Regional Integration in the Middle East and North Africa[1]

Abstract

Regional integration in the Middle East and North Africa (MENA) continues to be largely an affair amongst Arab states. European Union and United States based trade initiatives not only seek to strengthen links with MENA countries, but also <u>within</u> them to achieve specific goals; such as the integration of Israel to the rest of the region. Integration amongst the Arab states appears to be two-track, with the Gulf Cooperation Council member states on the 'fast-track'. Intra-regional capital flows are small and extremely concentrated, while, aid and remittance flows continue to be significant for recipient countries. Trade flows are also relatively small, but 'local' openness to trade is actually higher for countries in the region that are generally deemed to be relatively autarkic.

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Introduction

Two, three hundred years ago, Middle East and North Africa (MENA) could simply and easily be summed up as the Ottoman and Iranian empires. With the arrival of the concept of the nation-state to the region, the Turkish component of the Ottoman empire has progressively realigned itself with the rest of Europe, and the remainder - the diverse components of the Arab nation, including North African states -, Iran, and – a 'new' arrival - Israel make up the Middle East. It is an irony of history that what was once one – held together by the common denominator of Islam - is now many, though still sharing the same denominator to a large extent -, and we now question how it will come together as one again; commercially if not politically.

Collier and Dollar (2001) define the current trend of globalization as the liberalization of international trade, expansion of foreign direct investment, and the emergence of massive cross-border financial flows. More concisely, globalization involves three types of flows: flows of goods, flows of capital, and flows of people, although the first two are today the dominant components.

Regional integration, like globalization, has three primary economic pillars: labor mobility, capital mobility, and trade. Again, regional integration involves freeing of all these flows, but, in practice, the emphasis has been on trade foremost followed by capital mobility as illustrated by North American Free Trade Agreement, Mercosur, and Asean. Thus, Bloomstrőm, M. & A. Kokko (1997) point out that regional integration typically refers to reductions of regional trade barriers and investment restrictions. Free movement of labor is a much more contentious issue, but as attested by the example of the European Union (EU) is not unsought. Beyond these three flows, policy coordination[3] may[4] also take place under regional integration. Regional integration may have three flavors: North-North (EU), North-South (NAFTA), or South-South (Mercosur); with North commonly understood to stand for developed economies and South to stand for developing economies. An aspect of regional integration which globalization does not, at present, possess is the possibility of a higher degree of political integration[5].

[3] European Union's Maastricht macroeconomic convergence criteria are an example of policy coordination. This policy coordination was the prelude to monetary union in the case of the EU with all – except UK – adopting a common currency, the Euro.

[4] Regional integration does not necessarily require policy coordination, and may simply be confined to lowering trade barriers. For instance, the North American Free Trade Agreement (NAFTA)[4] does not involve policy coordination.

[5] Adoption of a constitution by the EU may be a step towards a 'United States of Europe'. EU political integration manifests itself in the creation of an EU military force and more crucially, attempts to coordinate foreign policy. This latter goal seems far off as shown by divisions between EU members during Gulf War II. It could be argued that the United Nations itself is a result of globalization and political integration, but policy coordination by all members could hardly be considered to be a characteristic of the UN. What truly distinguishes regionalization from globalization are the privileges that member states give to other states in the regional group and which are not afforded to states outside this group. For example, the Generalized Agreement on Trade and Tariffs has lowered global tariffs, but EU members have pushed ahead beyond merely lowering tariffs to impose zero tariffs to other member states. Thus, integration coming in two varieties, regional and global, is deeper in the former.

The logic of benefits from regional integration revolves around whether the trade creation effects of a proposed integration exceeds the trade diversion impact[6] and to what extent economies of scale, or efficiency gains may be exploited as a result of the integration. Quite apart from the economic logic of integration is the drive to present a unified front to the outside world as countries increasingly group in blocs. Indeed, the political logic of integration may be the main force driving regional integration in MENA.

