of the competitive process.² The importance of competition law has

² The OECD notes that "it is now conventional wisdom in most countries that competition has a key role to play in ensuring productive, efficient, innovative and responsive markets. Competitive forces drives firms to innovate, to develop new and more efficient production processes and to adjust products in response to changing consumer demand. Policies to stimulate competition are a key driver for improving the microeconomic and macroeconomic performance of both member and non-member economies.", Background Note by the Secretariat on Brining Competition to Regulated Industries, p. 1, Global Forum on Competition, 17-18 February 2005.

been eloquently described by the United State's Supreme Court when it has stated in 1972 that: "Antitrust laws... are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free enterprise system as the Bill of Rights is to our fundamental freedoms".³

While there might be little disagreement as to competition law being crucial to sound economic performance and, more generally, to a properly functioning market economy, different national competition legislations pursue a variety of distinct, and not always compatible objectives.⁴ These include: (i) protecting consumers from the abuses of monopolists and the anti-competitive practices of independent firms; (ii) promoting economic equity over economic efficiency (since the accumulation of recourses in the hands of the few threatens the democratic ideal, individual freedoms and economic opportunity); (iii) protecting small and medium-sized firms from being unfairly squeezed out by large competitors; (iv) dampening prices inflation and influencing unemployment policy; (v) preventing foreign economic domination by controlling mergers and take-overs of domestic firms; (vi) readdressing the inequalities which superior bargaining power can lead to.

A fundamental conceptual distinction in competition law exists between legislation focusing on dominance and on market power. Competition legislation in the United States, for instance, focuses on market power. Market power depends on the relative size or market share of firms, entry barriers and the availability of substitutes. The starting point of competition law based on market power is the recognition of the link between competition and efficiency: the more competition, the more efficient the system, and the more the consumer benefits.

Competition Legislation based on dominance includes that of several European countries, as well as the EU itself. The point of departure here is the absolute size of a supplier and its ability to influence the market. It aims to protect consumers directly, and not –as in the case of legislation based on market power- by promoting competition.⁵

³ US v. Topco Inc. (1972), as cited by Borrie, G. (1995), "The Need for Discretion in the Application of Competition Law" (In: Cheng, C., Liu, L. and Wand, C. (eds), *International Harmonization of Competition Law*), p. 225.

⁴ A list of objectives can be found in: UNCTAD, "Competition Policy and Legislation", Information Issue Number 21, UN Doc. TD/B/RBP.INF.37, pp. 12-13.

⁵ Borner, R. and Krueger, R. (1991), "The Basics of Antitrust Policy: A Review of Ten Nations and European Communities", World Bank Technical Paper, Number 160, pp. 10-18.

Although all competition legislation permit intervention in the structuring of markets and conduct of business, they vary in the scope and extent of their interference. Intervention in market structure can involve altering an industry' structural composition (e.g. by breaking up a monopolists) or preserving it (e.g. by preventing a merger). Intervention, however, can be carried out in a variety of ways. There is, for instance, no agreed definition for a "monopolist". Nor is there agreement on when a monopolist is beneficial (or detrimental), or if and when national monopolies (known as "national champions") should be encouraged. Answers to these and similar questions vary depending on the state's industrial and trade policies, which are usually influenced by the absolute size of the economy.⁶

The point that needs to be stressed is that the importance of free competition is widely recognized in market economies, as lively competition stimulates trade, inhibits excessive pricing, facilitates new entry to the market and promotes greater efficiency of production and distribution. However, in trying to attain the utmost economic benefits from competition, different laws provide different rules in respect of the scope, objectives and procedures of the law. How competition law is structured and implemented on the national level shapes up to a large degree the appreciation of different states of the role of competition and the means of intervention.

Factors affecting how competition laws are shaped on the national level are not only economical, but relate to several other factors which include: a) The constitutional and political system of the state; b) the legal system and tradition; c) public opinion including the power of consumer groups; and d) how policy makers appreciate the role and function of competition law.

It is against this national background that regional competition laws are conceptualized, negotiated, drafted and implemented.

Competition laws on the regional level

Several questions need to be addressed when discussing the introduction of regional competition laws in the context of regional trade integration.

First, is there a need for competition law to regulate inter state trade? It seems that this question has been unimously answered in the affirmative. Anti-competitive structures and practices that might negatively affect the benefits of competition on the national level can equally take place

⁶ For details see: Ali El Dean, B. (2000), *Privatization and the Creation of a Market-Based Legal System: The Case of Egypt*, pp. 138-140.

on the regional level having similar negative effects. Hence, the benefits of regional trade might not materialize for the citizens of such states absent a competition law. Moreover, setting up institutional structures for the implementation of competition law would ensure that expansion of regional trade shall take place on solid foundations.

Second, are national laws sufficient to regulate regional trade? Efforts for regional trade integration have acknowledged that national competition laws are not sufficient to regulate competition on the regional level and hence there is a need to formulate regional competition laws. This is due to several reasons: i) national laws aim at achieving objectives that are different from those needed for protecting inter-state trade; ii) national laws might vary in terms of their objectives and approaches and hence no unified rules might be found; and iii) There might exist no national laws at the time of considering regional trade integration.

Third, how should competition law regulating regional trade be shaped? To answer this question one should clearly define what is meant by regional trade integration. If what is meant is a mere preference granted to one or more countries to trade with a certain country or a trading bloc. Here probably the need would be to ensure that the trading partner has in place rules that would ensure that trade would not suffer from anti-competitive practices.⁷ In the event of the trading partner not having a competition law in place, the laws of one country or that of the trading bloc shall apply. If regional trade is meant to be an agreement between few countries whereby trade inter se shall be fully liberalized, then the concern shall be the existence of competition rules in all of these states with provisions of a mechanism to ensure how to ensure cooperation between them with a view of avoiding inconsistency in practice (e.g. NAFTA). Now, if integration would lead to a Free Trade Agreement whereby states are trading on Zero Tariff and/or a custom union is in place, some form of a regional competition law is needed to regulate structures and conduct that might affect regional trade (e.g. COMESA, SADC, MERCOSUR and SACU or the EU if a single market was the aim of integration).

In all of the above, national laws do exist hand in hand with regional laws and it is the supremacy of the latter that is shaped by objective of the regional trade grouping.

⁷ EU Association Agreements. For a discussion on rules of competition in the Association and Cooperation Agreements, see: Geradin, D. (2004), Competition Law and Regional Economic Integration: An Analysis of the Southern Mediterranean Countries, the World Bank, pp. 33-41.

This paper is based on the premise that Arab trade integration efforts aim at the formation of a Free Trade Area single market and as such EU experience provides a model that should be studied.

Fourth, the relationship between national and regional law is a problematic issue, though they are designed to govern different relationships, the room for overlap is considerable. Cross border mergers in member states of a trade grouping have an effect on the structure of the regional market and as such should not be left to national competition authorities. The same applies to different forms of anti-competitive practices. The inter-relationship between the two laws and which takes precedent is a matter of considerable controversy especially at the time of introducing the regional legislation. Granting power to the regional law would simply mean taking away some powers from the national competition law and as such the appreciation and commitment of member states of the regional trade grouping goes along way in solving this issue. The matter may be further complicated if some or the majority of member states do not have a national competition law in place at the time of considering the regional one. As this may result in a lack of appreciating the role of a regional competition law.

Finally, the introduction of a regional competition law would entail the introduction of a regional competition authority, which shall issue decisions that would have to be respected by both companies and courts of member states. Again, the issue of the supremacy of the regional regulation and how far member states are willing enforce its decisions, even if this was deemed to be giving away their "sovereignty", makes the matter somewhat complex.

II- Competition law and Arab Economic integration

The Charter and key Treaties

Efforts for Arab economic integration after independence started back in 1945 with the Charter of the Arab League. Article Two of the Charter sets out the purpose of the League as: strengthening of the relations between the member-states, the coordination of their policies in order to achieve co-operation between them and to safeguard their independence and sovereignty; and a general concern with the affairs and interests of the Arab countries. It also has as its purpose the close co-operation of the member-states, with due regard to the organization

and circumstances of each state, on several matters, including: economic and financial affairs, which cover, commercial relations, customs, currency and questions of agriculture and industry.

In 1958, 7 Member States signed the Treaty for Joint Arab Defense and Economic Cooperation. Article 7 of the Treaty stipulates that: in pursuance of the purposes of this Treaty and its aims of giving a feeling of security and providing welfare in Arab countries and to raise living standards, Contracting States shall cooperate to improve their economies, invest in their national resources, facilitate the exchange of their national production including agricultural and industrial ones. In general on organizing economic activities and concluding conventions that might be needed to achieve these objectives.

Article 8 has stipulated for the establishment of an Economic Council composed of the Ministers of the Contracting States overlooking economic affairs to propose to their governments whatever might be needed to achieve the objectives mentioned in Article 7.

A key treaty governing inter Arab Trade is the Treaty for the Facilitation and Development Trade between Arab Countries signed between members of the Arab League in 1981. The Treaty stipulates in its preamble that it is made pursuant to Article Two of the Charter of the League and Articles 7 and 8 of the Treaty for Joint Defense and Economic Cooperation. The Treaty which consists of 25 Articles sets out in Article One its purposes which include, liberalization of trade between Member States from tariff in accordance to certain principles, facilitating the financing of trade and taking into account the developmental status of each state. The Treaty sets out the parameters and principles guiding trade between Member States which include, the exemption of some goods from tariff and non-tariff barriers, future negotiations on custom duties imposed on imported goods, certificate of origin, settlement of payment. The final section of the Treaty focuses on the supervision of implementation of its provisions and dispute settlement.

In 1997, the declaration for the establishment of the Arab Free Trade Area (within ten years from 1 January 1998) was made. The declaration referred in its preamble to the above mentioned Trade Facilitation Treaty of 1981 and calls made by the Social and Economic Council in 1995 to enforce the Treaty with a view of establishing a free trade area. The provisions of the Treaty sets out the regulations governing the liberalization of trade, non-tariff barriers, rules of origin,

exchange of information and dispute settlement. Section 8 of the Treaty acknowledges that trade liberalization is closely connected with other economic activities and as such the parties to the Treaty shall undertake future consultations in respect of these connected matters which are: services, especially those connected to trade, scientific research and technological cooperation, coordinating trade policies and laws and finally protection of intellectual property. Efforts to establish the Free Trade Area has been consistent over the years and as of 1 January 2005 it has entered into force.

Trade integration efforts lacking a competition law component

There is little disagreement that the above mentioned efforts have contributed to expansion of intra-Arab trade in the 1950s and 1960s, however, they fell short of meeting the objective of economic integration and the outcomes have been negligible. Several explanations have been given to account for this outcome, they all rotate around the idea of Arab politicians focusing more on political and military cooperation and not paying enough attention to finance and economics, and considering business and commerce to be effects, not causes, of political action.⁸

The lack of political will might explain the limited outcome of the integration efforts whether in the design of the integration instruments or efforts of implementation and handling difficulties, however, it does not explain why the economic and integration efforts, however limited, failed to make any reference to competition law principles. Both the Charter of the Arab League and the Joint Defense and Economic Cooperation Treaty made reference to the importance of inter-Arab trade and the need to encourage it, yet did not recognize the need for such trade to be free of any anti-competitive conduct. A possible explanation might be that, at the time, competition law was virtually unknown in the Member States of the Arab League and was a general untested principle on the European level.⁹ If one is accept this explanation, how can it be plausible in respect of treaties made in the 1980s and 1990s?

⁸ Fawzy, S. (2003), "The Economics and Politics of Arab Economic Integration", (In: Galal, A. and Hoekman, B. (eds.), *Arab Economic Integration: Between Hope and Reality*, p.15, citing several authorities.

⁹ See below on the implementation of the competition law provisions under the European Coal and Steel Community.

How can an Arab Free Trade Area be regulated with no competition law provisions? It is unclear whether this has been the inevitable result of the absence of competition law provisions in the Charter or a deliberate decision of policy makers on the basis of the irrelevance of such provisions. Suffice it here to mention that neither trade integration has been achieved nor has there been in the legal and institutional structure of the integration instruments any reference to competition law. However, this does not mean that competition law has been completely neglected within the Arab League; several efforts have been made over the last few years, with a view of making competition law a part of economic regulation.

Efforts to regulate competition

The report of the Economic and Social Council on competition law and policy issued in February 1999 represented the first comprehensive work to address the regulation of competition. The report commenced by stating that: the study of all economic matters supporting the establishment and development of the Arab Free Trade Area has led to the need to work on competition laws and policies which are novel to the Arab countries either as a part of economic policy or in respect of the need for the existence of competition authorities. It has further stated that, it has been found that cartels operating in a number of Arab countries shall find it beneficial to hinder this vital Arab project which shall improve the quality and efficiency of production of Arab goods and allow it a better chance to compete in global markets.

The report stipulates that in support of the Arab Free Trade Area and to create an integrated Arab economy that is both liberalized and in line with international developments taking place at the levels of the WTO and the EU a competition "initiative" shall be made. This initiative centered around drafting a model Arab competition law to serve as a guideline for Members States when drafting their national laws. The report calls for the need of having a common understanding of the principles and the new perceptions governing the regional market, which include rules governing competition and prohibiting anti-competitive practices. The report has then proceeded to discuss the rationale for competition law, its history and how it is regulated in the US and Europe.

The recommendations of the report focused on the need to make Member States feel the urgency of introducing national laws in the light of appreciating the role it plays. It concluded by stating that competition principles need to be widely understood in the Arab world.

The model law on competition, based on the UNCTAD Model Law, was approved by the Social and Economic Council in 2002, and an expert committee on competition law matters was formed to follow up the matter. In its meeting of 2003, the expert committee recommended further work on capacity building and creating awareness of competition law issues and providing assistance to those states in the process of introducing a competition law.

Efforts on the regional level seem to have focused on assisting Member States in introducing national competition law, and that harmony might be achieved when they follow the Model Law, which serves as a guideline in this regard. It seems that this approach was a direct result of the absence of a Treaty obligation that sets out an undertaking to introduce a regional competition law or the lack of consensus to introduce one.

Further discussion of the Arab experience can take different dimensions, if it is contrasted with the experience of the EU, hence the paper shall now turn to discuss the EU's experience and then turn to analysis the Arab trade integration experience in the light of the lessons of the EU's experience.

III- Experience of the European Union

Discussing the EU experience normally commences by setting out the Treaty obligation in respect of competition: Articles 81 and 82 and how institutions, regulations, Directives, Court decisions and practice have evolved in pursuit of the Treaty objective. However, for the purposes of benefiting from the EU's experience in the context of the Arab world, it is paramount to appreciate not what the rules and institutions in the EU are and do, but how did they come about to be what they are; what difficulties did they face and how were such difficulties dealt with?

A master piece written in this regard is David Gerber's book on the Law and Competition in the Twentieth Century Europe, which explains the historical context for the development of

competition law in Europe.¹⁰ Gerber's book gives a profound account of such development; a brief account of such development is given in this section based on this book.

Early developments of competition law in Europe

Europeans began to develop the idea of a general law to protect competition back in 1890 in Austria; proposals emerged to protect the competitive process from political and ideological attacks which were made under the notion of public interest. A competition law was almost enacted, but was barred by the disintegration of the Austrian legislative process.

The first European competition law was enacted in Germany in 1923, entitled the "Regulation Against Abuse of Economic Power Positions", in response to the post war inflation crisis, this law became an important factor of economic and legal life in Germany in the 1920s, however it was too weak to withstand the pressures ranged against it and it was eliminated during the 1930s. The German experience has resulted in the spread of competition law ideas in the 1920s and by the early 1930s statutes along the lines of the German legislation had been enacted in several smaller European states. These discussions generated a framework for thinking about the roles and characteristics of competition law.

After the Second World War many European governments turned to competition law as means of encouraging economic revival. Competition law was imbedded in economic regulatory frameworks but it was not supported by significant economic, political or intellectual resources. As a result competition law remained a rather marginal component of general economic policy.

Germany after the Second World War

In postwar Germany, competition law took a different turn which played a key role in the process of European integration. During the Nazi period a group of neo-liberal thinkers secretly developed idea of how Germany should be reconstituted after the war. In their so-called 'ordoliberal' vision of society, economic freedom and competition were sources not only of prosperity but also for political freedom. In this view, competition law acquired a new importance because it was made a basic structure of the political system.¹¹

¹⁰ Gerber, D. (1998), *Law and Competition in the Twentieth Century Europe: Protecting Prometheus*, pp, 9-10. This section of the paper relies heavily on this very important book.

¹¹ It also acquired a new characteristic as it started to operate according to juridical principles and procedures rather than on the basis of administrative discretion.

These ideas fell on fertile soil in the years after the Second World War. Neo-liberal reformers enacted a competition law in 1957 that achieved new prominence and a vastly greater economic and political role. Despite intense opposition from big industry, competition law has become a pillar of the social market economy.

European Coal and Steel Community

Focus on competition rules followed from the decartelization of Germany during the Allied occupation following the Second World War. When the “Schuman Plan” for the creation of the European Coal and Steel Community (1952-2002) (“ECSC”). The six countries that a few years later would become the founding members of the European Economic Community created this organization that was the first effort for European integration and competition law was included as an important part of it. It was in this context that competition law officially acquired a 'trans-European' dimension.¹² It is important to appreciate the *raison d'être* of such a community. Coal and steel production was a key factor in both the immediate reconstruction of Europe and its long-run economic prospects, but the post-war political situation created major conflicts about who is going to own and control that production. The system was designed to eliminate the possibility that Germany would re-establish its dominance in the area and to terminate bitter political conflicts with Europe over the resources and the power associated with those industries. According to the Treaty, a Council representing the participating governments would enact laws; a high European Authority would apply those laws to the coal and steel industries and a European Court would resolve disputes arising from the operation of the system. Its basic structure was adopted as that of the European Economic Community. Regulation of competition was a central theme. Drafters adhered to competition as an economic way of life and a mean for integration. Articles 65 and 66 of the Treaty prohibited both anti-competitive agreements and concentrations and misuse of economic power. It is worth noting that the ECSC competition law system had limited impact on the development of competition law in Europe. During the initial five years of operation the system was little used.

The inclusion of competition law provisions in the ECSC treaty was a step in the development of competition law in Europe, creating a base for subsequent international agreements and national

¹² The ECSC was seen as the first step of plans being discussed at the highest levels for the creation of both a European Defense Community and a European Political Community.

authorities to build on. Perhaps its most important role was to provide precedent for the inclusion of competition provisions in the Treaty of Rome and something of a model for those provisions.

The creation of the EU

The creation of the European Economic Community in 1957 created additional roles for competition law, it was charged with the task of eliminating obstacles to trade across national borders and creating conditions for an effective European market.

Articles 2 and Article 3 (g) of the EC Treaty makes it clear that one of the major objectives of competition law is to contribute to the creation of a single market. Articles 85 and 86 (as they were numbered then) regulated competition. The two Articles are brief and broadly conceived. Their function was 'constitutional' in the sense that they have to be given content in practice. The Treaty does not elaborate on how they would be applied, nor does it create a specific institutional or procedural framework for the development of a competition law system.

The Member States and the institutions of the community were thus left with the task of constructing a competition law system. They did so gradually, guided by the changing perceptions of the needs of the Community and the individual Member State interests. The basic foundational elements of the competition law system were developed during the first decade and a half of its existence. The goal of a unified market dominated the process of constructing the competition law system, because it was the central impetus for the "new Europe". Restrictive business practices were seen as obstacles to integration. At the time, attempts to move political union has been rejected, and plans for a European Defense Community had been defeated. Hence, if there was to be new Europe, it would have to be built on economic co-operation and integration.

Given the lack of experience with competition law in the Member States and the common assumption that competition law would play the same marginal role in the community that it played in Member States, it is not surprising that Member State governments had little interest in becoming directly involved in structuring the system. The Council which represents the political will of Member States and the final legislative authority was willing to allow the Commission to play the major role in shaping the competition law system, and the Commission grasped the opportunity.

The role of the Commission

The preparation of the institutional framework for implementing Articles 85 and 86 dominated the work of the Commission for half a decade. Regulation 17 was enacted by a committee headed by a German attorney who represented the German views on the prominence of the law. Regulation 17 was based on the centralization of power in the Commission and as such Article 9(3) required that when the Commission began investigation under the competition law provisions of the Treaty, national authorities had to cease their own enforcement activity under the Treaty with regard to that conduct.

The Commission also had a monopoly on the right to grant exemptions. This has resulted in the elimination of any significant role for national legal systems in the enforcement of community competition law. Added to that was the notification system. Regulation 17 gave the Commission extensive investigatory and enforcement powers, which made it a formidable enforcement agency. To deal with the flood of notifications, the Commission was given the power to grant exemptions under 85(3).

All the above has resulted in the system relying heavily on the initiatives and decisions of the commission.

The role of the Court

The Court developed competition law as a central tool of integration (at times when the political will was not for integration, notably at the time of De Gaulle's resistance to Europeanization), and structuring competition law was made to achieve this goal.

The role of the Court sculpted for itself in this competition law system centered on intellectual leadership. The Court frequently enunciated broad principles and values rather than limiting itself to ruling on facts of individual cases. It looked at the future and aimed at guiding the Commission in its development of competition policy. The Court interpreted the Treaty's competition law provisions according to its own conception of what was necessary to achieve the integration goals. It created a doctrine that increased the power of the Commission in relation to national authorities.

This phase of development was characterized by:

- 1) Enforcement was centralized in the Community's institutions and the roles of the national legal systems were minimized.

- 2) The system was conceived on juridical terms; this was in implementation of the provisions of the Treaty.
- 3) Focus was on practices that were most likely to be harmful to the integration process (vertical restraints) while potential anti-competitive harms that were likely to engender political resistance from member states were avoided.

What needs to be very clear in respect of the development of the system is that the sparse competition law provisions of the Rome Treaty did not create it. It has been sculpted by interactions between the text and the political and economic idea and interest and changes in those ideas and interest continue to reshape it. The dominant objective in shaping the system has been to foster the economic integration of the Member states and the imperative has produced a system directed toward meeting the goal.

Further developments

The success of the integration in the mid-1980s has resulted in a change in the dynamics of the system. A system construed and maintained to achieve one primary goal had to redefine its mission. This was reflected in greater centralization of responsibility from competition law matters in Brussels. Enactment of merger control regulation in 1989 taking regulation of mergers away from national competition authorities. On the other hand, measures for decentralization (the principle of subsidiarity under the Maastricht Treaty) were introduced whereby the application of community law was to be undertaken by national authorities and courts. The whole system had to adapt to new realities and build on achievements. This phase also witnessed the evaluation of the theoretical foundation of decision making, increase attention on horizontal restraints and barriers to entry. All this has resulted in the commencement of the conversion of national competition law to be in line with community law. In May 2004, the system has witnessed profound developments that aimed at further decentralization and changes to take into account new Member States joining the EU.

Difficulties faced

Success of the EU experience has been "hard won", competition laws has struggled against "powerful enemies and major obstacles", including:

- 1- Representatives of big industries deemed competition law as an unwarranted constraint. Progress, it has been noted, of competition law has been at its best during periods when the political influence of these industrial industries has been temporarily weakened.
- 2- Fear of the consequences of this new and special form of law, has been a major obstacle to the spread and effectiveness of the law. On this account, the law has attracted intellectual skepticism and political resistance.
- 3- The basic concept of competition law itself has provided some tension. Competition assumes the freedom of economic actors; freedom from constraint is the source of its strength. But laws constraint conduct and reduce freedom, and thus they appear inconsistent with the dynamics of competition.
- 4- As competition law has spread and gained force, it has adapted to changing intellectual influences and economic, political and legal circumstances and this process has raised issues of how to view competition law. Several questions required answers, including:
 - a) Does competition law represent economic regulation or is it a matter of protecting those injured by abuses of power?
 - b) How does one understand a legal regime that is designed to protect a process?
 - c) Does competition law serve the interests of consumers or protects producers? And if so, which consumers and which producers?

EU competition law has developed its identity through answering these questions. Concealed by political and economic interests and ideologies, national borders, intellectual blinders and the opaqueness of the process, EU competition law has developed in shape and formed its tradition. Virtually all European countries have participated in this process in some way, although some have played far more significant roles than others. This tradition has transmitted ideas and perceptions over time and across borders, and it has played a central role in both the integration of Europe and the economic and social progress of EU experience.

Shaping the system

Evaluating competition and its effects is a fundamental factor in shaping up the law. Where the competitive process is perceived, it is also evaluated; values and standards are applied to it. Competition is not likely to be protected unless it is considered beneficial – at least by influential groups and persons, and the more beneficial it is seen to be, the more likely it is that laws protecting it will be enacted and effectively enforced. Analysis of competition law experience

requires awareness of the value being used in assessing competition. Decisions as to which types of norms are included in competition statutes, how they are interpreted by administrators and judges, and the extent to which they are enforced often depend on how specific types or forms of competition are evaluated.¹³

It is therefore; important to ask who is evaluating competition, in what contexts and for what reasons and to uncover the values that are being applied. The political ideologies, social visions and even religious sensibilities of legislators, bureaucrats and judges have played important roles in the development and operation of competition law regimes.