The plan of the paper in examining regional integration in MENA is to first give an overview, followed by an examination of the pillars that result in greater integration, and to conclude thereafter.

Regional Integration in MENA

In the case of the Middle East, regional integration is essentially of the South-South variety resting predominantly – in contrast to globalization, but somewhat akin to the EU variety of regionalization – on labor mobility and trade, with spots of policy coordination, but little prospect of political integration in the medium term. Political integration inevitably involves loss of some sovereignty for member states, and the Middle East – or at least the Arab states – missed on that with the failure of the union between Syria and Egypt in the 1960s.

Examination of regional integration in the Middle East – broadly defined - involves consideration of the Arab League[7] member states, Iran, and Israel. The Arab League may, in turn, be subdivided to four components: the Gulf Cooperation Council (GCC[8]), Maghreb[9], Mashreq[10], and other[11]. For the sake of comprehensiveness, Turkey is also considered though it has aligned itself increasingly with the EU. Total market size for the region as measured by the sum of countries' GDPs is approximately US$ 1 trillion, with a population of about 420 million in 2002.

Chronology of Arab integration efforts may be traced back to the end of the Second World War in 1945 when the League of Arab States (Arab League) was formed. Thereafter, intra-regional tariffs were reduced in 1953, and an Arab Economic Unity (AEU) Agreement[12] was signed in 1956. In 1964, the formation of

[6] Usually, if countries would have traded together anyhow, then greater integration is believed to be beneficial in the sense that trade creation exceeds trade diversion.

[7] The Arab League comprises Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

[8] GCC comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

[9] Maghreb comprises Algeria, Libya, Mauritania, Morocco, and Tunisia.

[10] Mashreq comprises Egypt, Jordan, Lebanon, Syria, and Sudan.

[11] Other: Djibouti, Somalia, and Yemen.

[12] Egypt, Iraq, Jordan, Kuwait, and Syria signed an agreement to facilitate trade exchange and transit trade.

the Arab Common Market[13] sought to eliminate tariffs over 10 years. These efforts were failures[14] due to unwillingness to put regional interests ahead of national ones. More recently, GCC - comprising Gulf countries - was established in 1981, and has, somewhat belatedly, taken significant steps at economic unity. The Arab Maghreb Union (UMA) comprising Maghreb states was formed in 1989, but is not functioning at present according to the World Trade Organization. UMA had sought to establish the free circulation of goods and persons and to revise customs rules in order to eventually establish a free trade area.

In 1998, the schedule for the creation of an Arab Free Trade Area (AFTA)[15] came into force. The scheme envisions eventual inclusion of all Arab League states, but is currently being implemented by seventeen members[16] which, in any event, account for more than 90% of all Arab foreign trade and an even higher proportion of intra-Arab trade. Under this scheme, customs tariffs amongst members are to be reduced by 10% annually over a decade until by 2007 these reach zero. AFTA appears to overlap with the 'Aghadeer declaration[17]' for launching a free trade area initially among Egypt, Jordan, Morocco, and Tunisia. Thus, there is a several-pronged move towards regional trade integration. The longer term goal of AFTA, of course, is to move beyond mere trade liberalization – the intent of the Aghadeer declaration - towards the other pillars of integration.

Arab countries in the Gulf have actually advanced beyond trade integration towards macroeconomic policy coordination. GCC members target eventual monetary union, thus moving beyond the scope of AFTA. This 'fast-track' group amongst the Arab League, GCC members, had no monetary sovereignty anyway since these countries had long pegged their currencies. The peg has been to the US Dollar[18] since January 2003[19]. Thus, GCC member states have also begun to coordinate macroeconomic policies with a view to adopting a common currency by 2010. Meanwhile, IMF (2003)[20] states that adoption of common external tariffs by the GCC was advanced to the beginning of 2003 instead of 2005. Free regional circulation of labor and capital is also eventually intended.

The curious aspect of developments with regards to regional integration in the Middle East is that the Arab Common Market idea of the 1960s, and the current goal of GCC monetary union by 2010 appear to be international fads or even appear to emulate first, the European Common Market and now, the European

[13] AEU signatories less Kuwait.
[14] Recall that initial efforts aimed at European monetary unification in the 1970s had also failed, though for different reasons.
[15] Also referred to as the Greater Arab Free Trade Area (GAFTA) or Pan-Arab Free Trade Area (PAFTA).
[16] Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirate, and Yemen.
[17] Also referred to as the Agadir Initiative; its goal being the creation of a regional free trade area.
[18] This was also intended as a preparatory measure to the adoption of a common currency.
[19] GCC member states had largely pursued fixed exchange rates vis-à-vis the US$ even prior to January 2003 probably because their primary export commodity – oil – is priced in US$. Kuwait had used a peg against a basket of currencies, however.

Union. Nevertheless, the Arab intent to integrate is unmistakable, and will eventually become reality at least in economic terms.

Commercial integration in the region would likely cohese among the Arab nation states; Iran remains an outsider, and Israel the outcast given the lack of a political settlement to its occupation of Palestinian and Syrian territory. This is the obvious path and one keenly opposed by the dominant global power in the age of 'pax-Americana'. The American regional integration agenda for the Middle East involves inclusion of Israel through the creation of so-called 'qualified industrial zones[21] (QIZs)'. The dominant initiative in the region continues to follow the former path, however, and it certainly will be interesting to see which agenda dominates. With regards to Turkey, there are no efforts on her part to integrate within MENA. Instead Turkey's integration with the rest of the region will occur through EU initiatives. Under the EU-Turkey customs union agreement, Turkey already imposes EU tariff rates vis-à-vis third countries. Thus, the Euro-Mediterranean initiative will also have the result of greater Turkish integration – in trade terms - with the relevant Mediterranean states. With regards to other states in the region, EU aims to create a Euro-Mediterranean free trade area (EMFTA) by 2010 by linking various Mediterranean states[22] with free trade agreements amongst themselves as well.

The Three Pillars of Economic Integration

Regional Capital Flows

Global capital flows to the region are relatively minor. Global foreign direct investment flows have traditionally gone mostly to GCC member states and, specifically, the petroleum sector. A look at table XI shows that this was not the case between 1995 and 2001, perhaps as a result of low oil prices and hence the decline in exploration. Regional investment flows are also relatively small. Inter-Arab investment between 1985 and 2001 stood at US$ 12.3 billion, and in 2002 rose by US$ 2.9 billion, reaching a stock of US$ 15.2 billion. Reasons for low investment flows are several, but political differences and the lack of privatization in the region are important factors. Foreign direct investment (FDI) flows have thus also been low. FDI motives are many, but tariff-jumping and unwillingness to engage in arm's length transactions to market a

[20] Please refer to staff country report: Kuwait, page 20.

[21] QIZs, approved by the US congress in 1996, were originally intended to cement Arab-Israeli peace in the region by creating trade interdependence initially between Israel and Jordan. There are currently ten QIZs in Jordan. Goods produced in QIZs are exempt from US tariffs. Goods produced in QIZs must however comply by content requirements, in the sense that a certain percentage of the final good must have Israeli inputs. More specifically, at least 35% of the value added must be from Israel, a Jordanian QIZ, or West Bank/Gaza. Of that 35%, 8% must be Israeli, 11.7% a Jordanian QIZ, and 15.3% Israeli, Jordanian, or from West Bank/Gaza. QIZ benefits differ from those conferred by the US-Jordanian free trade agreement because the latter only gradually eliminates tariffs, and 35% Jordanian content. US has offered QIZ creation to Turkey as well, but insisted that it be set up in the Southeast of the country and that Israeli content must exist in the final goods. Turkey has not accepted the offer.

[22] Algeria, Egypt, Israel, Lebanon, Jordan, Morocco, Syria, Tunisia, Palestinian Authority, Cyprus, Malta, and Turkey. The last three having association agreements with the EU since the 1960s.

product are important reasons. In this context, the fact that capital rich oil countries have a minor manufacturing sector means that they would have little reason to engage in FDI at labor rich countries in the region.