Other problematic issues

Means of protection competition is also problematic. If law is to be used to protect competition, what type of laws, procedures and sanctions should be employed and for what purposes? Should competition law be seen as part of 'private law' – the legal framework for resolving disputes between private actors- or 'public law', a form of state regulation? Or should it be hybrid, and if so, composed of which elements. The view in the EU has been that competition law is special and that using law to protect competition moves outside of law's 'normal' domain. In this view, competition law is a new type of law which deals with problems for which traditional legal mechanisms are inappropriate, and thus requires correspondingly non-traditional methods and procedures.¹⁴

Lack of experience with these issues, difficulties in predicating the consequences of legal intervention and political pressures relating to such intervention have led legislators toward restraint in fashioning and applying competition law norms. This inherent uncertainty of trying to protect a process reinforces this cautious stance. Laws generally protect rights: the legal system determines whether and to what extent rights have been invaded and then seeks to prevent such invasions and/or compensate the victims. To protect a process is a far vaguer objective. What constitutes harm to the process? What can the legal system do to eliminate such harms?

This sense of specialness and the perceived need to prevent competition law from harming economic development has also led to an emphasis on competition law as a constructive social

¹³ If decision makers view the competitive activities of large firms vis-à-vis smaller ones as exploitative and unfair, they are likely to introduce and enforce norms designed to restrain the conduct of the 'exploiting' firms. If on the other hand, they see such conduct as a necessary means of competing with large rivals from other countries, they are less likely to introduce and stringently enforce them.

¹⁴ This is in contrast with the US experience which relies primarily on traditional legal forms and institutions in protecting competition.

force rather than a constraint on conduct. This discourse of European competition law systems has tended to emphasize their roles in creating and maintaining the necessary conditions for effective competition rather than merely eliminating objectionable conduct. The focus generally has been on pragmatic thinking and constructive results rather than on strict application of abstract norms.¹⁵

Whether competition law should be understood as a part of economic policy or a 'legal' regime has been a constant theme in the development of European competition law. Viewed as an element of economic policy, such laws are likely to be seen primarily as a matter for the discretion of administrators charged with applying a relatively vague standard such as 'public interest'. This has been how competition law has developed. If competition law is viewed as a means of protecting a valued social good, it is likely to be treated as a matter of legal rights, juridical analysis and judicial decision making than an administrative discretion.

As with any legal regime, competition law dynamics revolve around questions such as: who has the power within the system, who makes the various types of decisions that drive the system. In the development of European competition law a significant role was played by bureaucrats Those making competition decisions are often caught between the desire for flexibility and the need to provide legal security and reliable information to economic decision makers.

IV- The EU's experience and Arab trade integration

The EU's experience shows that the competition system was shaped in a way that reflects historical developments, political ambitions, an active role of intellectuals, Treaty provisions on competition, creativity of bureaucrats, determination on the part of Member States and a leading role of the Court. These factors may be seen as very peculiar to Europe and closely associated with its history and as such may be virtually impossible to replicate elsewhere. While this is true, however, a lot to be learned from this experience.

a) Treaty obligations

The provisions of the Treaty of Rome did not create the system rather they provided the constitutional foundation for the establishment of the institutional and legal framework for the

¹⁵ This conception of competition law favors making economic power a central element in its substantive norms. It suggests that law should intervene only where restraints on competition result from the use of such power. The underlying notion is that there is little value in applying norms without regards to the power of those engaged in the conduct, because only those with economic power can harm the competitive process. In the US antitrust, in contrast, more abstract and formalistic conceptions of competition law norms have often prevailed.

competition law system. Now, similar provisions are lacking in the Charter of the Arab League and in key treaties regulating regional trade and the Free Trade Area. The question that naturally follows relates to why this is the case?

The absence of provisions to the effect that economic integration should be free of any competitive structure and conduct is a common feature not only to legal instruments made back in the 1950s but in those made in the 1990s. It is indeed very difficult to say with any degree of certainty why this has been the case. One possible explanation is that once the Charter does not embody a general provision regulating competition then it is only natural that all other instruments made in implementation of the Charter do not include such provisions. The provisions of the Charter do indeed serve as the constitutional principles; its importance in practice manifests itself in that criticism to any competition law efforts may simply be rebutted by the fact that they are a mere implementation of the Charter's provisions.

So, why did the Charter make no mention to competition provisions? The only possible answers are either they were overlooked or were deliberately excluded. Available literature does provide any guidance in this matter. There is nothing to show that the issue of including competition law provisions in the Charter were discussed or any views on them were made. Hence, it seems that the issue was overlooked rather than excluded; several factors support this view, first that, to the best of the writer's knowledge, the founding members of the Arab League, who were the drafters of the Charter had no prior knowledge or experience with competition law on the national levels. Moreover, competition law was not debated on the international or regional levels, very little was known let alone understood on the American experience and the European experience was still in the making. Finally, the way the Charter was drafted and what subsequent treaties have focused on during the foundational years of the Arab League indicate that political coordination rather than economic integration was the driving force of the drafters of the Charter. As such, issues pertaining economic cooperation were not adequately considered.

The importance of having competition law provisions in the Treaty/Charter of any regional grouping is not peculiar to the EU's experience. The experience of the Common Market for Eastern and Southern Africa (COMESA) is a case in point. Article 55 (1) of the COMESA Treaty, stipulates that: "The Member States agree that any practice which negates the objective of free and liberalised trade shall be prohibited. To this end, the Member States agree to prohibit any agreement between undertakings or concerted practice which has as its objective or effect

the prevention, restriction or distortion of competition within the Common Market.” Further more, Article 55(3) stipulates that the Council of Ministers shall make regulations to regulate competition within Member States.

b) Free Trade Agreement

The EU experience shows that all instruments governing competition law were made in application of the constitutional provisions set out in the Treaty of Rome. Now, the question here: was it possible for the drafters of the different economic Treaties in the Arab League to introduce provisions governing competition, especially in those governing the Free Trade Area? No clear answer can be found in the literature. It is important, first of all, to stress on the fact that introducing competition law provisions in say the Free Trade Area would not have been, by any means, in contradiction with the Charter or any other treaty. The whole idea of the Charter embodying competition provisions is that this would have made the introduction of regulations easier, in a sense obligatory, and probably quicker. Here, it is also unclear whether policy makers have overlooked the matter or simply decided not to include it. The writer is of the view, that the drafters in the Free Trade Area might have taken a deliberate decision of not incorporating competition provisions, as they would have been meaningless in practice. How would a general provision imposing an obligation on Member States to prohibit practices that restraint competition (embodied in a Free Trade Area Agreement) be applied in practice? Who would define such practices? Which entity would impose sanctions? What should these sanctions be?

It seems that policy makers have recognised that there exists no consensus among Member States to introduce a regional law regulating competition and they have attributed this to the limited experience Member States have with national competition laws. Hence, they have decided to support efforts of introducing national competition laws and helping them with all capacity building efforts until national systems mature.

c) Role of intellectuals and bureaucrats

Under the EU system both the intellectuals and the bureaucrats have helped in developing the system through different forms of creative contributions. This was not the case in the experience of the Arab trade integration. The absence of competition provisions in the Charter and lack of a consensus on the relevance of competition law gave little room for bureaucrats to formulate a competition system. On the other hand, available literature provides theoretical foundation and arguments supporting political and economic cooperation and integration by presenting its

benefits and means of overcoming difficulties faced. However, the writer is unaware of literature that has focused on competition in the same manner as was made in Europe prior to creation of the EU or during the foundation years.

V- The way forward

Failure to regulate competition in the context of regional trade is not unique to the Arab integration experience. One might argue that if only the Charter embodied a general competition provision, things would have been different. The present writer is of the belief that the profound understanding by policy makers of how competition serves the economic integration process is the key to developing a competition system.

The Arab experience is not unique

The experience of the Common Market of the Southern Cone (Mercosur) is worth mentioning. It was created by the Agreement of Asuncion on March 16, 1991. Mercosur's member countries are Argentina, Brazil, Paraguay and Uruguay. The main provisions related to competition policy are in the Decision 17/96 of December 17, 1996 containing the Protocol of the Defense of Competition in Mercosur.¹⁶ The Mercosur Protocol establishes a common regime of substantive rules for each of the member countries, prohibiting those trade practices that limit, restrict, affect or distort competition in the sub-regional market, including, specifically, the horizontal practices derived from collusive agreements between competing enterprises, practices that constitute the abuse of a dominant position, as well as economic concentrations arising from the merger, acquisition or the creation of enterprises as a whole. These rules are not automatically binding in the member countries but require national legislation to incorporate these rules into the domestic legal systems, making the rule of direct application. This has not yet happened. Although the Protocol entered into force in 2000, and regulations for the application of the competition provisions were agreed in 2002, the regulations are not yet in force. It appears that the Protocol is still pending congressional approval by each member country to be enforceable as national law.¹⁷

¹⁶ Article 2: The rules of this Protocol apply to actions taken by natural and legal persons under public and private law, and other entities whose purpose is to influence or to bring influence to bear upon competition in the framework of the MERCOSUR and consequently to influence trade between the States Parties.

¹⁷ Clifford A. Jones, *Leveling the Playing Field in the EU, NAFTA, CAN, Mercosur and Beyond: Comparing the Role of Competition Rules in Regional Economic Organizations*, a Paper Presented to the European Union Studies Association Conference, Austin, Texas, March 31-April 2, 2005.

The point that needs to be made here is that the mere existence of legal instruments regulating competition in the context of regional trade agreements does not automatically guarantee implementation. It is interesting to note that the preamble of the competition rules of the Mercosur stipulates that:

that the free movement of goods and services between the States Parties renders essential that adequate conditions of competition be assured in order to contribute to the strengthening of the Custom Union;

that States Parties must assure, in the exercise of their economic rights within their territories, equal conditions of free competition;

that balanced and harmonious growth of intra-zonal trade relations, as well as increased competitiveness among the States Parties will depend in large part upon the consolidation of a competitive environment in the integrated framework of the MERCOSUR;

that it is urgent that directives be established in order to provide guidance to States Parties and the enterprises situated within them in the defense of competition in the MERCOSUR, as an instrument capable of assuring free market access and a balanced distribution of the benefits of the process of economic integration.

In spite of all this, the competition rules set out in over thirty Articles never saw the light. This means that the political will is still not there and that the appreciation of competition principles is not as strong as needed to implement laws. Indeed, fear of giving away any sovereign power might be a reason for non-implementation.¹⁸

It is the will of the member states and their appreciation of the role of competition law that drives the formulation of laws and institutions and ensures that such rules shall be implemented in a manner that reflects the purpose of such regional rules. Both the Arab Countries and the Mercosur have no competition rules governing regional trade, from a practical standpoint it makes little difference if one has enacted legislation but is yet to enforce it or that the other has no rules in place and has failed to reach a consensus regarding the role and function of competition law.

¹⁸ It is interesting Article 3: The regulation of the acts carried out within their respective territory by natural persons or legal entities or by any other entity domiciled therein, and whose influence on competition is limited to same, falls within the exclusive competence of each State.

Towards a regional competition law

Several issues have to be addressed in this regard:

- 1) Policy makers need to perceive regional trade integration as beneficial to both the national economies of member states and the welfare of Arab citizens. In so doing an appreciation of the role of competition law is needed and an understanding of how important these rules are for the success of the economic integration. There is probably little disagreement on this point; the difficulty lies in how to reach this objective. This can only be reached when one understands what are the exact reasons behind the reluctance in designing and implementing economic integration schemes. Is it lack of appreciating the benefits? Are these benefits over-estimated? Or is there a fear that regional integration entails loss of control over national economies? Whatever the reasons, they need to be openly discussed and in such discussion competition law needs to be an integral part.
- 2) A regional competition law assumes the existence of a regional competition authority that has the powers to investigate and to impose sanctions that shall be respected by the courts of the national states. Member States of the Arab League need to appreciate this matter. The EU experience shows that a regional competition authority is in place to protect regional trade leaving the powers to national authorities to regulate domestic trade. Indeed, there are points of overlap and a decision favouring the regional body needs to be made in certain cases of conflict. The EU experience shows that the centralization of power has only been for a certain phase of development which was followed by a phase where national competition authorities were given the powers to implement regional law.
- 3) A court of law is also needed to judicially enforce the decisions of the regional competition authority and again the experience of the EU shows the importance of such a court and the pivotal role it plays in the regional competition law system. Arguments to the effect that regional courts negatively affect the sovereignty of Member States fail to understand the role of such courts.
- 4) A Regional competition law can and should exist and function in the absence of national competition law: not that this is the ideal situation, but it is indeed workable. The EU's experience shows that this serves a dual role, first, it ensures that growing

regional trade functions within a rule of law that prohibits anti-competitive conduct and structures; and second that member states can acquire an appreciation of the role of competition law through the work of the regional law and how it is implemented.

- 5) Comparative experiences and especially that of the EU is not adequately explained and understood by policy makers, academics and the public at large resulting in misconceptions of the institution or a failure to understand how things have developed over the years. This inevitably results failure to understand the experience of the EU.
- 6) Formulating a model law to serve as a guideline for Member States is an effort that might ensure some harmony between national laws, but it by no means addresses how regional competition law shall be regulated.

To sum up, a regional competition law is and should be an integral part of trade integration efforts. Problems facing policy makers in the Arab world are not unique. A profound understanding of comparative experiences, especially successful ones like that of the EU is paramount.

Public Finance Convergence in the Arab States and Regional Integration: Lessons from The EU Experience

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1. Introduction

Regional integration is a form of *collective action* among countries to achieve a certain goal. This goal may move beyond free trade area toward “deeper integration”, as the form of economic and political union⁴ (Feng 2002). It has been argued that regional integration is a means by which the states can maximize economic welfare and increase the region’s collective political bargaining power in extra-regional issues. Furthermore, it achieves other non-economic national goals, such as meeting security concerns and preventing future conflict (Suleiman 1999).

Both advanced and less developed countries have experienced different forms of regional integration arrangements. The EU success to bring member countries together in a cohesive political and economic unit is a striking experience. Despite the fact that the Arab world has started the march towards integration since 1957, the Arab economic cooperation has a long way to go, even, to achieve the goal of free-trade area. Therefore, it is crucial to ask what factors produce this variation in the degree of regional integration between the two models. Given the experience of the EU, disparities among the Arab countries in terms of per capita income, population, economic structure, policies...etc, come as the *raison-d’être* that explain the status quo of the Arab regional integration process.

Given the crucial role of public finance convergence in the process of economic integration, *the key objective* of the paper is to examine the possibility of convergence in the process of the Arab regional integration given the experience of the EU. The paper can be considered as the first study that discusses the issue of fiscal convergence among the Arab states. Specifically, it is a trial answer three key questions. Firstly, is public finance convergence inevitable prerequisite for economic integration? Secondly, what is the status quo of public finance in the Arab states? Thirdly, whether fiscal policy convergence feasible among the Arab states given the disparities of their system, and are the steps taken towards convergence significant?

To answer the questions raised, the paper is divided into five parts. In part one, the paper discusses the issue of fiscal convergence in the literature of economic

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⁴ According to the theory of integration, regional integration forms are classified into five consecutive stages according to the degree of integration: (a) the free trade area (elimination of regional tariffs); (b) the customs union (extra-regional tariffs harmonized); (c) the common market (capital and labor flows liberalized); (d) the economic union (regulations and economic measures harmonized); and (e) complete economic integration (budget systems and currency measures integrated).

integration and the historical steps taken by the Arab states to converge. Part two emphasizes the experience of the European economic and monetary union. The paper in part three addresses the key features of public finance in the Arab states. The possibility of fiscal convergence of the Arab states is examined in Part four. Finally, in part five, the paper recommends short and long term steps that should be taken to move towards integration in the Arab region.

2. Fiscal Aspects of Economic Integration: An Overview

Fiscal aspects of economic integration process have been the subject of significant economic analysis. At an early stage of economic integration (free trade or customs union), it has been argued that large differences in member countries' fiscal stances might create tensions, leading to political disagreement and a hindrance of other key macroeconomic convergence⁵. Literature emphasizes the potential economic gains of the member states from system harmonization. As argued, the removal of barriers and distortions is a prerequisite for economic integration. (Vogiatzoglou 2003). Thus, public finance coordination and more specifically, regional tax coordination may lead to welfare gains to the member states. Tax coordination seems collectively beneficial for the region that undertakes the integration process. Precisely, it eliminates tax competition within the region (*the race to the bottom*) and helps to an increase in the equilibrium tax, which, in turn, leads to a transfer of location rents from firms to the governments of member states. Moreover, tax coordination may attract welfare-enhancing investments and overcomes a free-riding problem when countries in the region benefit from such investments (Haufler and Wooton 2001).

Despite these collective benefits, the welfare gains from tax coordination remain an open question. There is no consensus among economists regarding the impacts of tax harmonization upon the member states. For some economists, the advantages of tax competition increase the economic welfare and make resource allocation more efficient (Vogiatzoglou 2003). For others, tax coordination might lead to an increase in the rates of capital taxation, which is not welfare-improving. Besides, the welfare gains appear to be crucially related to certain restrictive assumptions that most models use. Bargaining power of member countries affects the gain of tax coordination (Owen and Peters 2000).

Moving towards deeper form of economic integration as the case of monetary and fiscal union, public finance convergence becomes the fundamental requirement for the smooth functioning of the union, such as price stability. Specifically, member states must be subject to a common code of fiscal conduct consisting of reference values for fiscal variables, a common accounting framework for computing public finance accounts, and adequate budgetary procedures for maintaining fiscal discipline with the achievement of fiscal convergence receiving the highest priority before the introduction of the common currency. Compliance with the chosen fiscal convergence criteria is essential not only by the specific date but also on a sustained basis during the transition to the common currency (Fasano and Iqbal 2002).

⁵ Fasano, U., and Iqbal, Z. (2002). "Common Currency", Finance and Development, Vol. 35, No.4.

Furthermore, the establishment of monetary and fiscal union implies the need for significant level of coordination among the member states regarding fiscal decentralization process. Literature of fiscal decentralization has emphasized that the absence of such coordination might lead to the emergence of an inefficiently large number of small countries due to the decentralization process that each country runs (Stegarescu 2003). This is because those central governments might find it hard to commit to budget rules as a result of overspending and deficit bias. The latter effect forms what is called the *dangers of decentralization*. The excess spending bias is a crucial challenge to fiscal discipline that union seeks. Therefore, it has been argued that successful fiscal federalism implies the political strength of the centre since political centralization balances economic centralization of fiscal federation (Rattsø 2003).

In brief, a key aspect to regional integration is the modification of domestic institutions, i.e. making them compatible across members. In case that, domestic institutions remain heterogeneous among the member countries during the process of regional integration, there will be a reduction in the likelihood of further integration (Feng 2002). Nonetheless, economic and political differences are not always the cause of economic integration failure, since the returns from economic integration also reflect the relative resource endowments of the participating countries.

The experience drawn from the EU integration process implies that, in order for the Arab states to move forward towards successful forms of integration, a unified system of laws, procedures, and economic stability should be adopted. Convergence in public finance issues seems inevitably a prerequisite for regional economic integration or at least to enhance the level of economic cooperation among the Arab states. Practically speaking, the issue of public finance convergence has progressed at very low pace in the EU, despite the fact that the treaty of Rome (1957) emphasized the importance of fiscal coordination (Vogiatzoglou 2003). The next section analyses the European experience in creating such unified system and discusses the future of the union due to enlargement process that has been taken place. Also, the section emphasizes the role of public finance convergence in the EU.

3. The European Union Experience

Everyone agrees today on saying that the construction of Europe is one of most successful integrations of the world after the Second World War. With its 400 million inhabitants and its 25 countries, Europe is incontestably the largest market of the world and one of the most prosperous areas of the planet.

However, when looking into the itinerary traversed by the European Union, one is struck by the absence of a project called Europe; apparently the makers of Europe did not consider it useful to positively define the nature of their political project. The idea of Europe was born from a double awakening:

1. Nationalism was leading Europe to a collective suicide.
2. Nations Interests are not necessarily contradictory or completely immutable; they can be logically reconcilable and be methodically transformed.

Thus at the time of engaging in the European enterprise, the question of its ultimate purpose did not arise and it was not opportune to pose it. Therefore, Europe is more a process than a project. The creation of "Solidarity of fact" according to the formula of Jean Monnet was not achievable only when committed to transcending the national interests and to adopting a pragmatic approach.

In sum, the European construction is a combination of a historical vision and a juridical logic. At the same time arises the following question: does the historical experience of Europe have a significance which exceeds the particular circumstances in which, 50 years ago, European construction has been developed? Which lessons to draw for the Arab world?

Before answering this question, let us start first by examining the logic which chaired at the construction of Europe and the stages that it traversed. Europe could not be made in a blow, or be put together in one construction. It is made through concrete achievements, creating mainly "solidarity of fact."

Thus expresses Robert Schuman, Foreign Minister, on May 9, 1950 (speech inviting to put coal and steel under a High Authority common to France and the Federal German Republic). The principle of a united Europe was posed at the end of the Second World War, in particular under the impulse of France and Germany, even if the speech of Winston Churchill was determining as well as the role of Italy and Benelux countries.

The initial idea was well specified by Jean Monnet when he said: "We do not unite the States, we unite the men". In fact, since the beginning, European construction was conceived like a dynamic process, as such, it always needed movement not to fail. The status quo is thus prohibited to it. Consequently, the construction of the European Union knew several stages.

Europe is sometimes compared to a bicycle: if it does not move ahead, it falls. The construction progressed in a pragmatic manner reconciling unity and diversity. Initially, it was a question of making six States (mainly Germany and France) work and exist together. Fifty years later, this construction, made of a dynamic balance between unity and diversity, is always at the heart of the European unification.

If, according to treaties, the goal is "an unceasingly narrowing union between the people of Europe"; this union is inseparable of a movement of increasingly large integration and extension. Once the process launched, it will pursue the following itinerary:

1. The creation of the European Coal and Steel Community (C.E.C.A, draft of Paris of April 18, 1951) between six countries (Germany, Benelux countries, France and Italy).

ECSC creates a unified market of coal and steel between the six Member States by removing the tariff and non-tariff barriers for these products. This unified market is regulated by an organization of control which holds a decision-making power with respect to the countries signatories: High Authority of Coal and Steel. The success of ECSC explains why this institution inspired that of the European Economic Community.

2. The Treaty of Rome and the Realization of the Customs union (1957-1969).

In March 1957 the treaties of the European Economic Community (the EEC) and of the European Atomic Energy Community (EAEC or EURATOM) were signed in Rome.

The goal in the very long term is to create a Common Market which will make it possible to reach a strong economic growth and to improve, by harmonizing them, the standards of living of labor in all Member State.

This comes from the idea that the competitive market, which must be established on the level of the whole community, is the most effective economic system. This point of view is relatively tempered by the intervention of the Community institutions (and national institutions) which must frame, and even compensate the mechanisms of the market, when those are failing.

3. From Customs Union to the creation of the Common Market (1970-1989)

A period during which the European Community moves progressively from the Customs union to the Common Market, then to the single market. Economic integration is reinforced by putting in place the monetary system (in 1979). The other fundamental fact of this period is the strong geographical extension, with the entry of the United Kingdom, Denmark and Ireland in 1979, Greece in 1981, Spain and Portugal in 1986. By moving from six to twelve members, the EEC changes dimension.

At the end of this period, Europeans succeeded in unifying the rules of competition and they arrived at the stage of economic integration, which corresponds to a complete integration of the markets of goods, services and factors of production. From a decision-making point of view, Europe managed to reinforce the political and executive weight of Parliament, even if this latter remains weak.

4. Economic and Monetary Union

After the formation of the Customs union and single market, the EMU (Economic and Monetary Union) constitutes the third level of the process of European economic integration. This level is decided by the European Council of Madrid in June 1989 which

adopted the principle of the Monetary Unification, for which the phase is fixed at July 1, 1990.

It is crowned by the treaty on the European Union signed in Maastricht in 1992. This treaty "marks a new stage in the creation of an increasingly narrowing Union between the European people, and in which the decisions are made as close as possible to citizens". (Article A of the treaty).

The treaty of Maastricht, which was signed on February 7th, 1992 and applied on November 1st 1993, stressed the criteria of collaboration of economic and monetary policies, which were advocated by the Treaty of Rome in March 25th, 1957. After December 31st, 1993, which marks the end of the phase of free movement of capitals, a phase of making states conform to the eligibility criteria of the unified currency had started. In order to make the move toward using the Euro, states had to meet four criteria of good management that fixes thresholds that should not be overcome in terms of inflation, interest rates, debts and budget deficit.