Capital flows in the region may be examined by looking at the various possible components whilst keeping in mind that the obvious capital flow direction would be from the oil rich states to the labor rich states in the region. Table XV(a) and (b) show that between 1985 and 2001, 47.6% of intra-regional investment originated from Saudi Arabia, 24.6% from Kuwait, and 16.9% from the UAE. Major recipients of intra-regional investment flows in the same period have been Egypt (33% share of the total), Lebanon (19%), Syria and Saudi Arabia (each with 12%). Foreign portfolio investment flows in the region have been negligible for the obvious reason that capital markets are undeveloped. Market capitalization of regional capital markets was US$ 276.3 billion at end-2001[23], down from US$ 359.2 billion in 1999. Regional capital markets are thus relatively shallow and concentrated. UN (2004) states that Lebanon is an exception with regards to low investment flows intra-regionally, having received portfolio debt investment of nearly 8.12% of GDP on average in latter half of 1990s.

Aid and remittance (the latter linked inextricably with labor circulation as discussed below) flows, on the other hand, are and have been significant since the 1970s[24] to recipient countries. The direction of these intra-regional flows is again from the GCC to labor rich Arab states. Israel has also been receiving transfers from abroad to the annual tune of over US$ 6 billion, but these transfers are largely from the US. Meanwhile, Turkish workers in Germany remit significant amounts annually to Turkey. On a smaller scale, Turkish engineering contractors have a significant presence in Libya, for example, and their profits have for some time been an important item in Turkey's balance of payments accounts.

Regional Labor Flows

In 2002, over ten million expatriates worked in the rich oil economies and they remitted US$ 27 billion to their country's of origin according to a UN study (2004). World Bank (1995) notes that at the peak in mid-1980s, there were more than five million Arab workers in Gulf countries, and perhaps half as many from Maghreb working in Europe. This outflow was equivalent to as much as 10% of origin countries'[25] labor force and produced significant workers' remittances. By the late 1980s, however, up to one million Egyptians lost work in Iraq. The Gulf War similarly disrupted remittances for Jordan and West Bank. Table VIII shows that Jordan and Yemen rely most on workers' remittances in the region. IMF (2001) puts the

[23] Market capitalization of Arab capital markets alone was US$ 362 billion at end-2003 according to UN (2004). Turkey's Istanbul Stock Exchange (ISE) by itself accounted for 31% of the region's total market capitalization in 1999. This share declined sharply as a result of the financial crisis that began with banking sector turmoil in November 2000 and culminated in a currency crisis in February 2001.
[24] Essentially since the oil booms of the 1970s.
[25] More for Jordan, Lebanon, West Bank & Gaza, and Yemen, apparently.

total number of Yemeni workers in GCC[26] countries at 800,000, out of a total abroad of six to seven million – with four to five million in Indonesia. It must be noted that while there are no available data for Syria, anecdotal evidence suggests that the country also relies heavily on remittances. An interesting feature of remittance data is that these are publicly available for recipient countries, but not so – or at least are hard to come by - for host states. It is obvious, however, that labor flows from labor-rich states to capital rich ones, especially GCC member states. With regards to workers' remittances to Turkey, the Turkish Diaspora of roughly three million – gastarbeiter (guest workers) and their offspring - in Germany are, of course, the main source.

Regional Trade Flows

Trade tables are snapshots and, thus, the data they contain may, over time, show large swings due to two fundamental factors: political and oil price volatility. A good example of the former is Iraqi trade. Iraq was the fifth largest export market for Turkey pre-Gulf War I. Following a decade long UN embargo, that has been reduced to a trickle[27]. Far from being in isolated pockets, political volatility is pervasive in the region. Similarly, Libya has endured an UN embargo imposed following the bombing of an US airliner which has only recently been lifted[28]. Iran, Sudan, and Syria have been accused by the US of sponsoring terrorism and face US trade barriers. Sudan also faces pressure as a result of alleged atrocities against the non-Arab populace in Darfur. Iran may be faced with a UN embargo if the International Atomic Energy Agency finds the country to be developing nuclear weapons.