The annual deficit and public debts in particular should not exceed respectively 3 and 60% of the GDP. An exceeded deficit or debt are considered potentially inflationist. In theory, a successful monetary union should guarantee a best control of spending. However, the fear of a looseness of budgetary discipline once the Euro is adopted with the coming into force of the economic and monetary union has dictated the elaboration of a stability and growth pact.

The Amsterdam Treaty of June 17th, 1997 has come to complete the Maastricht treaty (articles 99 and 104). The objective of the stability and growth pact is at the same time preventive and dissuasive. This means that there should be a prevention of any insolvable situation in a member-state, which risks the unstableness of the financial system of the Euro zone and restrain any intervention of the Central European Bank. Also, they should avoid that a member-state can be pulled toward budgetary in favour of externalities.

The stability and growth pact came into force officially in January 1st, 1999 after the qualification of 11 nations for the Euro. The adherent states had to present budgets that near the equilibrium by 2004. Skids did not wait longer to manifest during this transition period. This is the case of Germany, Italy and France which produces almost 75% of the wealth of Euro zone. This is the case also of Portugal. These countries records excessive deficits, which fall within the sanctions expected by the treaty of Amsterdam "preventive warning", disciplinary procedures "premature alert", procedures of "excessive deficit". Without counting the measures taken by the commission or the Economic and Financial Council against states with a weak public finance, the repeated skids made the European Union to delay the September 24, 2002, the fixed date for the budgets of member states to be near the equilibrium from 2004 to 2006. This means, on the one hand, that the provisions of Eurostat for 2003 and 2004 were counting on an

aggravation of deficits in the Euro zone. The average public deficit expressed partly by the GDP should attain 2.5% in 2003 and 2.4% in 2004 against 2.2% in 2002. In a group of countries including France, Germany, Italy, Portugal, and even Finland, the level of deficit should exceed at different degrees 3% of GDP (*see table 1*). On the other hand, it was found that the limit of 3% of GDP fixed for the public deficit by the treaty of Maastricht has deprived governments from the flexibility to confront occasional changes. This restriction makes states sacrifice the public investments, which is supposed to prepare the future and play a major role in the potential growth of the country.

Table 1: The deficits in the Euro zone (in % of GDP)

2004*	2003*	2002	
-0.1	-0.2	0.1	Belgium
-2.9	-3.4	-3.5	Germany
-1.0	-1.1	-1.2	Greece
-0.1	-0.4	0.1	Spain
-3.5	-3.7	-3.1	France
-0.9	-0.6	-0.2	Ireland
-3.1	-2.3	-2.3	Italy
-1.2	-0.2	2.5	Luxemburg
-2.4	-1.6	-1.6	Holland
-0.4	-1.1	-0.2	Austria
-3.2	-3.5	-2.7	Portugal
3.0	3.3	4.2	Finland
-2.4	-2.5	-2.2	Euro Zone

Source: Eurostat 2003/04 , * Prevision.

The report of the phase of transition toward the equilibrium of the public finance in 2006 instead of 2004 predicted initially (1999-2004) is far from calming down minds. After some time (October 18th, 2002), Romano Prodi, President of the European commission, has denounced the rigid character of the rule of 3% in a morose economic conjuncture. He was not embarrassed to qualify the stability pact “of stupid as all rigid decisions” and to doubt also the pertinence of the criteria taken into consideration. The instances of the European Commission came as follow to envisage the perspective of softening the rules of the pact, taking action from the fact that this one does not have an objective to sacrifice the sustainable growth instead of the public finance and that this last one does not constitute an end by itself. The gradualism has prevailed in the wrong

substance of having imported the adhesion of the “small states”, which were able to master the budgetary disequilibrium without sinking the recession.

The September 27th, 2002, the European commission has subdued the first series of propositions that will be approved by the Ecofin Council during the meeting of March 7th, 2003. These latter aims at softening the interpretation of the pact (by isolating for example the impact fluctuation of the economic conjuncture over public budgets) in return for a political engagement to standby its application. The stability and growth pact will be amended in a positive way for the usage of automatic stabilizers. The objective of “a budget account near the equilibrium or exceeding it” must since now be estimated in a in the whole cycle of the activity, and the wished paste of stabilizing the public finances is measured with the help of the structural account, which means that the nominal public account corrected repercussions of the conjuncture variations in annual budgets and the transition effects. On the other hand, it is prescribed for the member states to improve this account with 0.5 point of the GDP per year in order to not be tempted to distribute “kitty fiscals” in a period of strong growth.

In spite of this softening, the skids accompanied with threats of sanction have affected the public finances of France and Germany in particular. The need to refine the instruments of appreciation of budget policies has been always felt. The European Commission did not wait longer to propose in September 2004 a revision of the Pact that will be sent to the Council during the first semester 2005. A renewed stability and growth Pact has required: to show being attentive to the evolution of the public debt, to take into consideration the national specifics, to enlarge the notion of “exceptional circumstances that can prevent the sanction of a country in case it overcome the limit of the allowed public deficit, to put in place an alert system that will permit to take actions quickly and with the maximum efficiency. A similar evolution will result in:

- lessening the severity of the numbered limits imposed on deficits and public debts.
- emphasizing more on the qualitative rather than on the quantitative (quality of public spending).

However, in order to give consistency to the community discipline, the diagnostic of the public finances of every member state should be more complete, more prospective and more transparent than it is today. The experience had shown that the exceptional budgetary measures non recurrent can show artificial ameliorations of public accounts (France, Germany, Italy, Greece, Portugal). The integration of the obtained receipts via the privatization in the ordinary public receipts goes in this context. Similarly, the accounted public debt is limited essentially to the titles presented by the public administrations (State, local communes, Social security). On the other hand, the engagements that are “out of the toll” are left aside. Here, we are also talking about the guaranteed debt of public enterprises and the social debt (retirement compensations). Certain economists estimate that the high level of debiting of the state that is liable to

induce unsolved risks of the public finance. They suggest as a consequence that the engagements that are “out of toll” take part of the public debt. They propose, instead, to base the budgetary discipline on debts rather than on the public deficits and to opt for a pact of backing the debts”. The supervision of the level of debt requires, however, improvement and harmonization of the patrimonial statistics produced by the rich states in order to allow an evaluation of the net public wealth. However, the raw debt of public administration is already beyond the threshold in a number of countries of the Union where the limit of is 60% of GDP, which suggest many problems and worries

A key aspect of the EU integration process is that the EU countries has realised that reducing the gap between rich and poor countries of the EU is a precondition for economic integration. The **budgetary federalism** has been a crucial tool that is meant to enhance the economic and social cohesion within the European space by reducing the gap between the richest and poorest region. However, the community budget seems to be modest especially since the operation of expanding of the union to ten new members. The imposed limits o public deficits of Euroland states by the stability and growth pact are not strange to the reduced width of financial means of the European commission. The conclusions of the European council hold in Berlin in March 24th and 25th, 1999 are in favour to the adoption of new financial perspectives that will ensure the same budget severity at the level of the Union. Also, in the period 2000-2006, the resources of the community budget are limited to 1.27% of GDP for the years 2007-2013. the doubt float over the chances of realizing such proposition. Six net contributors’ states – which finance the community budget that they profit from- defend strongly the idea of limiting the European budget to only 1% of the GDP of the Union (France, Germany, Great Britain, Sweden, Holland, Austria). France require to put an end to the discount given to the United kingdom in its contribution to the community budget since 1984 and it is known as “British Correction”. Other member states believes that there should be more spending to confront the cohesion and economic development of the union at a moment in which it has just expanded with ten new states, but the trench is getting deeper between the richest and the poorest. It will be sufficient to indicate that the revenue per habitant of the fifteen countries of the Union represent between 2.2 and 13 times of the new members (See table 2).

Indeed, according to the second report about the economic and social cohesion elaborated by the European commission and published in February 2003, three major consequences resulted from the enlargement of the European Union to 25. First, there is a decline in the average wealth of the union: the average revenue of the 15 member states will decline with 13%. Then, an aggravation of regional gaps in a proportion of 62.2%, despite of a higher rate of growth in the new joining countries rather than in the European Union of the 15 states: the gap between the revenue per habitant in the 23 poorest regions and the 15 richest regions will move from 2.6 to 4.4. in the end, a decline in the percentage of unemployment: 13% in the newly admitted countries and 7.4% in the EU of the 15, or an exceeding rate of 75.7%. The first expenses related to the entry of the new member states are weak. They were estimated at the Copenhagen Summit in December, 2002 to be 15 Euro per Habitant et per year between 2004 and 2006. the cost

of the enlargement after 2007 will become 75 Euro according to the provisions of the French Institute for International Relations.

Table 2: Economic and Monetary Indicators of the new member states

Country	GDP per Habitant (Euro)	Unemployment Rate (%)	Inflation (%)
EU	23 454	7,6	2,6
Bulgaria	1806	16,7	7,7
Czech Republic	6038	8,5	4,9
Estonia	4079	12,2	6,1
Hungary	5867	8,5	9,6
Leetonia	3475	7,5	2,9
Lithuania	3554	11,6	1,5
Poland	5311	15,0	6,0
Romania	1774	12,5	35,0
Slovakia	4155	18,6	7,6
Slovenia	10 571	11,0	8,6

Source: Eurostat 2003/04.

The cohesion funds that foresee different types of aid in favour of the newly admitted states give 18 milliard Euros in the period 2000-2006. They are divided equally into three components. The structural instrument of pre adhesion (SIPA) forms the first component. It deals with financing infrastructure projects in the domain of transport and environment. The second component is related to the special adhesion program for agriculture and rural development (SAPARD). This program conceived to allow every country of the ten candidate countries to sign annual financing conventions (AFC) in order to support their efforts in predicting their participation in the common agricultural policies (CAP) and the unique market. The pilot program, which was created in 1989 to help Poland and Hungary, constitute the third component. Its goals is to improve the economic and social of the new members by emphasizing the modernization of their public administrations and their institutions by providing the necessary expertise for a better adaptation of their economic and social legislations to the rules of the economy of the market.

The European Commission has put an action program for the period 2006- 2013 to reduce the gaps between the richest and poorest regions. This program has three important objectives for which was dedicated an amount of 336.4 milliards Euro. The

first objective focus on a make up of the regions those are late. It benefited of 78% of the global financial envelop for an amount of 262 billion Euro. The assignment of this amount will concern exclusively the regions that are “under-developed”, this means those with a GDP pr habitant inferior to 75% of the average of the community. This program will benefit the two thirds for the new joining states, which make the risk of excluding a certain number of regions that have difficulties in some rich countries of the union from this aid. The second objective has been applied in reconversion in region that are under going changes. 61 billion euro will be awarded to apply this objective. This program, which is designed for regions that are under economic reconversion, contains an urban component and privilege the insular territories, mountains and weak demographic densities. The last objective aims at developing transnational and trans-boundaries cooperation between the states of the EU. A budget of 13.4 billion Euros, which represent only 4% of the global envelop, is predicted in this regard.

While waiting for 2013, the community budget will remain dominated by the financing of the agricultural policies even if the efficiency of this type of spending is far from being proved. Thanks to the agreement reached in Brussels in July 2002, France, the main agricultural country of the EU and the largest benefiting country from the community subventions in this regard, has managed to “sanction” the CAP in the period 2007 – 2013. Nevertheless, in general, the predicted budget for 15 benefiting members became 25. Putting aside the adaptation of a number of mechanisms for supporting the public agriculture to the rules of the World Trade Organization (WTO), the fixed objectives for the CAP that followed the reform of 1992 did not change. The concern of containing the amount of community budgetary spending in favour of agriculture, which is below 50% of the total spending, remains important. In 2002 – 2004, the budget of CAP represented the equivalent of 44 – 42 of the European Budget and of 0.5 – 0.4% of the community GDP. The same preoccupation remains present to guarantee competition of the main European agricultural products in both the internal and international markets. In the process of importing, the European farmers are protected by some varying deduction, which are similar to the difference between the price of the internal market and the international price. The direct aids that compensate the decline of the prices represent currently 77% of spending (reform of CAP in the middle of the way in June 2003 in Luxemburg) while 7% goes to restitution.

The CAP which looks as the principal mechanism of the communitarian redistribution is more and more contested. It is at the origin of the excesses production, environment damages, of budgetary drifts, and of unstable external markets. Of course, the system of subventions, designed originally for the survival of the local farmers, has been transformed into a weapon against the external markets to the prejudice of the poorest on the planet”. The idea of giving privileges to certain sectors as a component of the communitarian budget has grown slowly but it was ensured. An effort of clarification of choices and engagements is imposing itself on Europe till 2013 or even latter. Brazil, which is preparing itself to supplant Europe as the first food processing power, has been offensive and claim the elimination of communitarian or federal agricultural subventions.

The analysis of the EU process of integration stresses the fact that the idea of Europe was born once they realised that nationalism was leading Europe to a collective suicide, and nations' interests are not necessarily contradictory or completely immutable; they can be logically reconcilable and be methodically transformed. Moreover, the analysis underlines some important issues in addressing the role of fiscal convergence in the Arab states integration process. Clearly, it stresses the essential role of public finance harmonization to create economic and monetary union. More important, it emphasizes that reducing the gaps between the richest and poorest regions, in terms of per capita income, among the member states seems a crucial step in creating such harmony. Moreover, the analysis shows that a unified public finance system of the member states is only needed once the member states move towards creating monetary union. However, creating a gradual fiscal convergence at the early stage of economic integration minimizes the cost of reaching such unified systems at the monetary union stage.

Despite the fact that the Arab states have shown the spirit to take different steps toward economic and political integration since the 1960s, they have not succeeded in realizing it. It has been argued that the failure of economic integration process among the Arab states has been due to the absence of an effective framework or institutions that are responsible for formulating and implementing rules and policies to influence, regulate, and supervise economic relations among the Arab states (Suleiman 1999). Recently, initiatives taken by many Arab States toward the legal reform, privatization, and liberalization of their economies, though have been designed to satisfy global trade requirements, can also help in approaching fiscal convergence. The next section examines the historical steps taken by the Arab world to approach economic integration in order to see whether these steps have been significant or not.

4. Background

The Arab region⁶ has a diverse base of natural, human and financial endowments, spread among countries in the region. The region covers an area about 15 million sq km with more than 350 million inhabitants⁷. It possesses plentiful natural resources. However, Arab countries differ widely in their natural resources, economic and geographical size, population, and standard of living. Table (1) in appendix (A), summarizes some of these differences as revealed by economic indicators.

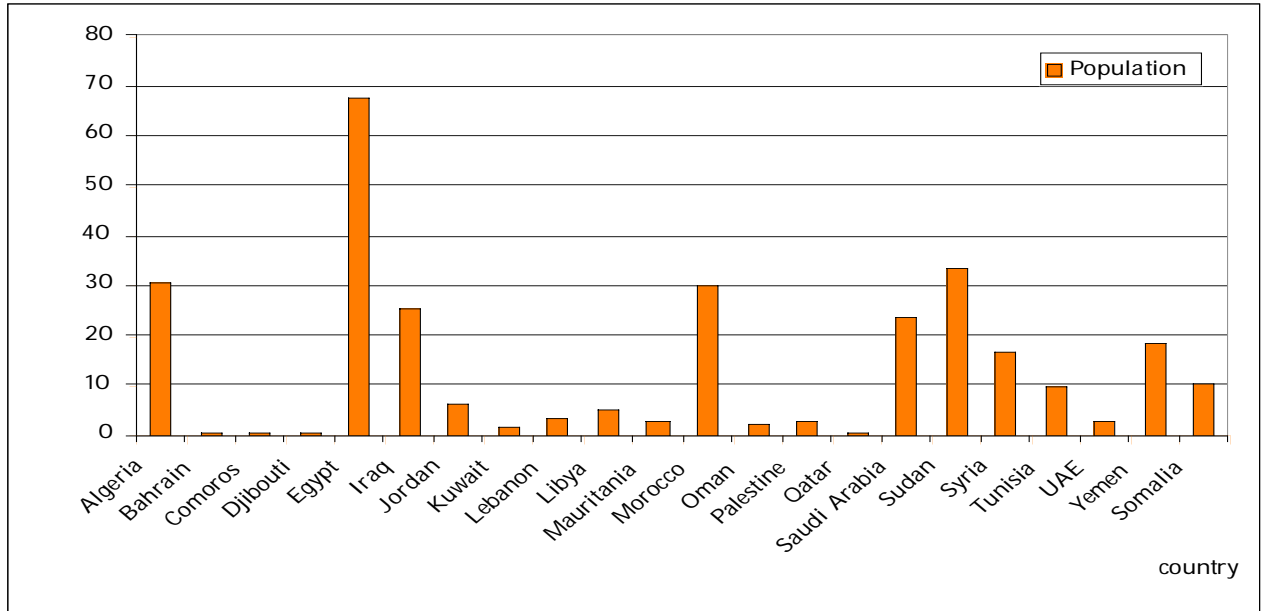
The *population* of individual countries vary from around 0.7 million (Comoros, Bahrain, Djibouti, and Qatar) to some more than 70 million as the case of Egypt (see figure 1). Some Arab countries experience rapid population growth, with high proportion of young dependants in their population, and with average population growth rate has

⁶ In literature, a region is defined by several characteristics. Basically, geography and culture are the most fundamental one (Suleiman 1999). Nevertheless, these two aspects may say little about the extent of, or potential for welfare-enhancing regional economic interaction, which are also determined by the political economy of integration process (DeRosa, 1998).

⁷World Bank, World Development Indicators, CD-Rom 2003.

been more 3 percent in recent years in Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the UAE while countries such as Bahrain, Egypt, Lebanon, Morocco, and Tunisia have relatively low rates of population growth of about 2 per cent compared with the average for developing countries⁸.

Figure (1): Population Figures in the Arab states (in Million)



Source: Information of table (1) shown in Appendix A.

The *Nominal GDP* in the Arab states amounted to over \$ 650 billion in 2001, which was about 2.2 per cent of world GDP and 11 per cent of the developing countries' GDP. The Arab region includes some of the poorest countries in the world, with per capita incomes of around \$400 (Mauritania and Sudan), along with countries in the high-income groups, with per capita incomes between \$12,000 (Bahrain) and \$ 28,000 (Qatar). The Histogram figure (1) in appendix (A) shows these disparities of income among the Arab states. The income distribution is skewed towards the poor segment of the Arab states. It shows that per capita income in most of the Arab states lies below \$2500, nearly 36 % of the Arab countries have per capita income less than \$2000 and 22 % with income less than \$1000. While, 27 % of the Arab states have per capita income exceeds \$8000 and reach in some countries about \$30,000.

The Arab countries can be classified into four income groups according to per capita income. Group 1 includes countries with per capita income more than 5000\$, group 2 with per capita income \$2000 to less than \$5000, groups 3 with income level

⁸ World Bank, World Development Indicators, CD-Rom 2003.

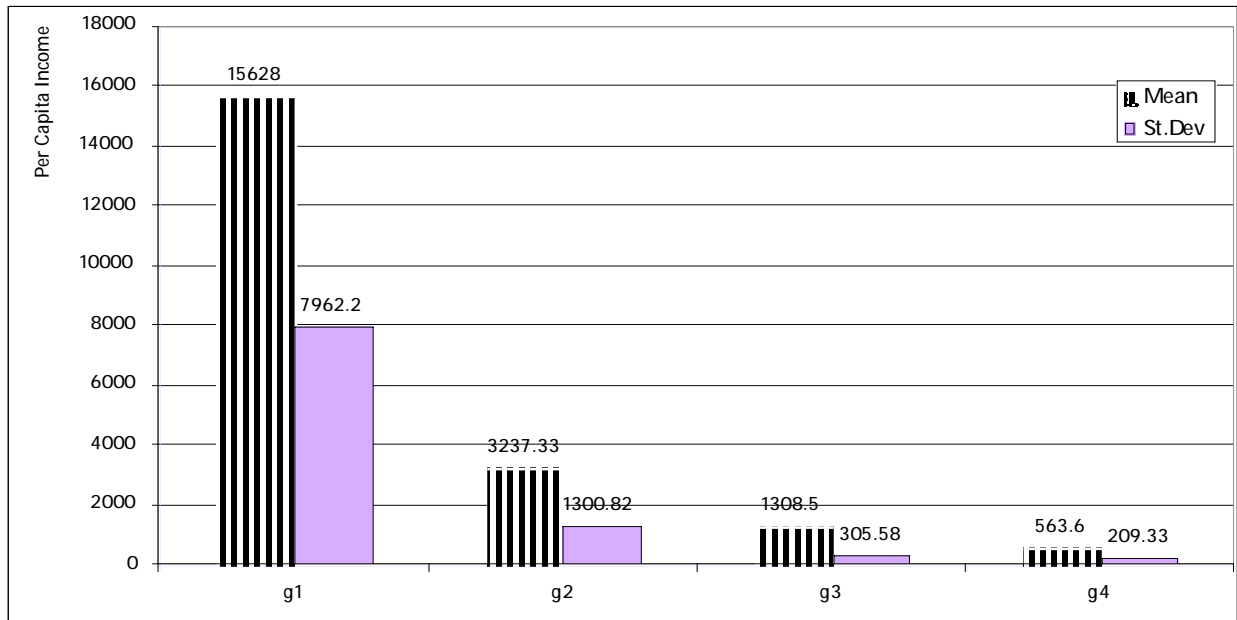
between 1000 to less than \$ 2000 and group 4, countries with income per capita less than \$1000. Table (3) and figure (2a) summarize these disparities of per capita income among the Arab states.

Table (3): Per Capita Income Disparities in the Arab States

Country	g1	Country	G2	Country	G3	Country	g4
Bahrain	12252	Libya	3015	Syria	1191	Somalia	550
Kuwait	15820	Lebanon	4635	Algeria	1788	Yemen	820
Oman	7875	Tunisia	2062	Djibouti	1203	Sudan	415
Qatar	28518			Egypt	1160	Mauritania	313
Saudi Arabia	8430			Iraq	1054	Comoros	720
UAE	20,870			Jordan	1808		
				Morocco	1123		
				Palestine	1141		
Mean	15628	Mean	3237.33	Mean	1308.5	Mean	563.6
St.Dev.	7962.2	St.Dev.	1300.82	St.Dev.	305.58	St.Dev.	209.33
Coefficient of Variation	0.5	Coefficient of Variation	0.4	Coefficient of Variation	0.23	Coefficient of Variation	0.37

Source: Computed based on the Information given in Table (1) of appendix A.

Figure (2a): Per Capita Income Disparities

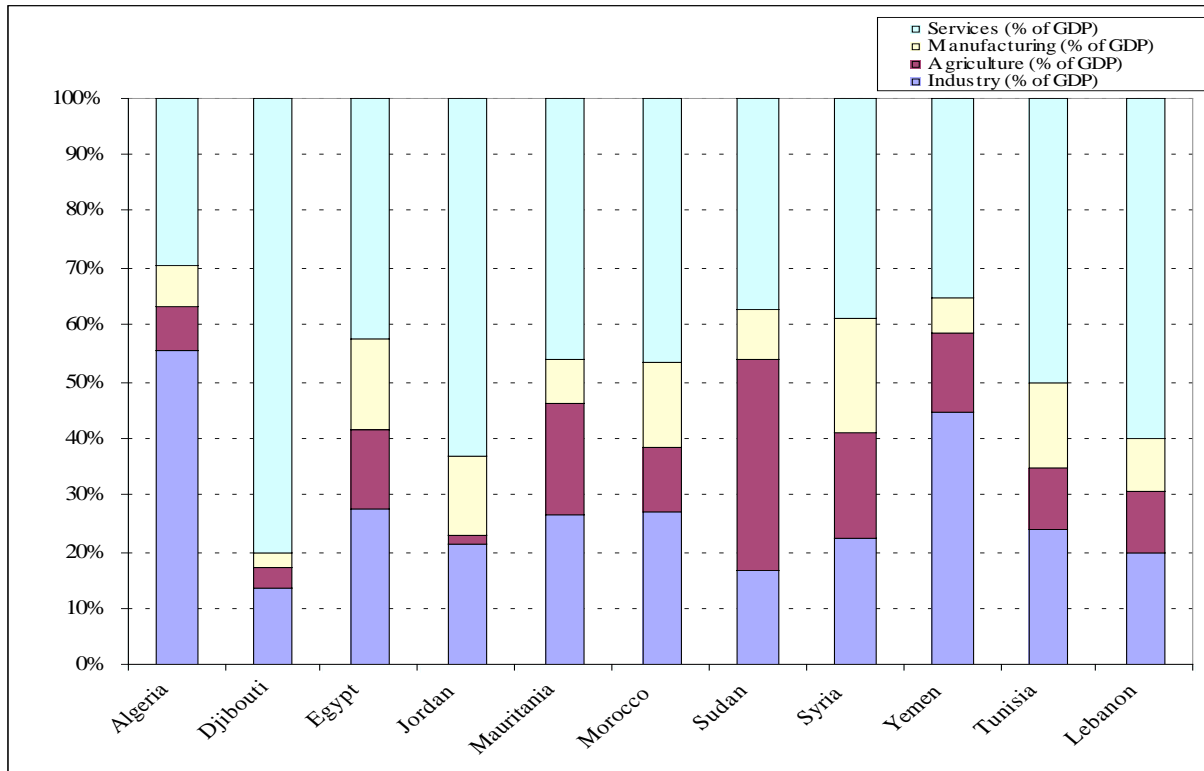


Sources: Based on information given in table (3).