Oil price swings have an extremely significant impact on the traditional measure of an economy's openness. Openness to trade is commonly measured as the sum of total exports and imports divided by national income. Thus, for the oil exporters a crash in oil prices after 1981 translated to a sudden drop in exports and national income. For instance, in the case of Saudi Arabia, exports peaked at circa US$ 110 billion in 1980 when GDP stood at US$ 156 billion, and, by 1987, fell to US$ 23 billion and US$ 72 billion, respectively. Imports fell from US$ 47 billion to US$ 32 billion in the same period. The effect of this sharp drop on 'trade openness' was a decline from roughly 100% to 76% merely as a result of the change in the price of oil. More recently, oil prices have recovered somewhat as a result of a global pick-up in demand led by China, and supply worries due to increasing Middle Eastern turmoil. The result remains, however, that oil price volatility persists and this affects trade openness estimates significantly[29].

Value of intra-regional exports was US$ 25.2 billion or 8.3% of the region's total in 2002. Total regional exports were US$ 301.8 billion according to the International Trade Center's TradeMap data. Capital rich

[26] Largely Saudi Arabia.
[27] Turco-Iraqi trade is growing once again with Iraqi redevelopment plans post-Gulf war II.
[28] UN sanctions were suspended in 1999, and were permanently eliminated following compensation amounting to several billion US Dollars by Libya in 2004.

economies in the region appear to be very open to international trade while labor surplus countries remain relatively autarkic. Reasons for low intra-regional trade are numerous and, in fact, regional trade is even lower when one examines non-petroleum trade. Al-Atrash and Yousef (2000) distinguish between policy induced – tariffs and political disputes - and more fundamental barriers to trade – lack of product complementarity and differences in per capita income as reasons for low regional trade[30]. Citing standard trade theory's Heckscher-Ohlin model where countries differ in factor endowments and the intra-industry model where product differentiation exists, they note that both intra-EU trade – with members of similar factor endowments[31] and intra-NAFTA trade – with members of dissimilar factor endowments – is more vigorous than intra-Middle East trade. Al-Atrash and Yousef point out, however, that contiguous trade links are stronger than trade between specific country groups such as Maghreb and GCC. Despite the lack of product complementarity trade is strongest amongst contiguous states. Bahrain, Saudi Arabia, and United Arab Emirates account for a major share of intra-regional trade in part because of the existence of re-exports[32]. Re-exports exaggerate intra-regional trade figures. Furthermore, primary product exports – specifically, oil and derivative products - account for almost all export sales of GCC members and thus there is little basis for trade to start with[33]. Last, but not least, labor surplus countries have long engaged in import substitution, thus discouraging intra-regional trade.

The striking feature of the summary direction of regional trade flows is that trade links are extremely concentrated. Indeed, with the exception of Jordan and Lebanon, most countries in the region have at most four major[34] intra-regional export markets.

Table VI depicts, as one may expect, the stylized-fact that smaller economies appear to be more open to international trade. Table VII sheds new light on the matter, however, and depicts 'local' openness to trade – defined straightforward enough as the sum of total regional exports and imports divided by national income. By this measure, countries which really are known to be highly autarkic such as Syria and Sudan actually trade much more within the region in comparison to most other countries in the region, thus contradicting IMF's trade restrictiveness ratings shown in table VIII. Indeed, with regards to regional integration, 'local' openness to trade is far more instructive than a country's global openness to

[29] One could always look at solely non-oil exports to avoid this distortion, but this solution is impractical given that some countries' almost entire exports are hydrocarbon products.
[30] Their table of trade openness with PPP based GDP as the denominator suggests even more autarkic economies than is depicted by the standard trade intensity measure.
[31] EU entry of East European countries mean that membership is now two track to some degree, those that are capital abundant and those that are labor abundant. Endowments of natural resources do not differ markedly intra-EU as in intra-Middle East.
[32] For instance, Saudi Arabia exports oil from Abu Saafa to Bahrain where it is refined and re-exported, often destined to third countries outside the region.
[33] Oil exporting states have been trying to diversify their economies and export products, but with little progress. The development of natural gas production is the most tangible result of these diversification efforts.
[34] As defined in footnote 34.

international trade. Thus, Israel ranks at the very bottom of table VII, the least trade-linked country with the rest of its region, while Syria ranks as the region's third best trade-linked country, never mind the imposition of a recent US trade embargo[35]. In contrast to table VI where Kuwait and Saudi Arabia rank as relatively highly globally trade-integrated, on the local trade openness measure these countries rank towards the bottom. Poor countries such as Djibouti and Mauritania rank high in terms of global trade openness, but low in terms of local trade openness. This may be attributable to the overseas aid dependence of these countries which may tie aid to be used on imports from donor states. Egypt ranks at the bottom of both the global and local trade openness tables, although this ranking is affected by differing value of exports from different data sources[36]. Table IX provides a rough estimate of the 'effective tariff rate[37]' imposed by various countries and is also indicative of the degree of global trade openness. According to this table, Turkey has the freest trade regime in the region[38], closely followed by Israel, while Lebanon has the most autarkic trade regime. Egypt is confirmed to be amongst the most autarkic countries in the region. The finding for Lebanon is counter-intuitive as the country is renowned as a nation of traders. Syrians regularly visit Lebanon to purchase items that they either cannot find or is overpriced at home[39]. A ranking of effective tariff rates may thus also be used to estimate trade integration and is particularly instructive as to why governments in the region may have been reluctant to give up an important source of revenue. Nashashibi (2002) estimates that for Arab Mediterranean countries, application of the terms of the association agreements with the EU will mean a loss of revenue amounting to between 2-4% of GDP.

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[35] For supporting Palestinian groups which Syria considers to be fighters against Israeli occupation and US labels as terrorists.

[36] ITC's TradeMap puts total Egyptian (merchandise exports) at US$ 6.3 billion in 2002 which is close to the US$ 6.6 billion figure quoted by the World Bank, but again according to the World Bank, total exports (goods and services) in Egypt's balance of payments amounted to US$ 15.3 billion in 2002. Taking the latter figure in trade openness calculations improves Egypt's rank marginally.

[37] Effective tariff rate = revenues from customs duties / value of imports; this measure should only be considered indicative given data shortcomings and unavailability. Table VIII and IX are not necessarily inconsistent, and may merely differ due to dates of observation. For instance, IMF (2001) states that Yemen had moved from employing one of the most restrictive trade regimes to one of the freest in a short period. However, Nashashibi (2002) lists Syria's trade regime as the most restrictive, while ranking the country average in terms of the effective tariff rate. This is apparently justified due to the dual exchange rate system employed in Syria. The effective tariff rate for some of the countries on table IX were taken from Nashashibi (2002), and data for value of imports for those countries came from WDI (2003). Absolute values for customs duties were not calculated (but may be inferred) for these countries given different data sources. Please note further that different data sources provide varying figures for value of imports. Thus, imports figures from TradeMap do not match those on table IX, but were used anyway to maintain consistency within table IX in terms of data sources used. Note also that there may be specific reasons why these data do not match. For instance, the value for Israeli imports in table IX includes only civilian imports (not military). Note also that the Turkish Ministry of Finance, for instance, includes value added tax (VAT) obtained from imports under the heading of trade taxes. VAT charged thereby is, of course, ultimately passed on to consumers. Correct calculation of the effective tariff rate hinges on having customs duty revenues in the numerator without including VAT revenues obtained from imports.

[38] This is due, in part, to the EU-Turkey 1995 customs treaty. In 1994, the effective tariff rate applied by Turkey had stood at around 3%, still quite low by regional standards.