Similarly, the Arab region includes countries with different economic structures. In the oil-exporting economies, GDP generation is dominated by the oil sector or oil industry. This group includes Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the UAE. The other group includes other Arab countries though some of

them such as Egypt, Syria, Tunisia, and Yemen also export oil, however, the role of the oil sector in their economies is limited. Moreover, this group of Arab countries is not a homogenous group in terms of economic structure as shown in figure (2b). The agriculture sector share to GDP is significant in countries like Sudan (36 %), Egypt (17%), Yemen (16%), while the oil industry is the main source GDP generation in the oil exporting countries (see the Algerian case in figure 2b). In the last decades the share of the service sector has been increasing in all Arab countries. Its share reaches 73 % in Jordan, 66 percent in Lebanon, 50 % in Egypt, while is low in countries like Yemen 35 %, and 42% in Sudan.

Figure (2b): Shares of economic sectors to GDP in a sample of Arab countries



Sources: World Bank, World Development Indicators, CD-ROM 2003.

Given that, the Arab world is not an economic homogenous block in terms of population, per capita income and economic structure. Historically, Arab states have taken different steps towards creating a unified economic block. However, the extent of success in system convergence has not been a promising one. The following section of the paper analyses the steps taken by the Arab states to create system convergence, particularly, fiscal convergence.

5. Public Finance Issues and Arab Economic Integration Process: Historical-Institutional Framework

In 1957, the same year of the foundation of the European Economic Community, 12 Arab countries ratified the Arab Economic Unity Agreement (AEUA) ⁹. The agreement stipulates the following rights on equal basis to the member states and their citizens:

- Freedom of movements of individuals, Freedom of residence, work employment, and practicing economic activities and freedom of movement of capital.
- Freedom of exchange of domestic and foreign goods.
- Freedom of transport, transit, and civil airport facilities.
- Freedom of ownership, bequeath and inheritance¹⁰.

Article 2, paragraph 7, of the AEUA agreement, has stipulated that all types of taxes, duties and fees should be harmonized among the member states. Furthermore, according to Article 8, fiscal and monetary policy coordination among the Arab states has to be brought into accord. Fiscal and monetary coordination among the member states aimed at the foundation of monetary union and harmonization of fiscal and tax systems among the member states. In 1964, The Council of Arab Economic Unity was established form amongst the states of the Arab League, to implement the Arab Economic Unity Agreement (AEUA). The CAEU functions and terms of reference are specified in the provision of this agreement¹¹.

According to the agreement, the ultimate goal of the Council of Arab Economic Unity is to reach a complete economic unity among the member states. Specifically, the CAEU has been established to achieve different objectives such as: a)- to formulate regulations, legislations, and tariffs, aiming at the creation of a unified Arab custom area. b)-to co-ordinate foreign trade policies with a view to ensuring the co-ordination of the region's economy vis-à-vis world economy. c)-to co-ordinate economic development and formulate programs for the attainment of joint Arab development project. d)- to co-ordinate policies related to agriculture, industry, and internal trade. e)- to co-ordinate financial and monetary policies with the aim of achieving monetary unity. f)- to co-ordinate legislations for taxes and duties. g)-to formulate unified regulations for transport

⁹ These countries are, Egypt , Iraq , Jordan , Kuwait , Libya , Mauritania , Palestine , Somalia , Sudan , Syria and the two Yemenis.

¹⁰ The Agreement details are quoted from the web site of the Arab League.

¹¹ For more details, see this link, <http://www.caeu.org.eg/English/Intro>

and transit in the contracting countries, and finally, to draft common legislations on labour and social security¹².

One of the most important steps taken to implement the agreement was the establishment of specialized committees that aimed at helping the CAEU to reach its goals. The *fiscal and monetary* committee was one of these committees that established to help in creating the atmosphere for fiscal and monetary convergence among the member states.

Hypothetically, one of the main achievements of CAEU was the creation of the Arab Common Market in 1964. A crucial step that was planned to be taken was the reduction of customs and duties among the member states in order to move toward the creation of customs union. However, exemptions have been allowed for many member states. It was planned that the start of tariff reduction by the year 1965. Due to the 1967 war, the steps were planned to be accelerated to create the Arab Common Market by 1970. In 1969, the CAEU recommended that between 10 to 20 percent of trade tariffs among the member states must be reduced and to be fully reduced by the year 1971. These steps have been followed by the following:

1. the agreement of double taxation and prevention of fiscal evasion in 1972.
2. the Law of customs union in 1976. Moreover, the council has reached the agreement to implement a unified taxes rate on goods and services movement among the member states by 1979.
3. fiscal and monetary committee meeting in Jordan 1981 has recommended that the Arab states tax structure should be studied in order to reach unified tax system¹³.

Since the foundation of the Arab League in 1945, political issues have dominated the Arab summit resolutions. Moreover, the progress towards economic integration was dominated by the political will of Arab states (*leaders*). Table (4) summarizes the most important resolutions of the Arab summits since 1946. From the resolutions shown in table (4), two distinguished phases of cooperation can be identified. The first phase was in the sixties and the second has been in the late nineties. In the first phase, there was highly spirit on the road to the establishment of Arab economic unity, however, the steps taken have been non gradual. The most prominent resolution was the creation of the Arab common market in 1964. As mentioned above, there were different steps followed by this resolution to create a unified tax system. Nevertheless, the measures taken have not reached a concrete result. The 1967 war was the reason for the delay toward accelerating

¹² The CAEU objectives and achievements are available on this link <http://www.caeu.org.eg>

¹³ The CAEU, "legal and tax structure coordination among the member states of the CAEU", Jordan, Amman 1983.

these advances. Political disagreement among the Arab states after the Camp David agreement (1979) has negative effects upon the steps of economic integration to the extent that Arab countries impose sanction against Egypt.

In the 1980 summit, there were four important resolutions to increase the level of economic cooperation among the Arab states (See table 4). One of these was the declaration of the Arab common economic strategy. The Arab common economic strategy was based on the assumption that economic disparities among the Arab states are the key factor that handicaps cooperation (integration). Therefore, reducing the gap among the member states is a prerequisite for significant stage of cooperation. Moreover, the strategy emphasized the importance of fiscal and monetary coordination among the member states.

The declaration of the Arab development Decade was a step to reduce development gap among the member states. A fund of 500 million USD was allocated to enhance economic growth in the Arab less developed states¹⁴. In addition to these steps, *the national economic pact* agreed by the member states emphasized that each member states has to design its economic policies to cope with the movement towards integration. Moreover, the pact has stressed that fiscal and monetary coordination among the member states is a necessary condition for economic cooperation.

The second significant phase of Arab cooperation has been in the nineties. The creation of the Arab Free Trade area has been the crucial resolution of the Arab summit in Cairo 1996. In Amman summit 2001, the social and economic council of the Arab league was responsible for providing a 10 year plan to implement the resolution of the establishment of the Arab free trade area (see table (4)) 17 Arab countries have ratified the agreement of the Arab free trade area. Algeria, Djibouti, Somalia, Comoros, and Mauritania have not yet fulfilled the conditions to join the free trade area. By the year 2004, customs and duties among the Arab states have decreased to the level of 20 % of its level in year 1997¹⁵.

¹⁴Saudi Arabia, Iraq, Kuwait, UAE and Qatar have provided the money of this fund.

¹⁵ The inter-Arab investment guarantees cooperation report 2003, Kuwait.

Table (4): The Arab League Summits and Economic Cooperation (Integration)

The Summit	Fiscal Convergence Issue and related Economic resolutions
Enshass Summit 1946	Political Issues
Beirut Summit 1956	Political issues
Cairo and Alexandria Summit (January and September 1964)	-Arab Common Market (1964) -Convergence in tax system
Edar El-Baidaa summit 1965	Political Issues
Khartoum Summit (Sudan) 1967	The Dominant issues: Political Issues
E-Rebatt Summit (Morocco) 1969	The Dominant issues: Political Issues
Algeria Summit 1973	The Dominant issues: Political Issues
E-Rebatt Summit (Morocco) 1974	The Dominant issues: Political Issues
The Eighth Arab Summit (1976)	The Dominant issues: Political Issues
Baghdad Summit (1978)	Backward Measures
Tunisia Summit (1979)	Sanction against Egypt
The eleventh Summit (1980)	-The Arab Common Economic Strategy -The National Economic Pact -The Unified Arab Agreement for the Investment of Arab Capital Flows - The Common Development Decade
Fass Summit (1981)	The Dominant issues: Political Issues
Edar-El Baidaa Summit (1985)	The Dominant issues: Political Issues
Amman Summit (1987)	The Dominant issues: Political Issues
Algeria Summit (1988)	The Dominant issues: Political Issues
Edar-El Baidaa Summit (1989)	The Dominant issues: Political Issues
Baghdad Summit (1990)	The Dominant issues: Political Issues
Cairo Summit (1996)	The Arab Free Trade Area Agreement
Amman Summit (2001)	Accelerating the steps towards the Arab Customs Union
Beirut Summit (2002)	Adjusting the tax system towards convergence

Sources: The Arab League, Arab League Resolutions Book (1946-2003).

Given the historical experience of the Arab states integration process, it is crystal clear that the Arab integration issue has been a hope for the Arab World since the establishment of the Arab League in 1945. It has noted that despite all these declared resolutions, the implementation of them was not effective in the sense that the Arab states have not reached any planned objectives stated by these resolutions. The gap between what the Arab states have been planning to do and what they have done was extremely significant. Reaching a form of economic integration was intangible for the region as a whole for a long time, for a variety of reasons. Due to this fact, some Arab countries have decided to cooperate at somehow sub-regional level, such as the cooperation among El-Mghrreb Al-Arbi countries (Algeria, Tunisia, Morocco, Mauritania and Libya) and the GCC cooperation.

The GCC has been an ideal example of sub-regional cooperation¹⁶. The Gulf Cooperation Council (GCC) was formed in 1981 to integrate six Gulf countries of similar political, social, and economic systems. These countries are; United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar, and Kuwait. Given the experience of the process of the Arab integration, the GCC has adopted a gradual and steady approach to reach economic integration. Over the past 23 years, The GCC countries have managed to build significant structure of intergovernmental cooperation based upon step after incremental step. In 2001, a new and more comprehensive, economic agreement was signed by the GCC countries. This agreement spelled out in much more details the new architecture of GCC economic integration¹⁷.

Generally, the Arab league model of integration or inter-governmental cooperation has not achieved a remarkable progress despite they have shown the spirit of that. Specifically, the model adopted by the Arab league, was ambitious enough to launch the ideas of an Arab common market and economic unity as early as the mid-1950s, while the march towards integration entails a gradual and steady approach. Therefore, the GCC started with only limited specific goals, such as the GCC free trade area (FTA). The success of the FTA has pushed their members to start negotiations for a customs union and the GCC common market (Aluwaisheg 2004).

As noted, although some economic resolutions and agreements have stressed the crucial role of fiscal coordination, there have not been any significant measures that enabled Arab public finance system to converge. To date, there are essential differences among these systems in the Arab states.

¹⁶ El-Maghrab EL-Arabi model is another model of cooperation. However, this model has not achieved any remarkable step towards integration.

¹⁷ Abu Hamad Aluwaisheg, A. (2004). "The Need for Integration in the Arab World and the Challenges of Globalization: The GCC Experience", Economic Integration Department Gulf Cooperation Council (GCC), General Secretariat, Riyadh, Saudi Arabia.

6. Public Finance in the Arab States: Aggregate Indicators and Trends

Diversity in economic structures of the Arab states yield diversity in tax systems, sources of government revenue and types of government spending. In this section, the paper discusses the tax system structure in the Arab states. Specifically, it discusses two issues, firstly, the disparities of the tax rates among the Arab states and secondly, shares of the tax revenues and its magnitude for the Arab states in the tax system.

6.1 Tax Rates Disparity in the Arab States

Tax rates are not uniform across the Arab states. As argued international trade taxes in Arab countries are characterized by an excessive number of nominal tariff rates, high rates, and numerous exemptions though the tariff rates were reduced due to trade liberalization (Nashashibi 2002). The rates are characterized by significant dispersion among the Arab states. The weighted average of customs tariffs in countries like Morocco, Tunisia, Algeria, Jordan and Egypt are ranging between 15 to 27 percent, while these rates in the GCC countries are more or less than 10 percent (Saudi Arabia (10.5), Oman (4.5)¹⁸.

There is a similar dispersion regarding income tax rates and taxes on goods and services. The highest marginal individual income tax rates reach 44 % in Morocco, Mauritania (40%), Algeria (40%), Egypt (32%), Tunisia (35%), Jordan (25%) while the lowest rate is in the GCC countries in which either there is either no or low individual income tax¹⁹. For some Arab countries corporate tax is levied only on foreign companies. These rates are ranging from 30% Saudi Arabia to 50 % in Oman. The rates differ according to the percentage of participation of the nationals in these companies. For instance in Oman, a rate of 50 percent is levied upon foreign companies as if the Omani national share of the company capital is less than 50%, and becomes 35% if the nationals own more than 50 percent of the company. While, for countries like Morocco, Algeria and Tunisia flat rate of 35% is levied on corporate income. Higher rates also are levied in Egypt and Syria that it reaches 40 % while there is a lowest rate of 15% in Lebanon. Table (5) summarizes income tax rates and indirect tax rate in 14 of the 22 Arab states.

As shown in the table (5) and figure (3), the Arab states can be divided into two main categories; the GCC countries with zero individual income tax rates and other Arab countries with rates reach up to 45 %. These disparities among the two groups are lowered for corporate tax rate. Rates are ranging between 10 to 50%. However, the treatment is not uniform in the Arab states, for instance, the GCC countries differentiate between the national companies and foreign ones.

¹⁸ World Bank, World Development Indicators, CD-ROM 2003.

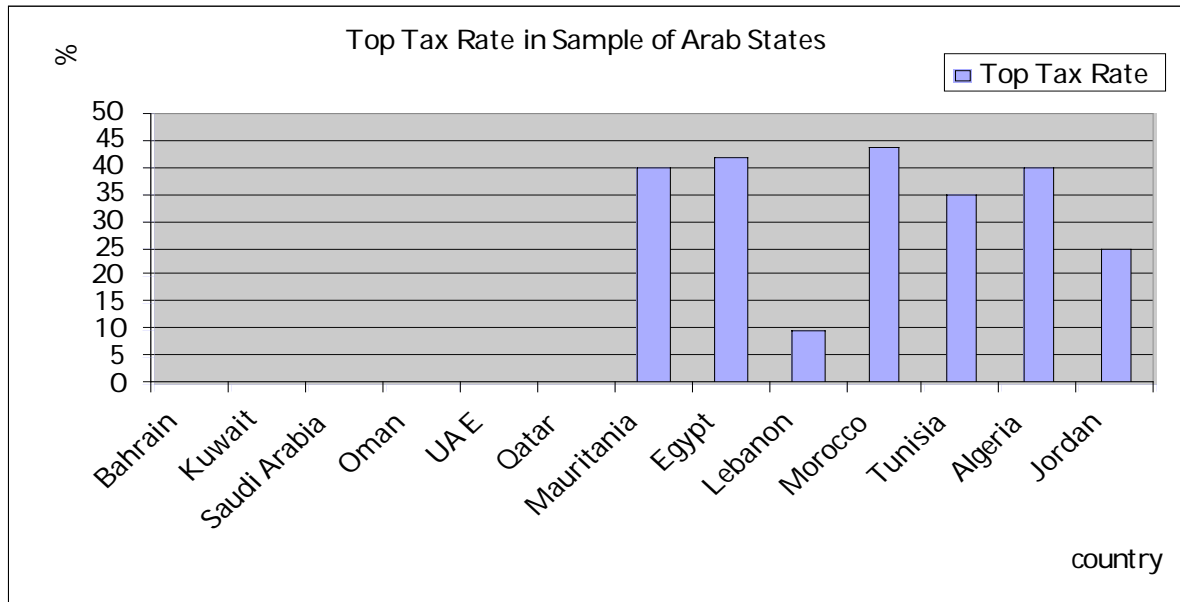
¹⁹ Islamic tax Zakat (2.5%).

Table (5): Income Tax Rates and Indirect Taxes in the Arab States.

Country	Income tax rates (Individuals)	Corporate Tax rate	Indirect tax*
Algeria	Top rate (40%)	30%	21 % VAT
Bahrain	(0 rates)	(0 rates)	No VAT/ sales tax
Jordan	Top rate 25%	Top tax 35%	13% VAT
Kuwait	(0 rates)	up to 25% (to be)	No VAT/Sales Tax
S. Arabia	(0 rates) (Zakat 2.5 %)	30% reduced to 20%	No VAT /Sales tax
Lebanon	3 to 10 %	up to 10%	10% (VAT)
Morocco	14 to 44%	(Flat rate 35 %)	20% (VAT)
Oman	(0 rates)	0-35 up to 50%**	3 to 15 % (VAT)
Syria	10 to 25%	Up to 40 %	Sales tax 5 to 20 %
UA E	(0 rates)	(0 rates)	No VAT/ sales tax
Tunisia	From 15 to 35 %	% (35%)**	(VAT) 10 to 29 %
Qatar	(0 rates)	Top rate 35 %	No VAT/ sales tax
Mauritania	Top rate 40 %	25 reduced to 20%	14 % (VAT)

Sources: World Bank, World Development Indicators, CD-ROM 2003. *<http://www.deloitte.com>, Mesa Tax Newsletter, Country Reports on Economic Policy and Trade Practices 2001 Country Reports on Economic Policy and Trade Practices and <http://www.heritage.org/research>. ** The percentage differs according to the share of the Omani Participation. ** Taxes are levied on foreign companies.

Figure (3): Top Income Tax Rates in the Arab States



Source: Table 5.

Similarly, indirect tax rates differ among the Arab states. Some Arab states have levied the value added tax (VAT) such as Algeria (21%), Tunisia (up to 29%), Morocco (20%), Mauritania (14%), Lebanon (10%) and Oman (up to 15 %). Sales tax is mainly

applied in Jordan (13%), Syria (up to 20%) and Egypt (up to 45%). The GCC countries do not levy indirect taxes but Oman that has recently levied the VAT. Most recently, there has been a debate, at the GCC level, regarding the possible introduction of indirect taxation, such as value added tax. The GCC Finance and Economic Co-operation Committee has suggested a comprehensive study be undertaken by the member states to consider this further. Whilst governments in the GCC have started exploring new indirect taxes, there has been no formal decision on any specific form of tax or the timeline for introducing any such taxes²⁰.

6.2 Tax Revenues Magnitude in the Arab states

Government Revenues, spending, deficit and debt ratios vary across the Arab states. Oil revenues are the major source of government revenues for oil exporting countries, particularly, for the GCC countries²¹. Oil revenues account for 92% of government revenue for Kuwait, 81% for Saudi Arabia, 77% for Oman, 76% for the United Arab Emirates, 74% for Bahrain and 56% for Qatar²²(ElBasem 2002)²³. Therefore, in all oil-exporting countries the revenue side of the budget contains two sources, the oil and non-oil revenues (see the example given for the Saudi Budget in appendix A). For countries such as Algeria, Tunisia, Egypt, Morocco, Syria, and Jordan, tax revenue is a significant source of government revenues. Table (6) demonstrates that the share of tax revenue to GDP is more than 30 % percent in Algeria, Tunisia, and Morocco, while it is about 20 percent in Jordan, Egypt, Syria and Mauritania. This share accounts less than 5 percent in the GCC states, except Oman. Figure (2) in appendix (A) shows this diversity of tax shares among the Arab states as captured by the Histogram figure.

In general, the shares of tax revenue are less than those of the OECD countries that ranging between 30 to 50 percent. In the last decade, some Arab countries have experienced a sustained increase in the share of tax revenue (Algeria, Morocco, Tunisia, Egypt, Jordan and Mauritania), while in others is wakened or kept stagnant. For some Arab countries (Tunisia, Algeria and Morocco) the tax share is higher than those of some Asian and African countries (El Tony 2002).

²⁰ Mesa Tax Newsletter (2004).

²¹ The GCC stands for “the Gulf Cooperation Council”.

²² Qatar has extensive natural gas revenues.

²³ El-Bassem, K. (2002). “The Gulf Cooperation Council Monetary Union: a Bahraini Perspective”, BIS papers, no.17.

Table (6): Arab Countries: Tax Revenue (% GDP)*

Country	1996	1997	1998	1999	2000	2001
Algeria	30.67	31.81	25.46	27.61	37.85	32.08
Bahrain	7.84	6.48	8.77	8.13	6.95	7.2
Egypt	17.45	16.50	17.6	18.6	19.4	14.6*
Jordan	21.38	18.85	18.02	18.14	19.01	18.98
Kuwait	0.97	1.192	1.54	3.43	1.1	Na
Lebanon	14.05	12.64	13.40	14.05	15.1	Na
Morocco	Na	24.28	23.86	24.99	31.5	Na
Oman	7.53	8.76	6.79	6.68	7.17	Na
Qatar	0.98	0.98	1	1.1	1.1	Na
Sudan	5.9	5.8	6.5	6.62	6.8	Na
Syria	15.64	16.29	15.71	17.42	18	Na
Tunisia	24.84	25.13	26.01	25.83	26.03	Na
Saudi Arabia	3.4	3.7	3.6	3.7	3.7	3.8

Sources: 1) World Bank, World Development Indicators, CD-ROM 2003. 2) Eltony, Nagy 2002.
*Obtained from the Egyptian Budgeting and Planning Committee Report (2002/2003).

There is, also, a considerable variation among the Arab states regarding the type of taxation used in the tax system. Generally speaking, the largest share of tax revenue comes from taxes on goods and services that accounts for about 5.1 percent of GDP (El-Tony 2002). Taxes on goods and services account between 40 to 50 percent of the total tax revenue for Morocco, Tunisia, and the UAE (see figure 4). While its share to the government current revenue is less than 2 percent in Oman and 10 percent in Algeria. Figure (5) shows that Oman, Kuwait and Bahrain have the lowest share of among the Arab states. The type of diversity is also deepened when income tax is introduced into the scene. Algeria is the only Arab state in which the share of income tax reaches 70 of its current revenue, while for the Gulf States, income tax approaches zero rates since they impose no, or very low, income taxes (see table 8). Both individual and corporate income taxes account for small fraction of revenue since ranging between 2.7 and 4.2 percent of GDP in Morocco and Tunisia. In countries like Syria Jordan, individual income taxes average only 1.2 percent of GDP (Nashashibi 2002). Income taxes, both corporate and individual, have risen over the last ten years in most of Arab countries, particularly, in Algeria, Morocco, Syria (see table 8). Generally, the lowest contribution of income tax as a source of government revenue, in the Arab states, can be attributed to:

1. The narrow base of taxation that is due to either lower income levels or low rates of taxation.
2. An inadequate income tax system in the sense that has not the ability to adequately tax the business community, professionals, and wealthy individuals (Nashashibi 2002). For instance, corporate income taxes are often limited to the formal sector and are often characterized by high marginal tax rates and narrow tax bases. As argued by Eltony (2002), multinational businesses often pay a disproportionate share of income taxes compared to local businesses. For instance, in Kuwait, it is set at 50 percent of profits. In other Arab countries,

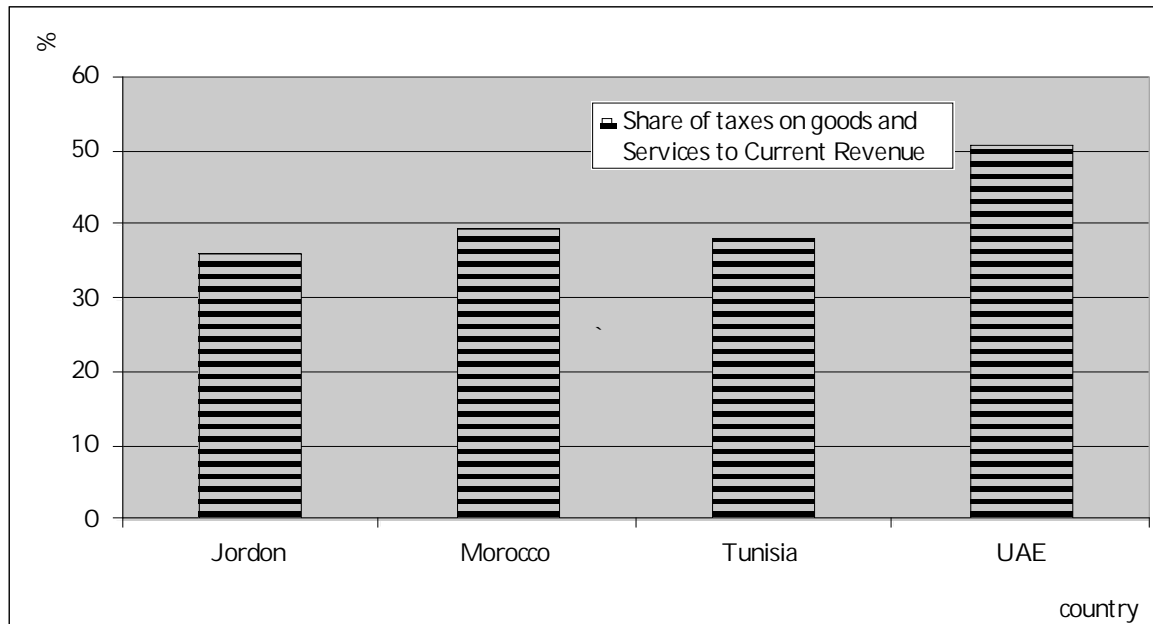
personal income taxes are almost exclusively applied to wage income in the formal sector (typically government employment) and are often unwieldy, with high marginal tax rates and a small tax base, leading to tax evasion (Eltony 2002).

Table (7): Taxes on Goods and Services (% of current revenue)

Country	1995	1996	1997	1998	1999	2000	2001
Algeria	10.35	10.43	11.26	13.35	10.13	6.99	7.86
Bahrain	5.21	4.27	3.095	3.73	3.03	1.923	1.96
Egypt	13.43	16.88	17.17	22*	23.3*	22.8*	22.4*
Jordan	26.42	30.21	31.02	30.54	29.8	35.52	36.08
Kuwait	0.03	0	0.023	0.028	0.03	na	na
Lebanon	5.19	3.93	6.516	8.35	19.94	na	na
Morocco	39.77	Na	39.80	39.29	36.29	na	na
Oman	1.11	1.09	1.28	1.64	1.68	1.28	1.26
Sudan	na	Na	na	40.54	35.27	na	na
Syria	36.86	28.88	20.72	16.92	19.08	na	na
Tunisia	20.10	20.87	33.26	34.7	37.02	38.25	na
UAE	53.28	52.53	51.34	50.7	50.84	Na	na

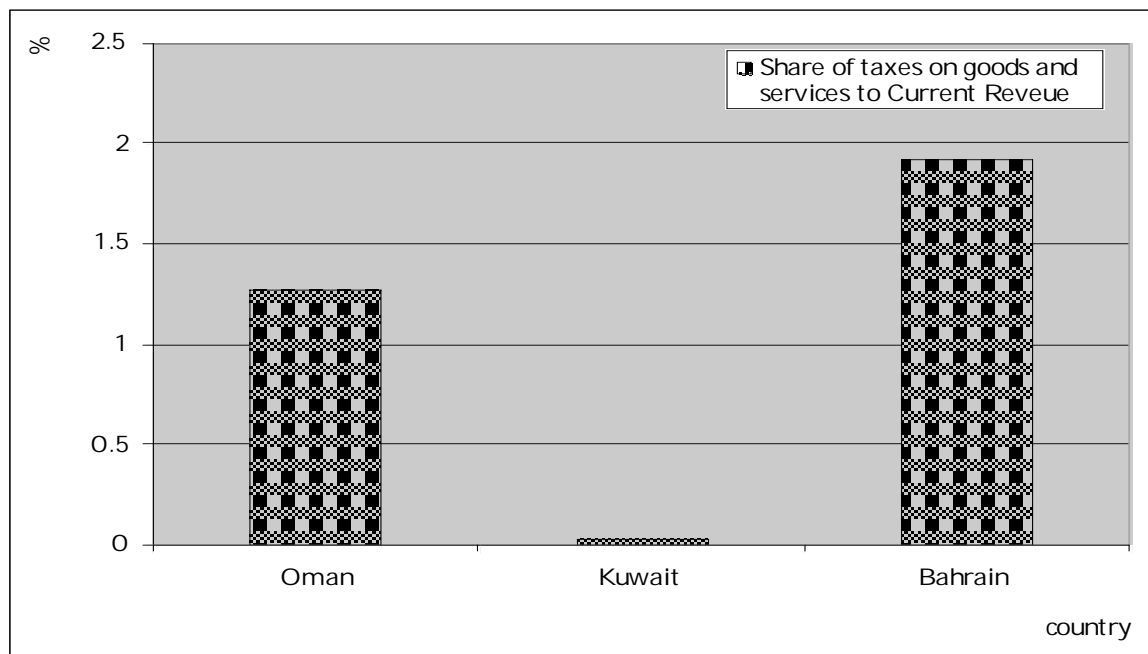
Source: World Development Indicator, CD room. 2003., *Figures for Egypt are obtained from the Egyptian Budgeting and Planning Committee Report (2002/2003).

Figure (4): Countries with the highest Share of Taxes on goods and Services



Source: Information Available in Table 5.

Figure (5): Countries with the lowest share of taxes on goods and Services



Source: Information Available in Table 5.

Table (8): Taxes on Income, Profits and Capital Gains (% of current revenue)

Country	1995	1996	1997	1998	1999	2000	2001
Algeria	64.86	68.29	69.77	60.2	66.52	79.53	70.0
Bahrain	4.43	5.07	5.03	6.66	4.89	3.20	4.58
Jordan	11.45	12.6	11.41	9.823	9.99	10.70	12.43
Kuwait	0.77	0.41	0.47	0.83	0.81	Na	na
Lebanon	6.28	7.26	9.06	9.07	10.90	Na	na
Morocco	20.36	Na	22.03	22.30	24.03	Na	na
Oman	20.69	21.54	23.2	16.57	18.52	23.93	21.1
Sudan	Na	Na	Na	17.34	14.61	Na	na
Syria	23.45	22.88	30.15	33.64	37.50	Na	na
Tunisia	15.77	15.73	18.49	19.39	19.31	20.32	na
UAE	0	0	0	0	0	Na	na

Source: World Bank, World Development Indicators, CD-ROM 2003.

Also, the share of international trade taxes to current revenues differs among the Arab states. Table (9) summarizes the magnitude of international trade tax in the tax system for a sample of 10 Arab countries.

Table (9): Taxes on International Trade (% of current revenue)

Country	1996	1997	1998	1999	2000	2001
Algeria	15.49	12.64	16.39	14.04	8.92	10.92
Bahrain	7.72	8.76	12.27	9.014	5.22	5.91
Jordan	26.02	22.73	22.87	20.44	19.92	16.82
Kuwait	2.15	1.98	2.39	2.77	Na	Na
Lebanon	46.18	46.39	43.70	28.06	Na	Na
Morocco	Na	15.86	16.176	15.90	Na	Na
Oman	2.99	2.35	4.36	5.78	2.52	2.83
Syria	12.37	10.58	11.78	9.86	Na	Na
UAE	0	0	0	0	Na	Na
Tunisia	25.7	14.5	13.6	12.1	11.5	Na

Source: World Bank, World Development Indicators, CD-ROM 2003.

Clearly, there are significant disparities among the Arab states not only in terms of tax rates but also the tax treatment and the magnitude of tax revenues. Recently, most of tax system in the Arab world has undergone tax rate reduction. As mentioned, international trade tax rates in most of the Arab states have reduced significantly. This is due to trade liberalization or WTO accession rather than Arab regional coordination measures. Other Arab countries have reduced rate to attract foreign direct investment, particularly, those countries with low income level. This is also a manifestation to the economy structure that differs significantly among the Arab states.

Divergence among the Arab states continues regarding government spending figures. Total government spending as percentage of GDP is in the range between 30 to 50 percent of the GDP (see table 2 appendix A). For some Arab countries it is above 50% while for some others is between 10 to 20 percent. It is important to stress the fact that, for some Arab countries a significant share of government spending goes to military expenditure as shown in table (3) in appendix A. It reaches 30 % of total spending in countries such as Saudi Jordan, United Arab Emirates and even more than 40 % in Oman despite the fact these countries were never been in a War. For some other Arab countries it is between 6 to 20%. It is worth noting that, for some Arab countries the levels of public spending are far less than government revenues from taxation, leaving a disparity in inflows and outflows in the budget and then results in a fiscal deficit problem.

6.3 Budget Deficit and Public debt

Fiscal deficits have edged upward, in Arab countries in the last decade. Despite the fact that most of Arab countries have adopted different policies to control budget deficit, in some Arab countries, it has reached higher levels by 2002 and 2003, particularly, in Lebanon (16 percent of GDP), Syria (9.7), Egypt (6.8%), and Djibouti (9%). Table (10) shows that the budget deficit in year 2002 and 2003 for a sample of Arab countries. Most of the oil-exporting countries managed to turn its deficit of the 1990s into surplus as for the case of Saudi Arabia and Kuwait (see table 10). For Kuwait, the level of surplus has reached 24 % by 2002. In Oman, the government managed to turn

its deficit 4.8 percent in 2000 to a surplus 1.4 % by year 2003²⁴. This is due to the rapid increase in oil prices, which helped the GCC governments to achieve surplus in their budgets. However, the United Arab Emirates has not yet managed to control its budget deficit despite the increase in oil revenues.

Table (10): Budget deficit (surplus) % of GDP

Country	2002	2003	Country	2002	2003
Jordan	4.1	2.3	Oman	(0.9)	(2)
UAE	11.2	8.5	Qatar	(6.3)	(6.9)
Bahrain	3.7	1	Kuwait	(26.7)	(24.8)
Tunisia	1.97	2.5	Lebanon	16.5	14.4
Algeria	0.1	(0.4)	Libya	(0.34)	(2.6)
Djibouti	9.4	7	Egypt	5.8	6.3
Saudi Arabia	2.9	(5.68)	Morocco	1.69	1.27
Sudan	0.9	0.9	Mauritania	3	2.5
Syria	7	9.7	Yemen	0.83	0.43

Sources: EIU, Country Forecast main Report.

The levels of public debt (domestic and foreign) to GDP have reached perilous levels in some Arab countries. It reached over 100 as in the case of Egypt, 135 % in Lebanon, and 93% in Jordan, Syria 81% (see table 11). It reached even more than 60 percent in Tunisia (62 %) and morocco (73%). The oil-exporting countries, except Algeria, don't suffer from public debt accumulation, despite the fact that most of the oil-exporting countries are externally indebted countries as revealed in table (1) shown in appendix A. The table shows that the external debt of Saudi Arabia in absolute figure is higher than the external debt of more than the debt of 7 Arab countries; however, it is low percentage to its GDP.

In brief, the budget stance in Arab countries differs significantly among the Arab states. Also, it is not clear that whether or not some Arab countries have complied with some budget rules such as golden rule²⁵ that aim at achieving fiscal discipline. Moreover, for some countries for which the law of budget states some rules, practical experience show no respect of such rules.

²⁴ For details, see the Omani central Bank report, chapter 4 (public finance).

²⁵ According to the Golden Rule, government is not allowed to borrow to finance current spending, i.e., borrowing is only made to finance investment spending.

Table (11): Public Debt % of GDP (year 2000)

Country	Public Debt % of GDP
Jordan	93.8
UAE	Na
Tunisia	62.2
Algeria	56.1
Sudan	68
Syria	81.1
Oman	19.1
Kuwait	Na
Lebanon	135.2
Morocco	72.7
Yemen	43.7
Egypt	Over 100*

Source: World Bank, World Development Indicators, CD-ROM 2003,

*Central Bank of Egypt.

The above-mentioned analysis has shown that Arab states have significant discrepancy in their public finance in terms of tax rates, magnitude of tax revenue and budget stance. Trends in public finance of the Arab states show that:

1. There has been a declining trend in taxes on international trade in the Arab states due to continuous trade liberalization and World Trade Organization (WTO) accession, and a proliferation of free trade agreements.
2. The extent of budget revenue vulnerability is different among the Arab states. For the oil-exporting countries, revenue vulnerability is closely related to the changes in oil prices. While, other Arab countries budget stance is influenced by different factors such as GDP per capita, economic growth..etc. However, variables that affect the budget stance differ also among them. This diversity among the Arab states is due to differences in their economic structure.
3. Based on the similarity of tax system and budget stance, four groups of Arab states can be distinguished. These groups are; the GCC countries, *El-Maghreb Al-Arabi* countries (Algeria, Tunisia, Morocco and Mauritania), the countries of Egypt, Syria, Lebanon, and Yemen, and, finally, group four that includes Sudan, Djibouti, and Somalia²⁶. The GCC countries have similar systems in the sense that oil is the main source of government revenue while taxation is not a significant source. Also, El-Maghreb Al-Arabi countries have extremely similar systems with respect to taxes and rates applied. Both the third and fourth group of Arab countries do not have homogenous system compared to that of group one and two (see Table (12)).

²⁶ Libya has a unique tax system with various rates of taxation.

Table (12): Arab States and Fiscal Disparities

Group	Coefficient of Variation* (Taxes)	Coefficient of Variation (Income)	Coefficient of Variation (debt %)
The GCC countries	0	0.51	Na
El Maghreb Al-Arabi	0.09	0.52	0.13
El-Mashrek countries (Egypt, Jordan, Lebanon, Yemen)	0.42	0.8	0.23
Others (Sudan, Libya, Comoros, Djibouti and Somalia)	Na	0.86	Na

Sources: computed given the information of table 10. * Coefficient of Variation= standard deviation/mean.

The coefficient of variation is used to measure the degree of groups' homogeneity. Three indicators are used to measure the extent of public finance disparity among the Arab states, tax rates, GDP per capita and the debt percentage to GDP. From table (12), the degree of disparity is lower among the GCC and *El-Maghreb* groups compared to that of other groups. If income tax rate is used, the coefficient of variation for the GCC is (0), for *El-Maghreb* group (0.09), and for other groups (0.42). Similar results are obtained if GDP per capita and debt ratio are used to compute the degree of diversity among the groups shown in table (12). Similar conclusion can be drawn from table (13) that summarizes these differences captured by other different fiscal indicators.

Table (13): Public finance Disparities among the Arab states

Group	Direct taxes	Indirect taxes	Debt % to GDP
The GCC countries	Non	Non	Less 20%
El Maghreb Al-Arabi	Rates 15 to 40%	VAT (10-29%)	56 to 75%
El-Mashrek countries (Egypt, Jordan, Lebanon, Yemen)	10 to 35 %	Sales tax (10 % to 45%.	90 to 140%
Others (Sudan, Libya, Djibouti and Somalia)	Various rates and system	Not clear	less than 40 %

Source: based on the information given in table 10 and 11.

7. Possibility of Fiscal policy Convergence among the Arab States

The experience of the EU shown in section 3 implies that the removal of barriers and distortions among the member states is a key factor to move towards economic integration. Tax rates and system disparities are a crucial source that intensifies such distortions. Moreover, literature emphasizes the potential welfare gain of the integrated member states from the tax harmonization. Therefore, the founding treaty of the EU, Rome treaty 1957, indicated that tax rates among the member states have to be brought into accord. Despite the fact that the Arab economic unity agreement (1957) indicated the same need of fiscal and monetary coordination, the gap between the two cases is

extremely large. Figures in table (14), compare the tax rates (direct and indirect) disparities in the EU and the Arab world. Clearly, the variation of tax rates among the Arab states is higher than that of the EU.

Table (14): Tax Disparities measured by Coefficient of Variation

	Corporate Disparities	tax	Indirect Disparities	Tax
The Arab world	0.59		1.098	
The EU	0.30		0.15	

Sources: calculated from table 8, the EU coefficient of variation figures are computed given the information by the European Commission 2003 report.

As noted above, the Arab states have taken some steps towards the creation of free trade area among the member states. Undoubtedly, mobility and exchange of goods and services will increase once these steps were put into practice. This mobility creates fiscal externalities among the member states results from tax disparities not only the tariff rates but also from other taxes differences (Vogiatzoglou 2004). Such externalities might create significant problems for some of the member states. As argued by Nashashibi (2002), international trade taxes in Arab countries are characterized by an excessive and high number of tariff rates with various exemptions. Moreover, customs rate are not uniform across the Arab world. This has led to significant disparities in the rate of effective protection among the Arab states. Moreover, customs structure in the Arab states has led to lower incentives system that has distorted domestic incentives for efficient production. Disparities in direct tax rates among the Arab states cause severe economic distortions which affect negatively the allocation of resources and gains from capital mobility among the member states (Vogiatzoglou 2004). However, for some Arab countries, particularly those with lower GDP per capita, the loss in revenues results from either lower customs and tariffs or tax reduction sources seems unfavorable. The fear of race to the bottom tax strategy might intensify such fears. Thus, a harmonized tax system is needed in order to avoid such negative impacts upon competition and then efficiency.

Most recently, many Arab states have started restructuring their tax system, particularly, the GCC countries. In 2004, Saudi Arabia has introduced, a new Corporate Income Tax Law, which represents the first major revision of the Saudi tax law in over fifty years. Similarly, the Omani Ministry of National Economy is working on a new Income Tax Law to replace the current legislation which was originally issued in 1981. The new law is intended to simplify the tax procedures and assist in speedy completion of tax assessments. The major tax development in Kuwait over the last year has been the release of a draft new Income Tax Act. This is the first new Act since 1955 that makes significant changes to the tax system. For the first time individuals will be subjected to taxation, as will Kuwaiti-owned companies that are currently, by concession, outside the scope of taxation. If the proposed law comes into force, Kuwait will become the first GCC member country to impose a personal income tax. For Tunisia, Syria, Yemen and Egypt, there has been a spate of new tax legislations in the last few years. Table (15) summarize some of the recent proposed and approved tax laws in some of the Arab states.

Table (15): New Tax Laws in some Arab States

Country	The Law Proposed(Approved)
Saudi Arabia	A New Corporate Income Tax Law (2004)
Oman	A new Income Tax Law to replace the current legislation
UAE	A new Income Tax Law will come into force in 2007
Yemen	Law No. 14 of 2004 was issued on 30 June 2004
Egypt	A new income tax Law come into force in 2005
Kuwait	A draft of a new Income Tax Act 2004
Syria	-New tax legislation in the last few years - In 2004 a consumption expenditure fee was introduced by Legislative Decree no 61 effective October 2004. This luxury tax is considered an indirect tax on locally purchased goods and services.
Egypt	Tax system reform- new tax legislation will come into force by mid 2005.

Source: Mesa Tax Newsletter (2004).

Despite this wave of tax system restructuring in many Arab states, all efforts of system reform are done on a country basis. The problem behind such movement is that all restructuring is based upon maximizing the national interest of each state irrespective of Arab regional coordination issue. For instance, despite the GCC countries have started to introduce a new wave of tax laws, there is lack of coordination among the GCC to agree upon the minimum rates and laws structure. Moreover, the objectives from restructuring tax system differ significantly among the Arab states, which affect outcomes of these laws. The key objective of the new laws in lower income countries such as Yemen, Egypt and Syria is to encourage economic growth, attract foreign direct investment and lower the vulnerability of government revenue, while other countries have different objectives. For instance, in the UAE Fronting Law is likely used to change how business is done in the UAE as it appears to target UAE nationals who act as a silent partner in companies; thereby allowing foreigners to use their trade license for a fee. In brief, the wave of tax laws were designed and enacted according to separate action by each country without a degree of coordination. Moreover, several Arab countries have signed free trade agreement with the EU or the US. Bahrain signed a Free Trade Agreement ('FTA') with the US on September 2004 in order to remove trade barriers, increase exchange trade, open up markets through²⁷ trade liberalization and attract further investments. Similar agreements have been signed by Morocco, Algeria, Tunisia, and Egypt with the EU. The Bahraini-US agreement was the first US FTA to be signed with a GCC country. This Agreement will be effective once it is ratified by the US Congress and the Bahraini National Assembly.

As noted, there is a significant lack of coordination among the Arab states actions. This lack of coordination characterizes both the agreements and tax system reform (changes). Undoubtedly, the lack of coordination results in deepening the disparities among the Arab states and distorts movements of capital and goods among them. The absence of general framework that organizes tax policies and public finance issues is, in general, the key cause of this result.

²⁷ The FTA provides for 100 percent of the consumer and industrial products and 81 percent of the US agri-exports to be duty free, the remaining tariffs being gradually phased out over the following ten years. The Financial Services sector will be opened up completely.

There are two crucial issues should be taken into consideration when the issue of a possible fiscal convergence among the Arab states is discussed. First, the willingness of the Arab states to move forward towards fiscal convergence. Specifically, do some of the Arab states have the will to burden some loss that results from cooperation? Second, the level of coordination among the Arab states regarding the ongoing steps for restructuring their fiscal system. A direct answer to the first question is not an easy task. Given the historical experience, the Arab states show the spirit to move forward towards a significant form of integration, however, the steps taken were so limited. As shown above, the Arab world is divided into four or more segments. Moreover, each country of the segment or sometimes each segment works in a separate environment with different priorities.

In order for the Arab states move forward towards convergence crucial steps should be taken. A key prerequisite for public finance convergence is levelling the development among the member states. Levelling the play field strategy that enables less developed Arab countries to catch up those relatively developed one is a key factor for convergence. Despite the fact that there has been significant funds were allocated to help low income Arab countries to improve its level of development, these steps have not been enough to reach this goal. As shown above, economic disparities among the Arab states is still widening. A more effective mechanism (supranational commission) is crucial to levelling the development among the member states. Besides, the lack of coordination issue should be resolved in the sense that it does not affect negatively the cooperation level among the member states. This can be reached through the following steps:

1. Arab countries have to adjust their tax system towards a system that helps in lowering disparities in terms of rates and taxes. Therefore, minimum standard of direct and indirect taxes should be applied. Then, each country will have the opportunity to levy taxes within an agreed range. For instance, a unified VAT rate should be applied and the basis on which goods and services are taxed should be identified. This will help to increase competition and efficiency since goods and services of any country burden with the same tax.
2. A comprehensive mechanism that lowers income difference among the member states are a key means for convergence process.

Without such steps, reaching a sort of fiscal convergence seems unattainable. Working in a separate environment with different objectives will not help to comply with the conditions of fiscal convergence, and then lower level of cooperation. To sum up, public finance is possible in the Arab states conditional upon some steps to be taken. However, the recent wave of public finance system restructuring does show a significant sign.

7. Conclusion

The paper has analysed the possibility of public finance convergence in the Arab region given the experience of the EU. Moreover, it assesses the historical progress in the field of public finance harmonization among the Arab states. The paper has argued that there was no a comprehensive approach for public finance convergence during the history of the Arab integration process, despite the fact that the Arab region have started its process of integration in the same year as the Europeans. The lack of effective mechanism, to activate the Arab league resolutions, has handicapped the move towards a feasible form of integration. To date, the Arab public finance systems differ significantly in terms of tax rates, magnitude of tax revenue and levels of deficit and debt, while the EU has managed, to large extent, to create a semi-unified systems. The Arab world can be divided into four segments in which similarity does exist.

Disparities among the Arab states in terms of policies continue to act in face of reaching a degree of convergence and then ease the way to integration. Moreover, the model adopted by the Arab states was ambitious to the extent that it has not recognized that moving towards system convergence needs more gradual and practical approach. Despite the steps taken by the Arab states in the late nineties, lack of coordination does exist. It seems that disparities will continue till a comprehensive approach is implemented. In order for the Arab states to move towards fiscal system convergence, a general framework, that organizes system restructuring simultaneously with levelling income differences, will help reaching such goal. A short and long term plan should be set and dignified by the Arab states. Furthermore, supranational agency overseeing and coordinating fiscal and monetary policies among Arab states seems a necessity. However, the success of such measures is still tied with the political will of the Arab leaders!

Appendix (A)

Table (1): The Arab States: Main Economic Indicators*

External debt	Inflation	GDP per capita	Population	Country
\$21.7 billion (02)	2.3 % (02)	\$1,788 (01)	30.84 m	Algeria
\$3.7 billion	0.5 %	\$12,252 (02)	0.7 million	Bahrain
\$225 million	3.5%	\$720	632,948	Comoros
\$238 million	1.2%	\$1,203 (02)	740,000	Djibouti
\$28.5 billion	2.7%	\$1,160	67.89 million	Egypt
\$60-\$130 billion	60% (01)	\$1,054 (02)	25.5 million	Iraq
\$8.5 billion	1.8 %	\$1,806	6.5 million	Jordan
\$10.1 billion	1.4%	\$15,820	2.1 m (2001)	Kuwait
\$19.5 billion (02)	3.5 % (02)	\$4,635	3.62 m	Lebanon
\$4.4 billion	1%	\$3,015 (02)	5.6 M	Libya
\$ 2.5 billion (00)	4.0 %	\$313	2.8 million	Mauritania
\$17.4 billion (02)	3.6%	\$1,123	29.9 million	Morocco
\$ 5.6 billion (02)	-0.6 % (02)	\$7,875	2.48 million	Oman
Na	2.9%	\$1,141.	2.9 million	Palestine
\$15.4 billion (02)	1 % (01)	\$28,518	0.8 million	Qatar
\$37.2 billion (02)	-0.5%	\$8,430	23.7 million	Saudi Arabia
\$16.0 billion (02)	8.4 %	\$415	33.6 million	Sudan
\$21.9 billion	0.9%	\$1,191	17.13 million	Syria
\$12.2 billion	2.8 %	\$2,062 (01)	9.8 million	Tunisia
\$20.1 billion (02)	2.8%	\$20,870 (01)	3.3 million	UAE
\$6.2 billion	9.4%	\$820	18.7 million	Yemen
\$2.56 billion	20%	\$550	10.4 million	Somalia

Sources: The Economist Intelligence Unit (EIU) Country Report and ArabDataNet.com. * Some indicators for the year 2001 and some for 2002.

Table (2): Total government Expenditure (% of GDP)

Country	1996	1997	1998	1999	2000	2001	Average
Algeria	29.2	31.2	31.5	30.4	29.3	31.3	30.5
Bahrain	25.3	26.0	27.7	28.1	25.9	27.7	26.8
Jordan	33.5	32.4	33.3	31.3	31.2	32.4	32.3
Kuwait	45.2	42.2	51.0	44.2	Na	Na	Na.
Saudi Arabia	24.5	26.2	28.4	25.5	26	27.0	31.5
Tunisia	32.6	31.9	31.7	31.6	32	Na	32.0
Yemen	29.0	31.9	36.1	26.7	Na	Na	30.9
Lebanon	37.9	42.5	34.0	35.7	Na	Na	37.5
Oman	32.0	30.3	33.6	30.8	28.6	Na	31.1
UAE	9.64	9.97	11.2	Na	Na	Na	Na

Source: Source: World Bank, World Development Indicators, CD-ROM 2003

Table (3): Military expenditure (% of central government expenditure)

Country	1996	1997	1998	1999	2000	2001
Algeria	10.61	11.71	12.81	12.64	12.01	Na
Bahrain	18.75	17.58	17.21	17.58	15.57	14.88
Egypt	10.17	10.17	Na	Na	Na	Na
Jordan	25.01	26.45	26.16	28.38	28.41	26.48
Kuwait	23.06	19.46	17.81	18.82	Na	Na
Lebanon	14.95	10.73	12.54	14.04	Na	Na
Morocco	Na	12.82	11.85	12.37	Na	Na
Oman	39.21	41.12	37.14	36.94	37.11	40.65
Syrian	26.18	23.57	24.76	24.20	Na	Na
UAE	34.37	33.39	31.43	30.05	Na	Na
Tunisia	6.23	5.93	5.82	5.39	5.17	Na

Source: World Bank, World Development Indicators, CD-ROM 2003

Figure (1): GDP per capita Disparities in the Arab States

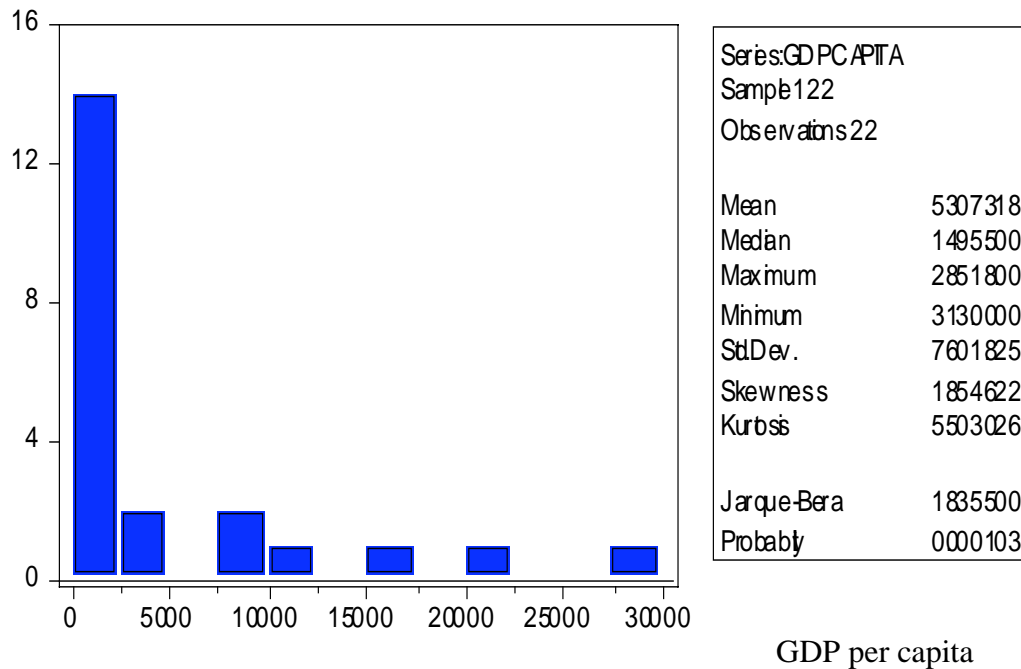


Figure (2): Tax Revenue Share (% GDP) and Disparities among the Arab states

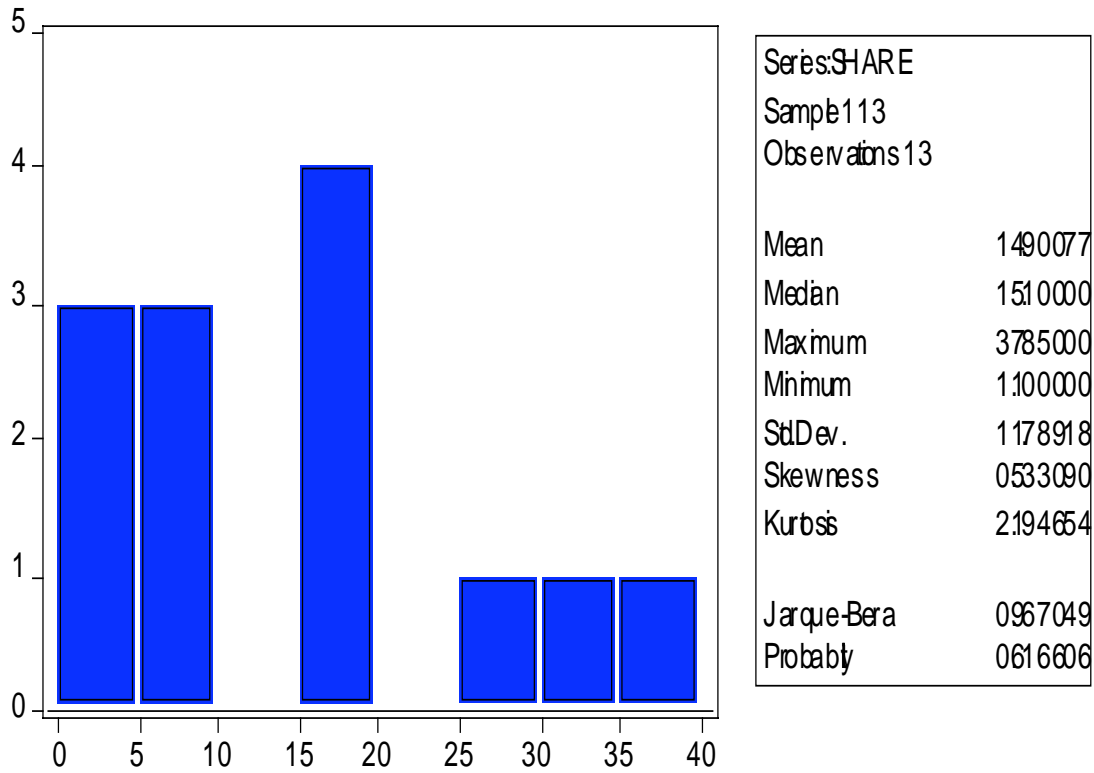


Figure (3): International Trade Tax (% of Current Revenue)

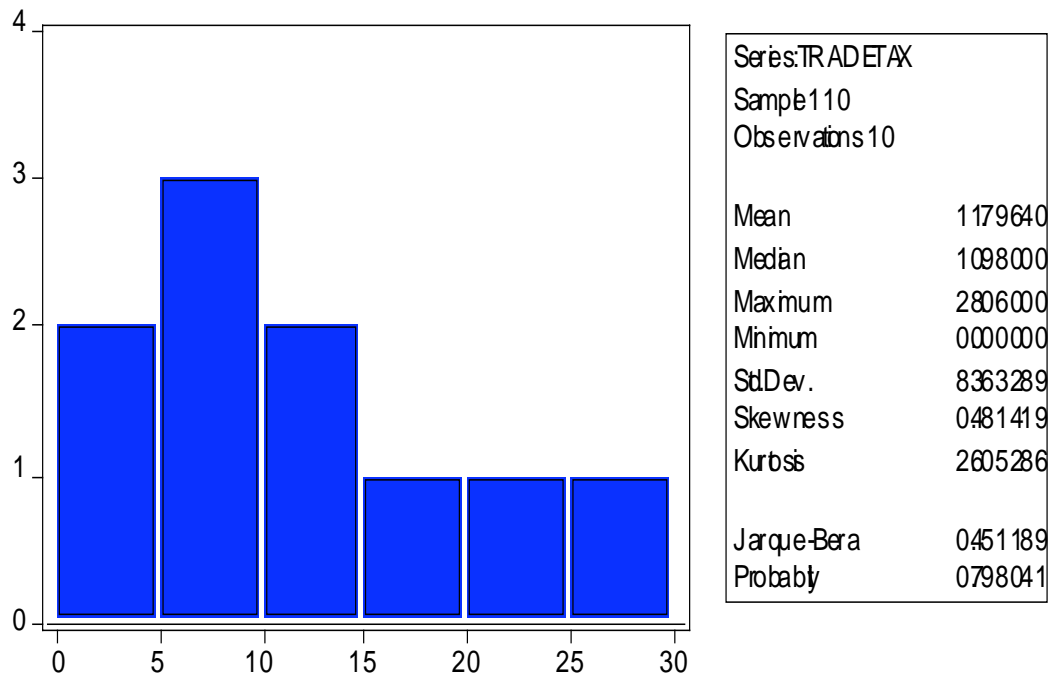
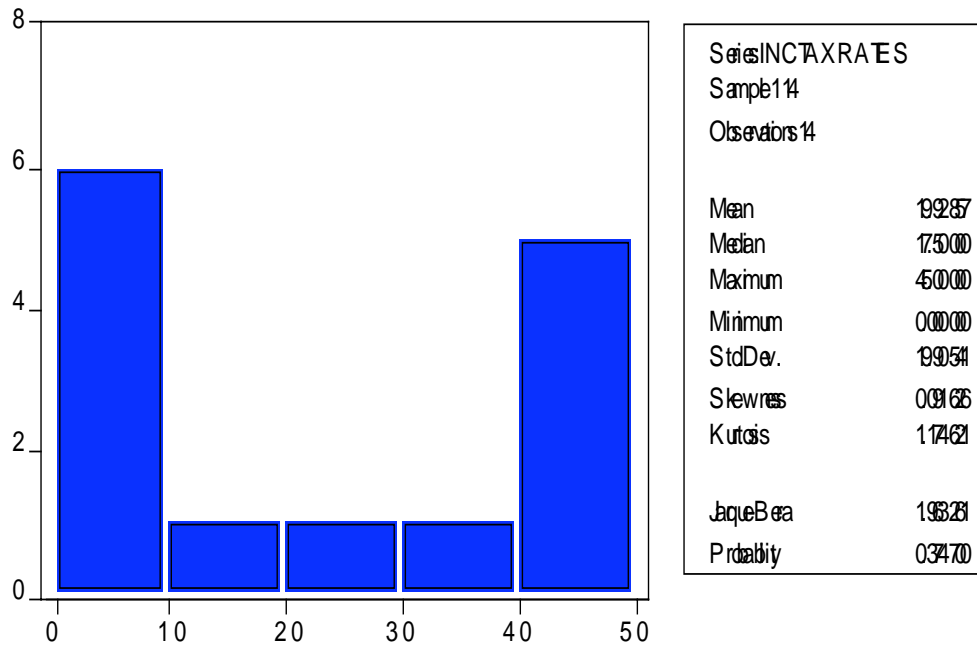


Figure (4): Income tax Rates diversity



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MONETARY POLICY IN THE EUROPEAN UNION: LESSONS TO BE DRAWN FOR THE ARAB COUNTRIES

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I. INTRODUCTION

Various developments have taken place in the European Union (EU) since the establishment of the European Central Bank (ECB) in June 1998, the managing of a single monetary policy for the Euro area since January 1999, and the launching of the euro as the common currency in circulation at the beginning of 2002. The smooth and successful introduction of Euro coins and notes was the final step on a difficult process of monetary integration. Furthermore, various important changes in the Eurosystem's framework for the monetary policy implementation have come to effect since March 2004. Different lessons could be derived for the Arab countries from the progress made over the past years in the implementation of the monetary policy and in understanding its mechanisms of operation in the euro area.

Arab economic integration has been on the agenda of Arab politicians and nations since the 1940s—almost the same period of the European initiative. Numerous studies have shown that integration among Arab countries could entail positive welfare.² Strengthening the bargaining power of the region and offering a higher standard of living for its citizens have been the main driving forces. Attempts at economic integration of the Arab countries have been made. In that regards, several institutions were established to support the process of integration, and numerous agreements were signed in that respect

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² Hoekman et al. (1998) and Konan and Maskus (1997)

but no significant progress took place. Moreover, most of these efforts were focused on trade, mobility of labor and capital, liberalization of foreign direct investment while the monetary policy got less attention. The general lack of real progress in the evolution of Arab economic integration, and specifically in the implementation of a single monetary strategy is due to the overall absence of political incentives and lack of supportive legal and institutional framework or is it a matter of low pace and sequencing or both.

In that context, the objective of this paper is to draw lessons from the EU experience in the implementation of the monetary policy through investigations in the theoretical background, institutional setup, legal and regulatory framework. The first section of the paper will give an overview on the monetary policy implemented in the EU countries, identifying the preconditions for a single monetary strategy, the institutional setup, the role of the ECB, as well as, the interaction with the money market. The second section summarizes the legal and regulatory framework adopted for the implementation of the monetary policy. The third section analyses and assesses the monetary policies applied in various Arab countries, namely Egypt, Jordan, Morocco, Tunisia, and Yemen in an attempt to observe the variations between those adopted by the Arab countries versus that of the ECB in the euro area, taking into consideration the differences in the degree of development. The paper concludes with policy implications and lessons learnt from the EU experience for the Arab countries, with emphasis on the challenges facing the Arab region.

Talking about monetary policy it would be essential to define inflation targeting, which is one of its main objectives. Bernanke *et al.*, (1999) defines inflation targeting as “ a framework for monetary policy characterized by the public announcement of official quantitative targets (or target ranges) for the inflation rate over one or more time horizons, and by explicit acknowledgment that low, stable inflation is monetary policy’s primary long run goal. Among other important features of inflation targeting are vigorous efforts to communicate with the public about the plans and objectives of the monetary authorities, and, in many cases mechanisms that strengthen the central bank’s accountability for attaining those objectives”.³

II. PRECONDITIONS FOR ECONOMIC INTEGRATION AND A UNIFIED MONETARY STRATEGY

The first few years for the European countries and specifically for ECB were not easy. There was a lot of skepticism about the ability to have a single monetary policy and a unified currency for numerous sovereign governments. There were concerns on whether national differences in the transmission process would hamper the effectiveness of monetary policy. There were worries on whether autonomous national fiscal policies be compatible with a supranational monetary policy, and ambiguity on the possibility of national interests dominating and distorting the conduct of the monetary policy in light of the decentralized nature of the Eurosystem. Other critiques went to the extreme saying that a single, stability-oriented monetary policy is doomed to fail. However, the

³ Bernanke, Ben *et al.*, (1999), p. 4.

Eurosystem experience proves that the euro has been a success, and that the central bank managed to deliver a firmly established stable currency.

Most countries that have integrated successfully satisfied three main preconditions. First, political leadership must be willing to integrate. Political leaders of the Arab countries will encourage integration if it enhances their legitimacy without too much loss of sovereignty. Second, leaders should be able to establish an effective regional institutional framework to streamline the process. There is a need to have supranational regional rules, policies, and organizations to formulate and monitor policies. These policies and regulations should be hierarchically superior to domestic laws and directly applicable to members. Third, there should be consensus that one or more members would play the leadership role. In the case of the EU, Germany has been the key initiator of policies for the European monetary system. The first step towards the German leadership in the history of the EU was the intergovernmental conference on a political union paralleling the proposed European Monetary Union (EMU). Moreover, enhancing domestic conditions of macroeconomic and financial stability is another important institutional precondition.

A. Institutional Setup

Overall, the success in the implementation of a single monetary strategy for the European area could be attributed to various factors. The ECB had the credibility, the appropriate strategy, the technical expertise, highly qualified staff capable of fulfilling its mandate, the determination of the policy makers, and more important, the institutional framework. There are key institutional features that made the EU integration efforts a success. In addition to the strong political backing for integration, there was a central executive body managing the process and pushing it forward is vital. The first major step towards economic integration among various European countries was the formation of administrative bodies⁴, and subsequent attempts were made to establish further supranational European organizations. The significant factor about these bodies is that its findings and laws are binding not only on the community but on member governments. These bodies often have representatives of the different members but are independent of national interests.

By the mid 1980s there were still some barriers to movement of goods, services, capital and persons. There was a need to remove restrictions on market access; different national technical standards and foreign exchange controls; distortions of competitive conditions; and varying national approaches to market functioning, such as the prudential regulation of banks. Removing such restrictions would entail harmonizing national regulations, which would frequently entail liberalization.

⁴ This included the European Coal and Steel Community (ECSC), Council of the Community, the European Parliament, the Court of Justice, the European Economic Community (EEC), and the European Union (EU).

Member countries in the EU established several supranational institutions, such as the Commission of the European Communities and the European Council, the European Parliament, the European Court of Justice, Economic and Monetary Union (EMU), and the European Central Bank (ECB), which played a major role in the development and success of the EU. In fact, the main institutional framework behind the euro as a credible currency is the institutional framework of Economic and Monetary Union.

The determination of the policy-makers, governments, central banks and the European people made the single currency a reality, despite doubts on whether economic and monetary union would be achieved. Nevertheless, in a period of six years, the ECB has successfully pursued a stability-oriented single monetary policy serving initially 11 and later 12 countries each with a sovereign national government. There were concerns that national differences would hamper the transition process towards an effective single monetary policy; and that national interest would dominate and distort the conduct of the monetary policy. Another issue of concern was whether or not autonomous national fiscal policies would be compatible with a super national monetary policy.

The institutional framework required for the establishment of a stable currency and a single, stability-oriented monetary policy. The mandate of the ECB was clearly outlined in the Maastricht Treaty that was signed by the governments of the European Union and ratified by the national parliaments in 1993. The Maastricht Treaty has specifically stated that the monetary policy is to be conducted with the aim of maintaining price stability and that ECB would be fully independent. ECB performance was assessed in terms of price stability. This important target has been clearly stated in Article 105 of the Treaty which states: “The primary objective of the ECB shall be to maintain price stability.” While the Treaty has given priority to the target of price stability, it nevertheless also requires that “without prejudice to the objective of price stability” the ECB “shall support the general economic policies in the Community”. The contribution of monetary policy to the overall macroeconomic performance can be measured above all with the level of real interest rates. They have a strong impact on real sector activity either through their direct effects on new investment decisions, or their indirect effects via the balance sheet channel on the profitability of firms and thus on their ability to raise funds in an environment with asymmetric information.

These provisions saved the monetary policy from external pressures, and have also helped in ensuring long lasting credibility for the euro from its outset. The Treaty established a clear hierarchy of objectives for the ECB, with price stability as the main priority. Focusing on the goal of maintaining a low and stable rate of inflation was considered the most important role the central bank can play in terms of contribution to economic welfare, sustainable growth and job creation. Such a mandate was also confirmed in the “Union’s objectives” in the draft constitution just approved by the European Council in June 2004. The mandate was mainly to deliver and maintain price stability.

One of the main preconditions for joining the euro area is the independence of the central bank, and the ECB from the government. Institutional independence of the

central bank is a very important pre-condition for successfully pursuing a monetary policy oriented at maintaining price stability. The independence of the central bank will ensure that its policies are not influenced by the short-term political concerns and agenda of the different European countries. The central bank was given the authority to make all the necessary decisions and measures to pursue its goals. The ECB was protected from the politicians that were tempted to resort to monetary expansionary policy during periods of economic difficulties, which can be rewarding in the short run but at the expense of long-term growth prospects. In order for the central bank to conduct its monetary policy in a consistent manner, fulfill its mandate and thereby gain and maintain a high level of credibility and confidence in its policy, it was a necessary precondition to have an independent central bank. In addition, ECB had an efficient organizational structure that helped it execute the tasks that it was assigned with its two main policy-making bodies, the Governing Council and the Executive Board.

The independence of the central banks from governments is especially essential in countries where politicians are after quick success in order to be elected. Empirical evidence has shown that the higher degree of independence of central banks the lower the inflation rate, the better are the conditions of growth and employment.⁵ Accordingly, a precondition for joining the euro area is an independent central bank in order to ensure that the primary objective of the monetary policy is maintaining price stability. Central banks independence requires accountability. ‘Granting such a decision-making authority to an independent central bank in a democracy means that the central bank must assume responsibility for its use of this authority.’⁶

Maintaining a high level of transparency of the monetary policy is essential. Predictability and transparency go hand-in-hand. In order to successfully maintain price stability, it is crucial to make the decisions of ECB transparent to the public. It is important to have a clear and publicly announced strategy. The key features of the monetary policy strategy of the ECB were adopted by the Governing Council in October 1998, and was officially announced before the introduction of the euro. The ECB’s understanding of its objectives and the framework used to guide policy decisions. In addition, the Governing Council’s assessment of the economic situation and the risks to price stability are regularly published and monetary policy decisions are explained in a press conference announcing the monetary decisions taken in their monthly meetings. Transparency is a prerequisite for accountability and enhances the understanding among markets of how the central bank conducts its monetary policy, which will ultimately promote predictability and supporting substantially policy effectiveness.

To avoid possible distortions associated with deliberations by national consideration, new voting modalities were introduced in 2003. These voting modalities were unanimously approved by the Governing Council of the ECB in February 2003 and adopted by the European Council in March 2003, which prepared the Governing Council for future expansion of the euro area. All Governors were allowed to participate in the Governing Council meetings and in the decision making process no matter what their

⁵ Motley (1998), and Niskanen (2002).

⁶ Issing (2002).

voting rights were. Under the new system, the “one member, one vote” principle still applied to all members exercising a voting right. The new voting system was able to accommodate up to 27 euro member states. Overall, the ECB and the more broadly the Eurosystem provide an efficient structure and expertise that grant the required support to the preparation and the implementation of the monetary policy decision.

The strategy was then clarified further in May 2003. The ECB published the quantitative definition of price stability that can anchor expectations, which will ultimately contribute to stabilizing the economy, even in the face of major economic disturbances. In addition, ECB adopted a diversified and robust approach to the processing of information in order to accommodate different views about channels of monetary transmission. The ECB’s monetary strategy is based on various indicators from the economic analysis.

B. A Single Monetary Strategy and an Independence of the Central Bank

From the very beginning of its existence the ECB has attached a very high importance to presenting its monetary policy decisions within a comprehensive strategic framework. In this regard it has chosen an approach that is in line with the tradition of the Bundesbank and since the 1990s also with the practice of many other central banks which have mostly decided to adopt the strategy of inflation targeting.

The starting point of the monetary strategy of the ECB is the Friedmanian insight that inflation is always and everywhere a monetary phenomenon. The primary objective of the monetary policy would be to maintain price stability, and this would be the foundation for an efficient economic system, and hence a sound economic growth and a high level of employment.⁷ Past experience in Europe has proven that low and stable inflation is a pre-condition for achieving longer lasting economic growth. It can be said that the euro area has benefited from a period of low inflation over the past several years. Low inflation is a precondition for achieving higher growth over the longer run. Moreover, the monetary authorities have managed to successfully anchor inflation expectations, as shown by data from index-linked bonds, which have been mostly below 2 percent since the launch of the euro. Overall, one can certainly conclude that the euro has been a “strong” currency in the sense of maintaining its internal purchasing power.

This strategy is based on the understanding that inflation endangers growth, employment and the social balance of the society. The ECB’s definition of price stability is an annual increase of the euro harmonized index of consumer prices (HICP) close of 2 percent. The ECB’s Governing Council has given this previously mentioned quantitative definition of its final target. The Council has also made clear that price stability “is to be maintained over the medium term.” However, a sufficient safety margin was put to guard against the risk of deflation. In fact, noninflationary price increases is possible. A restrictive monetary policy to prevent price increases could lead to too tight a policy.

⁷ Officially announced by the Governing Council of the ECB in October 1998 and confirmed in May 2003.

The primary objective of the European Central Bank's (ECB) monetary policy is to maintain price stability, defining it as a year-on-year increase in the harmonized CPI for the euro area below 2%. ECB uses a modified inflation-targeting approach that retains some role for money-growth targets. However it has been argued that monetary policy has very limited influence on the real variables in the economy. Many economists argue that Europe's structural problems—over regulated labor markets, complicated tax systems and very expensive social security mechanisms—are problems associated with slow growth.

While the Maastricht Treaty recognizes that price stability is the primary objective of central banking, it adds that when price stability is not endangered, the central bank should also be concerned about other objectives such as employment. The central bank makes the best possible contribution towards achieving the other objectives mandated by the Treaty just by maintaining price stability. Just focus on price stability and all the rest will follow automatically.

The ECB follows a two pillar approach for the implementation of its monetary policy. The first is provided by a “reference value” for the growth rate of the money stock M3 and is as well an analysis of economic dynamics and shocks. With the first pillar the ECB has made clear that it regards itself in the tradition of the Deutsche Bundesbank which was the only central bank in the world announcing monetary targets for a longer period of time (from 1994 until the end of its autonomy in 1998). Given the uncertainties with which the ECB was confronted at the beginning of its operations it decided to use a weaker form of a reference value instead of announcing an outright monetary target.

The second is an analysis of monetary trends which consists of a “broadly based assessment of the outlook for future price developments”. The second pillar of the ECB's strategy looks very similar to an inflation forecast. The ECB intends to base this assessment on “a wide range of economic indicators” which “will include many variables that have leading indicator properties for future price developments”. They include, *inter alia*, wages, the exchange rate, bond prices and the yield curve, various measures of real activity, price and cost indices, and business and consumer surveys” (ECB 1999). The status of the monetary policy is signaled by the development of M3, and its components, such as credit and long-term financial assets.⁸ , which has thus far a close connection to the development of the inflation rate in the euro zone with a time lag up to two years.⁹ The monetary analysis is then compared with the economic analysis of developments in overall output, aggregate demand, fiscal policy, labor market conditions, a broad range of price, interest and cost indicators, in addition to changes in the interest rates. When the growth rate of money is higher than that of the aggregate growth of the economy, there are potentials for inflation.

Money has always played a prominent role in the Eurosystem. However, since the year 2000, it was realized that the sudden rise in M3 is not necessarily inflationary.

⁸ The definition of M3 changes with the level of development in the financial markets.

⁹ Neumann (2003).

In cases where interest rates are very low, non-bank financial institutions tend to hold more near-money assets, and are reluctant to invest in long-term financial assets, such as stocks, bonds and mutual funds. In such circumstances, the rise in M3 does not necessarily reflect the real development of buying power. Nevertheless, money still remained one of the main components of the ECB's monetary strategy announced in May 2003 but playing a prominent role not a dominant one while economic analysis plays a more visible part than before. It is worth noting that this was not a new strategy but a clarification of the strategy inherited from the Deutsche Bundesbank.¹⁰

The ECB does not consider M3 a target but a 'reference value'. The ultimate intention of the strategy is to safeguard the currency and by achieving this to support other high ranking targets of economic policy. The achievement of the reference value depends on the reactions of banks and non-banks to liquidity offered at different rates of interest because the monetary policy of the ECB sets incentives using the tools of monetary policy and influences money supply directly.

One of the main tools of monetary policy for the ECB are open market operations dealing with a fixed range of assets. These operations are conducted as main refinancing operations. The ECB considers these open market operations as a very flexible and efficient means of operating monetary policy. Since 1999 till 2003, more than 75 percent of the liquidity requirement for the banking system in the euro area were met by the main refinancing operations and the remaining one-quarter by longer-term refinancing operations.

C. Establishing the Euro as a Stable Currency

In addition to the skepticism regarding the successful formulation of a monetary policy for a supportive diverse currency area, there were also concerns to whether it was possible to make the euro a stable currency. However, time has shown that the euro has been credibly established as a stable currency. The period following the launching of the euro was characterized by low rates of inflation, low level of medium and long term market interest rates. The introduction of the euro was done in two stages: (i) the book-entry form, and (ii) in the form of banknotes and coins.

The transition to the euro in book-entry form was accomplished with no implementation problems or organizational failures. This step required changes in numerous computer programs at the central banks, stock exchanges, authorities and thousands of private institutions in an adequately coordinated manner. Integrating the national money markets and creating an efficient single money market depended on the creation of a tight network of contractual agreements between different market players across the euro area. An integrated euro area money market is a precondition for the execution of a single monetary policy and for an efficient allocation of central bank money across market participants. In a couple of weeks, the national money markets formed an efficient integrated euro area wide circuit. A supportive factor in this process

¹⁰ Schönwitz (2004).

of integration was the real time gross settlement system of the euro area, which has contributed greatly to the rapid integration of the money market. This TARGET system has linked all the real-time gross settlement payment systems in the European Union.

Following the issuance of the euro, the exchange of the national banknotes and coins of the 12 countries of the euro area for the new euro notes and coins was a huge organizational, logistical, and technical undertaking. This euro cash changeover progressed well. A very important step was producing the banknotes and the coins with security features, being available within a fixed timeframe and be identical in the eyes of the public and the machine sensor irrespective of where they were issued. As of December 2001, 51 billion coins had been minted and around 16 billion banknotes printed.

The next step was putting the new currency into circulation and withdrawing the other national banknotes and coins. This stage required immense preparation, advanced planning, effective communication, coordination and thorough follow-up. There was also public awareness that ensured confidence and an element of enthusiasm, such as the moving slogan, “The euro. Our money”, which was advertised through television, newspapers, web pages, and leaflets written in world languages. Overall, the main factor behind the success of the introduction of the euro is the institutional framework, mentioned above, namely that of the Economic and Monetary Union (EMU).

D. Transparency and Predictability of the EU Monetary Strategy

There is now a large consensus among economists that transparency is of utmost importance for success in central banking. Central bankers should state their objectives clearly and precisely; they should announce how they want to achieve this and leave nothing hidden. All this will minimize uncertainty and will ensure predictability in policy making. However, there is often a discrepancy between its anti-inflationary objective and its pragmatism. The ECB has set its inflation target rather low; creating the risk that inflation will be observed outside the target range of 0-2% quite often. In fact, during more than half of the time since the ECB came into existence this has been the case. This discrepancy between the announced inflation target range and its realization hampers the establishment of firm credibility. Moreover, the more outspoken and precise a central bank is about its present and future policy actions, the greater the risk it takes that, at some point, because of unforeseen circumstances, it will have to do something different from what it announced.

The impact of the transmission monetary policy on real sectors of the economy, in addition to the impact on the price level, is important. The effect of the monetary policy on the aggregate supply and demand of goods and services differs from the impact on the supply and demand on money. There are different views, the classical and the Keynesian view. According to the classical view which believes in the market mechanism, the monetary policy has no lasting impact on real variables and relative prices. They cause inflationary pressures. Hence the central bank has a limited role to play. Most of ECB's

working hypothesis are monetarist. There are three basic assumptions of the ECB's concept for the market economies of the euro area. First is that maintaining stable prices in the medium term is a realistic objective for the monetary policy, which would indirectly contribute to a more stable and higher medium term growth and employment. Second, since monetary policy has limited impact on real variables, it is unrealistic to assign monetary policy directly to an objective for real growth and employment. It is the responsibility of the structural and fiscal policy to enhance economic growth. Third, the ECB's monetary policy has only medium impact and no lasting one on the output level.

On the other hand, there is the Keynesian view that prefers a demand driven approach rather than the classical monetarism approach that is supply driven. The Keynesian view is based on the fact that there could be market failures, and that lasting unemployment could be due to price and wage rigidity. Nevertheless, it has been argued that Europe's growth and employment problems should be solved mainly by supply-side oriented approach while ECB focuses on price stability. Relying on the monetary policy to solve growth and employment problems is something that politicians would like to believe in to reduce their responsibilities and move it to the central banks. Relying on printing money and spending more money as a solution for the problems of the real sector is often an approach pursued by short-term oriented politicians.

In that case, there will be a need for the central bank to support the government with a mix of a fiscal and monetary policy to promote economic growth. A precondition is the existence of a transmission processes, and the ability of the central bank to manage them efficiently. An expansionary monetary policy is one where interest rate would be low and money supply would be large, which would lead to higher level of investment, and hence higher growth rate and lower unemployment rates. Hence, monetarism call for an institutional framework for the market that reduces regulations, abolishes price rigidity and promotes competition. It is worth noting that investment demand does not necessary react to changes in the interest rate, and could be affected by taxes, non-wage costs or expected cyclical developments. Hence growth and employment depend more on the supply side, such as institutional framework and market flexibility, and accordingly money growth is reflected in inflation and not output. Hence, the central bank should concentrate on price stability and follow monetary targets that stem from the growth path of the economy.

An increasing number of central banks use inflation targeting to keep inflation stable over the medium term. However, a recent cross-country study of 20 industrial, moderate-inflation economies reveal that there are on average no apparent benefits from using inflation targeting in monetary policy.¹¹ There has been a going on debate on whether inflation targeting is the best device for communicating monetary policy to the markets and the public in order to keep inflation expectations down.

¹¹ IMF (2003).

III. CHALLENGES FACING THE EU IN THE IMPLEMENTATION OF THE MONETARY POLICY

General difficulties with the ECB was confronted, for instance, for the new central bank the main difficulty was the implementation of a monetary policy for an area that lacks genuine aggregate data and for which no established economic relationships were known.¹² Member countries differ greatly in terms of economic structure, exchange rate and monetary regimes, and in the degree of nominal and real convergence already achieved. Countries need to be assessed on one-to-one basis throughout the process. The multilateral nature of the framework means that decisions concerning one country or one currency are collective decisions. This fact argues for the fundamental principle of equal treatment. Although each country would be considered according to its specific merits, comparable situations and cases will be assessed on the leveled playing field provided by objective criteria. There will be no additional criteria but neither will there be a relaxation of the criteria that proved effective in steering the process of convergence across the founding members of the euro area.

In addition, ECB had to cope with several economic shocks from 1999 till 2001. In the beginning, it had to face the 1998 financial crises and the weakening euro. In 1999, ECB had to deal with the third oil price shock, and when it was almost overcome, the world was shocked by the September 11th attacks.

A. Deficiencies in the EU Monetary Strategy

Further developments of the EU monetary strategy could be achieved through finding a mechanism to enhance transparency and predictability. Maintaining a high level of transparency of monetary policy is essential for reducing uncertainty and boosting credibility, ultimately facilitating the conduct of the monetary policy. For example, cross-checking between economic analysis and monetary analysis can be made more transparent. More emphasis should be made on prognoses of inflation in order to improve transparency and predictability of decision making without giving up monetary targeting. In that respect, ECB has taken the decision on May 2004 to publishing quarterly forecasts. Moreover, there should be more transparency in voting. The US Federal Reserve and the Bank of England publish minutes and votes of decision-making. Voting in the ECB should mean voting strictly on a single monetary policy for Europe, and not on the basis of a political interest of the countries being represented.

B. The Need for Structural Reforms

Implementing structural reforms to raise potential growth is a major challenge for the European countries. Although EMU has been successful in restoring macroeconomic

¹² There are six countries with a long history of very close monetary cooperation under stable exchange rates: Austria, Belgium, France, Germany, Luxembourg, and Netherlands. But uncertainty exists on how far a regime change of a common monetary policy would affect expectations and thus behavioral relationships.

stability in its founding members, a number of economies in the euro area still have to undertake actions to fully realize the advantage of economic integration, specifically a one stable currency. Structural economic impediments in a number of member countries reduce employment opportunities and prevent the creation of real income compared to the pace that would be attained, where available resources put to their most efficient use. This system gives generous provisions for insiders at the cost of young and more deprived citizens. Hence better functioning labor markets along with reforms of social security and protection, and the timely completion of the single market of goods and services, including financial services, would greatly improve the prospects of the euro area.

C. Challenges of the Fiscal Policies

Fiscal soundness is crucial for any economy in achieving sustainable, noninflationary growth. In the absence of fiscal soundness, price stability can only be maintained at a high cost in terms of interest rates, and hence lower growth and employment. As the overall aggregate monetary policy does not necessarily fit all member countries, national fiscal policies should be adjusted accordingly and be willing to counteract an inadequate monetary policy stance.

Ensuring fiscal discipline is a main component for the consistency and the cohesion of the European monetary union. Fiscal policies and fiscal position should be capable of confronting asymmetric shocks that could not be dealt with through the monetary policy. It is a matter of concern that large fiscal deficits were evident in several member countries in the EU.

Fiscal tensions that have been accumulated over the last years need to be improved in a way that enhances the implementation of the monetary policy. For example, further coordination between economic and fiscal policies need to exist, and fiscal policy should be looked at in terms of its impact on the quality of public finances not only in terms of fiscal discipline. In addition, some of the rules that apply to fiscal policy have some shortcomings. Some countries have not reduced their debt level as fast as expected at the start of EMU, while others have moved to deficit levels above those required for adopting the euro. The implementation of the fiscal framework has not always been consistent with the conditions and clauses of the Treaty and the Stability and Growth Pact, thus leading to a decrease in credibility and institutional uncertainty at the European level.

If a national economy is confronted with an idiosyncratic demand or supply shock, the only available policy instrument is the national fiscal policy. However, the usage of the instrument is limited by the restrictions set by the Stability and Growth Pact,

above all the 3% limit for budget deficits. This requires a solid fiscal policy in years without shocks so that national fiscal budgets are more or less in equilibrium. Only then a country possesses the necessary breathing space for situations with negative demand shock.

D. “One size fits all” Monetary Policy

With its membership in a monetary union a country has to give up its monetary policy autonomy. One should not overlook that especially for smaller countries it is generally very difficult to pursue a completely independent monetary policy in an open economy. Under flexible rates there is a high risk that a country is confronted with a depreciation or an appreciation of its exchange rate that is completely unrelated to its economic fundamentals. Therefore most member countries of the EU had very early sought for an institutional framework which limits the short-term volatility as well as medium term misalignments of exchange rates. The European Monetary System which was established in 1979 was very useful in this regard. However, it implied that the common monetary policy was set by the Bundesbank according to the requirements of in the German economy, and that in periods of crisis (e.g. autumn 1992 and summer 1993) countries had to defend their parties vis-à-vis the D-Mark with excessively high nominal and real interest rates. Thus the main economic advantage of EMU consists in completely ruling out speculative attacks within the common currency area and at the same time providing a common monetary policy which is guided by the economic situation in the Euro currency area as a whole.

Nevertheless, the problems of a “one-fits-all” monetary cannot be overlooked. Under a monetary union the central bank can target the average inflation rate only, so that at the national level higher or lower rates are possible. Thus, even if the average inflation rate is within the target range of the ECB in some countries a higher increase in prices has to be accepted. There have been indeed strong divergences in national inflation rates, especially in Ireland, the Netherlands, Portugal, and Spain, the inflation rate has been higher than the rest of the EMU. For such divergences two different explanations are possible: (i) an unbalanced macroeconomic policy mix at the national level, i.e. the combination of the common interest rate policy with the national fiscal policy, has led to an inflationary pressure. (ii) inflation has been caused by catching-up processes of member countries with below average income levels, i.e. it is due to the so-called Balassa-Samuelson effect.

As far as the impact of the common monetary policy on the individual member countries is concerned, some of the smaller countries had problems to achieve a balanced policy mix. But over the whole period only in case of Portugal a clear imbalance can be detected where fiscal policy would have required a much more restrictive stance. This shows above all that it is not enough to focus on the appropriateness of the fiscal deficit in isolation, rather it has to be assessed on the basis of the adequacy of the average Euro interest rate for the national economic situation. The case of Ireland shows that the Balassa-Samuelson effect can temporarily lead to a relatively high national inflation rate without threatening a country’s international competitiveness. In this situation it is necessary to counteract the economic overheating with a sufficiently restrictive fiscal

policy. As inflation in Ireland came down to about 3.5% in 2002, Ireland has been able to achieve a rather successful policy mix in a difficult environment. With the eastern enlargement EMU will be confronted with relatively poor new members. On the one hand, this lack of real convergence will increase the problems associated with the Balassa-Samuelson effect. On the other hand it has the advantage that economic developments in these countries affect the Euro average only marginally. In addition, the example of Bretton Woods System shows that a stable monetary framework can provide an important stimulus for strong catching up processes.

ECB has been able to pursue a stability-oriented monetary policy even under the difficult environment of a major supply shock. While it has allowed a short-term overshooting of the headline inflation rate, it has been able to prevent second round effects that could have led into a wage-price spiral. Of course, this average inflation performance was accompanied with much stronger inflation rates in some smaller EMU countries.

IV. IMPLEMENTATION OF THE MONETARY POLICY IN THE ARAB COUNTRIES

Although regional integration has gained momentum all over the world, the Arab region remains the least integrated. Despite various efforts, progress in the Arab countries economic integration has been very limited, especially in the adoption and implementation of a monetary policy. Such low progress could be attributed to various factors, including, low level of economic and political incentives, unwillingness of political leaders to integrate, shortage of adequate and committed institutional framework, and lack of consensus on choosing a regional leader. In an attempt to observe the monetary policies applied in the Arab World, and how far it is different or similar to that of ECB, this section focuses on the monetary policies implemented in five different Arab countries: Egypt, Tunisia, Morocco, Jordan and Yemen.

A. EGYPT

Monetary policy was formulated in the 1990s to support the exchange rate peg. From a technical perspective, it was not possible to pursue an active monetary policy while a fixed exchange rate regime was applied, along with an open capital account. With increasing flexibility in the exchange rate since the year 2000, monetary policy started to take greater importance for maintaining low inflation. Nevertheless, the monetary policy has been facing a challenge of limited monetary tools, and lack of transparency especially in the Treasury Bills market. Interest rates are closely managed and have been almost fixed for years. The central bank discount rate has been almost fixed and the insensitive to changes in market conditions, while the interbank rate in a thin and shallow market, was extremely variable. Deposit and lending rates remain high with wide spreads, while complaints from banks' borrowers are persistent.

(i) *Formulation of the monetary policy.* The main guidance to the monetary policy was based on the monitoring and control of money growth. The growth rate of

broad money, which is determined by the central bank, is based on the projection of real GDP growth rate and expected inflation rate. The period from mid 1990s to the year 2000 was characterized by a tight monetary condition, as reflected in the slow down in the growth rate of M2 and reserve money, to support the pound.¹³ From the year 2000 to the year 2003, growth of broad money ranged between 8.5 percent and 11.5 percent, in consistence with the monetary objectives in terms of anticipated economic growth and controlled inflation. The growth of broad money is projected at 8.5 percent for the year 2004, with a target to limit inflation to a range of 4 to 4.5 percent. Other than the control of money supply, the use of monetary policy instruments was limited. Despite the significant depreciation in the exchange rate and the noticed decline in the real economic growth rate, the change in the discount rate of the central bank was very limited.

(ii) Controlling inflation as a target of monetary policy. One of the main achievements of the 1990s stabilization program was bringing inflation down, from an official average of more than 20 percent during the late 1980s to single digit levels, starting 1994. This decline is attributed to an improved fiscal stance, which was previously a cause of pressure on domestic liquidity. There was also an adequate management of capital inflows through sterilization measures, which prevented the increases in net foreign assets of the banking system to cause inflation.

However, since the end of February 2003, the inflation rate, has been showing a continuous upward trend, which is more reflected in the whole sale price index rather than the CPI index that suffers from a downward bias because of the significant share of subsidized items in its basket. This upward trend is stimulated by a rise in the prices of food, beverages and tobacco, along with an increase in the prices of wood, and farm products. Such an increase in those prices has mainly occurred due to the pass-through effect of the continuous depreciation of the Egyptian pound, in addition to the prevailing negative expectations and the absence of effective monetary policy. It became clear that, with the adoption of the free float and the greater exchange rate flexibility associated with it that arrangements under the peg are not going to be adequate.

Serious measures are required to develop a monetary policy in Egypt to underpin the free float. These measures go beyond the mere drafting of a framework of the monetary policy, in order to deal with required efficiency of implementation.

¹³ Tight financial policies that started in 1999, as well as, limits on credit expansion resulted in a significant decline of credit to the private sector. The increase in government borrowing since 2000 has contributed to the decline in private sector credit. It is worth mentioning that part of government borrowing was used to finance its arrears to the private sector, which provided an indirect source of liquidity to the private sector. Given the swift downturn in private credit growth after years of rapid expansion, the quality of bank loans have deteriorated. Further, claims on the private sector during late 2002 grew by only 0.1 percent compared to 7 percent during the corresponding period in the previous year. Meanwhile there was an increase in the growth rate of total claims on the public sector from 9 percent to 13 percent during the same period.

The free float regime in Egypt needs to be supported by an inflation targeting as a framework for monetary policy. The central bank has announced, on its website,¹⁴ that it is going to adopt an inflation targeting framework after the enactment of the new bank law. This banking law has also given the central bank of Egypt more autonomy and independence compared to the previous period. More than three months have passed since the issuance of the law¹⁵, but no details were provided regarding the necessary measures for the implementation of the ‘new’ monetary policy.

It has been claimed by the government and the CBE that these preconditions are under progress, or at least, being considered. However, there is a significant improvement as far as the operational independence of the central bank is concerned. The new banking law provides the necessary legal support for the inflation targeting framework in Egypt. Nevertheless, the quality of implementation of the legal provisions and significant improvements in developing the infrastructure and instruments of monetary policy are of crucial importance for the inflation targeting to succeed.

B. TUNISIA

Tunisia’s favorable progression towards a modern market economy is due in large part to its prudent macroeconomic management. Although the government has retained a large degree of control over economic activity, its action has generally been carried out by sound institutions. Tunisia has embarked on a broad-based set of actions to increase the transparency of policies – especially the monetary policy.

(i) Formulation of the monetary policy. The central bank of Tunisia (BCT) is responsible for the formulation and conduct of monetary policy. The Law of September 1958 specifies that the primary purpose of the monetary policy is to preserve the value of the currency and to watch over its stability. Monetary policy in Tunisia aims at preserving the value of the national currency by maintaining the inflation rate at a level close to that observed by the country’s commercial partners and competitors. Money supply growth (M2 aggregate) is used as an intermediate target. In addition, the nominal effective exchange rate is adjusted daily to achieve the stability of the real exchange rate. These general targets are posted on BCT website; however, annual targets (inflation rate and money supply growth) are not made public before June of the year to which they relate.

¹⁴ In May 2003, the following announcement was on the official website of the CBE in Arabic and English: “Although the new framework for the Bank’s monetary policy in which inflation targeting will be the final goal of the monetary policy was set for the public discussions for the last 5 months, the actual application of the new framework will start after the enactment of the new Central Bank Law during the second half of 2003. As the CBE is applying now the monetary policy which is operative for the past 10 years, and with the developments in the foreign exchange policy to adopt a floating system, the existing monetary policy will not use the exchange rate as its nominal anchor. For the transitional period remaining until the application of the inflation targeting monetary policy, the CBE will continue to target M2 growth rate of 10 percent by the end of June 2003 as was planned before.”

¹⁵ The new law has been issued and published on the 15th of June 2003.

The BCT Board of Directors, which meets at least once a month according to the BCT law, sets the reference rates, maturities, and eligibility terms for the central bank's refinancing facilities. Its advance meeting schedule is not disclosed and the minutes of its meetings are not published. The last reduction in reference rates, in February 1999, was announced, not by the central bank, but by the President of the Republic. No arrangements exist for official consultation with the market participants during the monetary policy formulation process.

(ii) *Transparency and public availability of information on monetary policy.* To make monetary policy more transparent, authorities adopted a new and modern law on statistics in April 1999, which provides for transparency and harmonization with international methods and concepts. BCT publishes its annual monetary policy targets on its website and publishes an advance release of economic and monetary data. Various interest rates, monetary and prudential policy developments, the banking legislation, and selected central bank's circulars can be accessed on the BCT website. The terms of BCT's credit to the treasury are made public. However, there are no provisions for the central bank to publish information on the emergency financial assistance given to banks within the framework of its role as lender of last resort.

The most important monetary policy decisions are communicated to the public by press releases and are posted on BCT's website. The conduct of monetary policy is presented in a monthly central bank publication (*Prionique de Conjoncture*) and in the BCT Annual Report which is published with a lag of about six months. However, there is no pre-announced fixed calendar of publication and dissemination of central bank data.

(iii) *Independence and integrity of BCT.* The Governor of BCT reports every year to the President of the Republic by submitting the central bank's Annual Report approved by the Board of Directors. Under Law 67-50 on the National Credit Council (*Conseil national de credit – CNC*), the central bank is required to report to the CNC annually, but this provision is no longer implemented. Therefore, the law should be amended accordingly; however, this has not taken place. In addition, review of monetary policy is covered in the debate in the National Assembly on the annual report on the economic budget. A government controller, appointed by a presidential decree, is responsible for general surveillance of the central bank's operations and its accounts through ad hoc and ex post inspections of the bank's cash offices, registers and portfolios. The controller also approves the central bank's annual financial statements, which are published in the *Journal Officiel*, and reports to the Minister of Finance in a report which is copied to the Governor and included in the published annual report of the central bank. Reporting to the Ministry of Finance, puts the issue of independence in question.

(iv) *Use of monetary instruments.* The central bank law specifies that the central bank may, under the terms fixed by the BCT Board of Directors, buy from banks negotiable short-term government securities with less than six months to maturity and private paper listed by the Board, or conclude repurchase agreements with banks, using the same securities and private paper as collateral. Instruments used in the conduct of monetary policy, as defined in BCT Circular 89-14 setting out the organization of the

money market, are market-based refinancing mechanisms such as central bank credit auctions, repurchase agreements, and open market operations. The Law of September 1958 specifies that the BCT Board of Directors shall establish discount and repo rates for the central bank, as well as the characteristics of these operations.

The BCT charter clearly and precisely defines the circumstances in which the treasury may seek credit from the central bank; in practice, such credit is provided rarely and only in exceptional circumstances (currently there is a standing advance of 25 million Tunisian dinar bearing interest at an annual rate of 0.5 percent per year and an additional advance of 17.5 Tunisian dinar repayable over 40 years, including a grace period of five years, for which the first principal repayment fell due on July 1, 1975 and the last one on July 1, 2009).

The BCT charter provides for administration of the exchange regulation and empowers it to manage foreign currency assets. However, no legislation or regulation explicitly defines the role of the Ministry of Finance and the central bank regarding foreign exchange policy. Moreover, another drawback in the financial system is that there is no official coordination between the Ministry of Finance and BCT on the issuance of treasury bills. Part of the stock of the government securities is deposited with the central securities depository and the stock exchange, and treasury bill auctions are organized by the Treasury without the involvement of the central bank.

C. MOROCCO

Morocco has achieved macroeconomic stability in the late 1990s since authorities started an ambitious reform process. This process has been aimed at establishing a modern market-oriented financial system that optimizes the mobilization of savings and the allocation of financial resources. Some of the important measures implemented during this period were the removal of credit ceilings, liberalization of interest rates, adoption of a new Banking Law in 1993, gradual elimination of mandatory investment requirements, and the strengthening of prudential bank regulation.

However, markets continue to play only a limited role as government ownership of financial institutions remains widespread. In addition, the economic performance has been unsatisfactory over the last decade and economic growth has remained heavily dependent on agriculture, although non-agricultural sector performance has recently improved. Macroeconomic conditions remained stable in 2002 with low inflation, high external reserve coverage, and a significant current account surplus.

(i) Formulation of monetary policy. Monetary policy is guided by the dirham's peg to a basket of currencies. The central exchange rate of the Moroccan dirham is pegged to a basket of currencies representing Morocco's trading partners. The central bank (BAM) fixes daily rates on the basis of the variations of weights of the currencies in the basket. According to BAM, fixing the exchange rate benefits the economy and helps in putting their "real-effective exchange rate" targeting policy in action. Even though the

peg of the Moroccan dirham to a basket of currencies has served the economy well and helped in maintaining their market competitiveness in terms of trade over the years by providing a useful nominal anchor, a draft law is under consideration to reform BAM's charter so as to assign price stability as the primary objective of monetary policy, create an independent monetary policy committee and clarify the roles of the Ministry of Finance and BAM in the exchange rate policy. It also should consider prohibiting BAM's participation in the capital and boards of directors of public financial institutions –which is the case in Morocco.

(ii) Transparency and public availability of information on monetary policy. BAM is responsible by Law for collecting source data, processing and disseminating monetary statistics for Morocco. Monetary and financial statistics are disseminated in the monthly publication, *Statistiques Monétaires*, the quarterly bulletin, and the Annual Report. They are also posted on the Internet site of BAM. BAM has indicated that data are disseminated simultaneously to all interested users. However, information on the policies and practices governing the compilation and dissemination of monetary statistics is not published. The authorities indicate that government officials have no access to data before their release.

(iii) Independence and integrity of BAM. The Charter of the central bank (BAM) provides for its independence from political interference, and this is well publicized with the Charter and the banking law posted on BAM's website. In addition, BAM indicates that it is not subject to any outside interference or pressure in the process of preparing and disseminating the monetary statistics. The Governor is appointed by a presidential decree.

(iv) Use of monetary instruments. BAM responds to bank's liquidity needs through several types of money market intervention. It can: (a) rediscount certain types of loans through weekly auctions at its initiative; (b) lend five-day funds at the initiative of the banks; (c) provide overnight funds at its initiative or that of the banks; (d) pursue an open market policy; and (e) absorb liquidity when the liquidity of banks becomes excessive. BAM intervened in the summer of 1999 to absorb the liquidity of banks, when government auctions were suspended following the approval of the second GSM license, which provided a significant source of government financing (1.1 billion dirhams).

Interest rates are dictated by market conditions on an auction basis, and there is no evidence of collusion between the Treasury and other public entities. In the authorities' view, interest rate structure in the Treasury bill market appropriately reflects the preferences and anticipations of market participants and provide a credible benchmark. Commercial banks have a very small short-term interest risk exposure. However, given the importance of demand deposits whose implicit returns rise with interest rates, it is clear that the bank's net spread between their cost of funds and return on loans will decline significantly in periods of declining interest rates, and will increase in the opposition direction.

D. JORDAN

Economic performance was strong in 2002 despite instability in the West Bank and Gaza and the threat of war in Iraq. GDP growth accelerated to 4.9 percent from 4.2 percent in 2001. Inflation remained subdued. However, the fiscal deficit widened from 3% percent of GDP in 2001 to 5 percent in 2002. The authorities responded by containing spending in the second half of the year, but these efforts were offset by security-related outlays. Government and government-guaranteed debt rose to 101 percent of GDP.

Jordan's financial system is dominated by the banking sector. Stock market capitalization is also high, pension fund assets are important, while the insurance sector is small. Most banks are well-capitalized, liquid, and profitable, but Non-performing Loans (NpLs) are generally high, and bank deposits and loans are concentrated. Financial system stability has been supported by sound macroeconomic policies.

(i) Formulation of monetary policy. Monetary policy is guided by the JD peg to the US dollar. The central bank (CBJ) reduced interest rates by 100 basis points in August and November 2002, and a further 50 basis points in June 2003. Notwithstanding these reductions, demand for credit remained subdued (2.6 percent growth in 2002). With the peg to the US dollar as the nominal anchor, the CBJ has aimed to increase its foreign exchange reserves to 'adequate' levels. Large capital inflows have led to excess liquidity, which the CBJ has partially sterilized through increased issuance of CDs. Since 2000, the CBJ has aimed to lower lending interest rates given the decline in deposit rates by increasing excess reserves, while also trying to limit dollarization by remunerating excess reserves through its Overnight (O/N) deposit window.

The CBJ Law (amended in 1992) is the main legislation governing the CBJ. It may be timely to consider reviewing it in order to incorporate internationally accepted good practices. The statute could be amended to clearly establish price stability as the primary objective of monetary policy, to provide explicit provisions relating to payment and settlement systems, to review the Board composition and duties of its members, to enhance accountability, to support autonomy by reviewing provisions on credit to government and the private sector, to provide clear conflict resolution mechanisms, and to facilitate the exchange of information with other regulators within and outside Jordan.

(ii) Transparency and public availability of information on monetary policy. The CBJ is the sole official agency in charge of collecting, compiling, and disseminating monetary statistics. The authority of CBJ to request any information and data directly from licensed banks and specialized credit institutions is stated in Article 45 of the Law on CBJ of 1971, which also provides that CBJ may publish aggregated statistical information. The CBJ regularly monitor press coverage and provide clarifications in cases of erroneous interpretation of the data.

(iii) Use of monetary instruments. Lender-of-last-resort facilities provide short-term liquidity against collateral, although some refinements of guidelines for access could rationalize procedures. For emergency lending to manage a systemic crisis, internal

procedures and coordinating arrangements should be put in place to clarify the roles and responsibilities of the CBJ and the government. Lending should be guaranteed by the government, so as to limit the negative impact on the CBJ's balance sheet and monetary policy implementation. CBJ Certificates of Deposits (CDs) constitute the bulk of the primary money market. CBJ CDs are auctioned bi-weekly, and outstanding CDs of JD 1.6 billion were equivalent to 18.5 percent of M2 in 2002.

Although the interbank market meets most banks' domestic liquidity needs, it is not effectively recycling liquidity. Interbank lending is predominantly unsecured and concentrated in over night transactions. Its volume has declined sharply. Average daily volumes decreased from JD 36 million in 2001 to JD 18 million in the first half of 2003, and are now lower than in 1997. Recently, use of the CBJ repo facility has increased, pointing to increased market segmentation (i.e., some banks seem to have been excluded from the (uncollateralized) interbank market).

The CBJ has increasingly relied on the O/N deposit rate in its monetary policy implementation. This shift has led to a decline in the depth of the O/N interbank market and distorted it. Also, by reducing its reliance on CDs, the CBJ has exposed itself to potential rollover risk and has hindered the development of a yield curve. The CBJ could consider placing emphasis on CDs to manage liquidity while developing its tools for market-oriented daily liquidity management (e.g., reverse repos). To do so, the O/N window rate would need to be lower than other rates. Under current conditions of excess liquidity, the O/N window has had the result of setting the interbank rate.

The CBJ could enhance its other instruments. It could consider remunerating required reserves, and using average monthly balances as the base for calculating required reserves and allowing fuller averaging of reserves over the maintenance period to increase flexibility in banks' liquidity management and reduce interbank volatility.

E. YEMEN

Yemen's economy is highly dependent on oil exports and agricultural production and is exposed to fluctuations in oil prices and adverse weather conditions. This is reflected in swings in the state of public finances and the balance of payments. Yemen has been implementing a macroeconomic adjustment and structural reform program. Key objectives of the program are to reduce the fiscal deficit and improve the structure of public finance; undertake institutional, legal and judicial reforms to promote diversification and productivity in the non-oil sector; and implement similar reforms to strengthen and deepen the financial sector.

The macroeconomic situation improved in 2000 despite subdued economic growth. Higher oil prices and fiscal policy restraint helped to reduce macroeconomic imbalances last year. A fiscal surplus of 6 percent of GDP was achieved, accompanied by a current account surplus of US\$0.9 billion (10 percent of GDP). By the end of 2000, foreign exchange reserves were \$2.8 billion, equivalent to 10 months of imports. The average annual increase in the consumer price index (CPI) picked up from 8 percent

in 1999 to 10.9 percent in 2000, reflecting a pick-up in monetary expansion, although the twelve-month increase in the CPI decelerated sharply in the last two months of the year as food supply conditions improved.

The financial sector has adapted itself by dollarizing to a significant degree in response to economic and political uncertainty and an open capital account. As a result, the effects of changes in monetary policy and shifts in sentiment are quickly felt on the exchange rate, while the effectiveness of monetary policy in influencing domestic liquidity is constrained. The burden of absorbing the fluctuations in oil revenues, in the absence of an investment fund, has fallen predominantly on the Central Bank of Yemen (CBY). This has complicated the conduct of monetary policy. Sound macroeconomic policies, focused on reducing inflation and achieving sustainable fiscal and external positions, are key to containing dollarization.

(i) Formulation of monetary policy. The primary objective of monetary policy is to achieve and maintain price stability. The CBY seeks to achieve this primarily through quarterly targets for reserve money. The Monetary Committee, which comprises the Governor, Deputy Governor and Sub-Governors for bank supervision and research and meets monthly, is responsible for monetary policy operations. The Committee makes decisions concerning liquidity management (treasury bill auctions, repurchase operations, reserve requirements) and also sets the benchmark rate. The Committee's meetings are not announced in advance and records of its proceedings are not made available to the public.

(ii) Transparency and public availability of information on monetary policy. The monetary operations of the central bank are generally transparent, although the terms and conditions of CBY's financial relations with the budget are not made public. The central bank maintains a website which is updated each month. The site contains the most important data and relevant texts, although it could be supplemented with more information on banking supervision. Among the other sources available to the public are the annual report and quarterly bulletins of the CBY, as well as ad hoc interviews given by senior CBY staff. These adequately cover monetary policy questions, but deal less with the issues of banking supervision (except in the annual report) and the payment system. Although the CBY collects some licensing fees from banks and moneychangers, the fee structure is not disclosed to the public, as regulations of the CBY in the area of supervision are sent only to those directly involved. The website of the CBY could be used to publish the regulations issued by the central bank.

There is no mechanism in place requiring CBY officials to appear regularly before a public body to report on the conduct of monetary or financial policies, although they do so on an ad hoc basis. Audited financial statements of the CBY, including figures on expenses and revenues, are available to the public in CBY's annual reports. There are no specified internal governance rules within CBY, and its staff, including supervisors, have no legal protection in the conduct of their official duties. The latter is disclosed only in so far as the Central Bank Law does not explicitly specify such provisions.

(iii) Use of monetary instruments. Interbank transactions are virtually nonexistent. One-way transactions between the CBY on the one hand, and commercial banks and pension funds on the other, predominate. Among the principal reasons for the absence of an interbank market are: (a) the lack of trust between local banks, based in part on the difficulty in objectively assessing counterparty risk, which in turn depends on the current disclosure regime and problems in general accounting and auditing practices; (b) perceived weakness of the legal system in enforcing contracts, which prevents banks from considering interbank loans even in the presence of collateral; (c) excess liquidity, even in the technically insolvent banks.

Monetary policy is implemented by the CBY's Monetary Operations Committee (MOC) through a number of instruments, including (a) the minimum benchmark deposit interest rate; (b) treasury bill auctions and repurchase operations; (c) reserve requirements, and (d) discount facility.

(a) The benchmark interest rate. The MOC sets the benchmark interest rate. This rate is the minimum deposit rate banks can pay on savings deposit accounts and serves as the basis for setting interest rates for the CBY's lending facilities and repurchase operations. The CBY sets the benchmark rate monthly, based on its assessment of monetary and economic conditions. In setting this rate, it also seeks to achieve a positive real interest rate. In reality, this rate tends to remain fixed for long periods, although in July 2000 it was reduced from 15 percent to 13 percent.

(c) Reserve requirements. Reserve requirements have been used as monetary policy instruments since 1995. In July 2000 reserve requirements were reduced from 15 percent to 10 percent of total rial deposits and from 20 percent to 10 percent of foreign currency deposits. They are applied on a weekly basis and calculated on each bank's total deposit balances at the end of each week. The CBY has the discretion to apply a stiff penalty, of 0 to 5 percent daily interest, on any shortfall, but because of the persistent excess liquidity position of banks, these penalties have seldom been imposed. Rial-denominated reserves are remunerated at the benchmark rate, but no interest is paid on foreign reserves or excess reserves.

(b) Treasury bill auctions and Repurchase operations. Auctions of government treasury bills were introduced in 1995 with the dual purpose of absorbing excess liquidity from the banking system and financing the budget deficit in a non inflationary manner. In addition, the CBY espoused the longer-term objective of building up a stock of treasury bills for exercising monetary control through indirect instruments. Auctions of treasury bills of 91-, 182- and 364-days maturities are held weekly, and bids are accepted on the basis of the bid rate (American auction).

The CBY conducts weekly repos to withdraw excess liquidity.¹⁶ The operation involves selling treasury bills from its own portfolio to banks under a repurchase contract

¹⁶ The CBY introduced the repurchase contract following the conversion of the CBY's advances to the government into treasury bills.

and buying them back after a predetermined period (one to three months).¹⁷ A participating bank can choose the maturity of the repo according to its requirements. The contract is at a fixed rate set by the MOC and takes into account the benchmark rate. Adjustments in the rate are based on the Committee's assessment of liquidity conditions. At present there is no volume limit on CBY's repurchase operations, so that banks are able to place their excess liquidity in repurchase transactions. The value of outstanding repurchase agreements has rapidly grown from YRIs 1 billion in November 1999 to YRIs 53.2 billion in December 2000.

(d) Discount facility. Holders of treasury bills are allowed to discount them at CBY's discount window. The CBY sets the discount rate weekly at 2 percentage points above the cut-off rate for 90-day treasury bills at the most recent auction. The discount facility was not used in 2000.

IV. MOVING AHEAD

In many ways, understanding the EU experience is relevant to Arab economic integration experience. Both the EU and the Arab economic integration efforts were politically motivated, and both sought to use economic cooperation as a mechanism for integration. Although both efforts almost started during the same period, success was only achieved in the euro area. Despite attempts by Arab countries to cooperate or achieve integration during the past five decades little progress if any occurred. Most of these efforts relied mainly on trade followed by labor and capital mobility and very little on monetary policies. Arab countries need to realize that a well economically integrated Arab region would carry more political weight, which would increase the region's collective bargaining power.

One needs to acknowledge the recent economic and political reforms that have recently been taking place in most Arab countries. On the economic front, considerable reforms and serious measures have been undertaken by various countries, including Egypt, Jordan, Morocco, Tunisia, and Lebanon. Reforms include liberalization, financial systems restructuring, improving the soundness of banking systems, developing the capital market, strengthening the regulatory and supervisory bodies, strengthening institutional framework, improving corporate governance, and ensuring transparency and high level of disclosure. These reforms have led in many instances to giving more independence to central banks and transparent and clear monetary policies. On the political front, there has been recent trends towards a more democratic and liberal political leadership in the Arab countries. A more democratic regime will help sustain the precondition of an independent central bank, and minimize the influence of the short-term agenda of the policy makers. Nevertheless, a lot more remains to be done for the

¹⁷ Pension funds and government enterprises were allowed to participate in repos during January–September 2000, and then allowed to re-enter the repo market in November.

Arab countries to be economically integrated and to have a clear and transpired monetary strategy. Unless barriers and new challenges are seriously addressed, economic integration among Arab countries would never realize its potentials.

Efforts should be devoted to liberalization, deregulation, acceleration of structural reforms, and political reforms. In addition, there is need to choose the vision and the path first, and then identify the institutions necessary for the implementation of economic integration among Arab countries. There are key institutional features that made the EU integration efforts a success. There was a strong political backing for integration, and a central executive body to manage the process and push it forward. As previously mentioned, in the EU case, the structure included supranational institutions: an executive agency, a political oversight body, a judiciary, and a directly elected European Parliament, in addition to the central bank, and its independent executive board.

Most countries that have integrated successfully, as previously mentioned, satisfied three main preconditions. First, political leadership must be willing to integrate. Political leaders of the Arab countries will encourage integration if it enhances their legitimacy without too much loss of sovereignty. Second, leaders should be able to establish an effective regional institutional framework to streamline the process. There is a to have supranational regional rules, policies, and organizations to formulate and monitor policies. These policies and regulations should be hierarchically superior to domestic laws and directly applicable to members. Third, there should be consensus that one or more members would play the leadership role. In the case of the EU, Germany has been the key initiator of policies for the European monetary system.

Regional integration goes beyond to adopting common regulations and policies, such as a unified monetary strategy. This often gives rise to a coordination problem, especially if nations have different or conflicting policies. This issue could be addressed through voluntary selection of one of more nations to act as a leader. The role of the leader should be mainly to coordinate rules, regulations, and policies.

In the case of Arab countries, there was a general lack of these three requirements for a successful economic integration. Overall, political and economic incentives have been lacking. On the political front, there is the issue of national sovereignty and the short-term agenda of the policy makers in the Arab countries, as well as lack of consensus on choosing one or more country to act as the regional leader in the implementation of the monetary policy. On the economic front, most of the Arab countries until very recently did not have a clear and transparent monetary policy. There is need to strengthen existing entities, such as the Arab League to oversee the design and enforcement of the broad issues first, and then to create new entities to address new issues such as the monetary policy.

The Arab region also lacks effective and efficient institutions to deal with formulating, implementing, and monitoring rules, laws, and policies necessary for regional integration to take place. In contrast, member states in the EU established several supranational institutions, such as the Commission of the European Communities

and the European Council, the European Parliament, the European Court of Justice, and the European Central Bank (ECB), which played a major role in the development and success of the EU. The Arab League that was formed by the Arab countries has not been, in general, very effective in fostering economic integration. The league is not supranational organization like the European Commission. It lacks the political and legal autonomy to override the sovereignty of its member states. In fact, the Arab League charter ensures countries sovereignty and independence.¹⁸

One important question that needs to be addressed is that should Arab countries move forward with a one monetary strategy implemented by an Arab central bank. Will this lead to economic and political gains. For economic integration to be desirable, it is crucial that the potential benefits to leaders in terms of retaining political power or increasing the chances of reelection, to outweigh its expected costs. It seems that in the Arab countries, the cost of integration is higher than the potential benefits. In most Arab countries, leaders are not freely elected, and they do not necessarily see welfare gains from integration, if any, to be the main way to stay in power. This is especially true knowing that the possible gains from economic integrations are long term rather than short term, and in cases where political leaders are after quick success, the option of Arab integration might not be very appealing. This is more striking for the implementation of a unified monetary policy, where the precondition is a central bank that is independent from the political leaders' short-term agendas.

In terms of expected costs, fear of losing sovereignty is the main impediment to economic integration for Arab countries. Most of the Arab leaders have the interest in maintaining their own influence within their states, and are less interested in economic integration with their neighboring Arab countries. The most viable option is to capitalize on the lessons from the successful experience of the EU and the ECB, and to choose a path of integration that has real economic payoffs.

Obviously, most of the preconditions of having a single monetary strategy do not exist in the Arab World. One key precondition is that political leaders must show willingness to create the institutions necessary to sustain integration. In addition, the lessons related to constitutional design concern the fundamental need for strong political backing for integration and for a central executive body. European integration was essentially a political-ideological phenomenon.¹⁹

Another precondition for a single monetary policy for the Arab countries is an independent and credible central bank within each country. As mentioned earlier, most of the Arab countries currently lack an independent central bank because most of the central bank governors are appointed by presidential decrees. Price stability is also another precondition that is essential to achieve sustainable growth and job creation. Other conditions include a sound public finance practices and bold structural reforms.

¹⁸ Fawzy (2003).

¹⁹ Winters (2003).

We argue that inflation targeting can be an adequate framework for monetary policy in the Arab countries, mainly because this approach lacks, in general, some of the drawbacks of the two alternative regimes.²⁰ The first alternative regime is the adoption of pre-announced or a pre-determined path for the exchange rate as a nominal anchor cannot be pursued, despite its advantages and disadvantages, after the adoption of the free float. The second alternative is the targeting of monetary aggregates, such as the broad measure of money M2, which is currently adopted in several Arab countries. This regime has many advantages such as the relative straightforwardness of implementation but suffers from the problem that the demand for money has shown significant fluctuations and structural changes. This caused severe instability between money supply and the policy objective, in the form of particular level of inflation, and made many countries to abandon this regime which is viewed as unreliable. Moreover, the targeting of monetary aggregates does not provide the relevant economic agents with the frequently required signals of monetary policy.

Thus, inflation targeting has been chosen by many Arab countries in the context of moving from a fixed exchange rate to a more flexible exchange rate but with variant degrees of flexibility of implementation from country to country depending on the initial conditions, institutional arrangements and priorities of economic policy. Moreover, in countries where there is a track record of maintaining relatively low inflation rates, indicates a high possibility of success of an inflation targeting framework if effectively implemented.

However, inflation targeting has not been, so far, adopted widely in emerging markets and there are skeptical arguments against its viability in a developing country. There are concerns that the monetary transmission mechanism is not efficient enough, quality of data and its analysis are not adequate, and the financial sector development is insufficient. These problems, *inter alia*, would cause difficulties in the development and implementation of inflation targeting in the Arab countries. However, most, if not all, of the required preconditions for the successful implementation of inflation targeting also apply to other regimes so it is inevitable to address them.²¹ These preconditions are namely, strong fiscal position, a well developed financial system, well understood channels between monetary instruments and inflation, a reliable methodology for providing inflation projections and forecasts, transparent policies and finally central bank instruments independence and a clear mandate to achieve price stability.²² In other words, “the journey towards inflation targeting is as important as the destination.”²³

²⁰ Blejer *et al.* (2003), p. 2.

²¹ Goldstein (2002), p. 64.

²² Schaechter, *et al.* (2000), p. 4.

²³ The authors would like to thank David Lubin for this quote.

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