[39] Incidentally, there are frequent shuttle services between Damascus (Syria), Beirut (Lebanon), and Amman (Jordan) costing a mere US$ 10 per person, and it takes about three hours to travel by road between these cities. Shuttle trade is likely to be significant.

Conclusion

Regional integration in the Middle East and North Africa continues to be largely an affair amongst Arab states. European Union and United States based trade initiatives not only seek to strengthen links with MENA countries, but also within them to achieve specific goals; such as the integration of Israel to the rest of the region. Integration amongst the Arab states appears to be two-track, with the Gulf Cooperation Council member states on the 'fast-track'. Intra-regional capital flows are small and extremely concentrated, while, aid and remittance flows continue to be significant for recipient countries. Trade flows are also relatively small, but 'local' openness to trade is actually higher for countries in the region that are generally deemed to be relatively autarkic.

The dominant or major initiative in the region – AFTA - is Arab led, but external initiatives such as qualified industrial zones, and the Euro-Mediterranean initiative are also at play. The domestic and external agendas will have different results. It certainly will be interesting to see which agenda dominates.

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Major Flows of Goods, Capital, and Labor

Regional Trade Flows[40]

Algeria	► Turkey
Bahrain	→ Iran, Oman
	► Saudi Arabia
Egypt	→ Saudi Arabia
Iran	→ UAE
Iraq	→ Morocco
	► Jordan
Jordan	→ Lebanon, Syria, UAE, Algeria,Israel, Sudan
	► Iraq, Saudi Arabia
Lebanon	→ Oman, Iran
	►Syria, Jordan, Saudia Arabia
Libya	→ Tunisia
	► Turkey
Oman	► UAE
Qatar	→ Egypt, Saudi Arabia, UAE
Somalia	► Oman, Saudi Arabia
Sudan	→ Egypt, UAE
	► Saudi Arabia
Syria	→ Lebanon, Algeria,
	► Turkey, Saudi Arabia
Tunisia	► Libya
UAE	→ Saudi Arabia
	► Iran, Oman
Yemen	→ Iran, Saudi Arabia
Turkey	→ Israel

Source: International Trade Center

Regional Capital Flows[41]

Kuwait	→ Egypt, Lebanon
Saudi Arabia	→ Egypt, Lebanon, UAE
UAE	→ Lebanon

Source: InterArab Invest. Guarantee Corp

Regional Labor Flows[42]

West Bank & Gaza	→GCC, Israel, Lebanon
Jordan	→ GCC
Syria	→ GCC
Yemen	→ GCC

Source: ILO, IMF

[40] If an export destination accounts for between 2% and 5% of a country's total exports, then the direction of that trade is depicted with a regular arrow (→). If an export destination accounts for more than 5% of a country's total exports, then the direction of that trade is depicted in bold (►).
[41] Cumulative investment flows of over US$ 500 million betweeen 1985-2001 are included.
[42] Libya is also an important host country, though data are hard to come by.

Summary of Trade Agreements in the Region[43]

1) Greater Arab Free Trade Area (GAFTA) – Arab League member states

2) Cooperation Council for the Arab States of the Gulf (GCC) - customs union with proposed monetary union.

3) Free Trade Agreements with US
Bahrain – being negotiated
Israel –
Jordan – (2000)
Morocco – (2003)

4) Association Agreements with EU (AAEU)[44]
Algeria – (2002)
Egypt – (2004)
Israel – (2000)
Jordan – (2002)
Morocco – (2000)
PLO – (1997)
Tunisia – (1998)

5) Trade Agreements with EFTA
Israel – (1992)
Morocco – (1997)
PLO – (1998)
Turkey – (1991)

[43] Numerous bilateral trade agreements also exist, but have not been listed here.
[44] These dates indicate when the agreements came into force. Signatures of agreement often precede these dates by several years.

Table I - Selected Indicators for MENA in 2001						
	Population million	Per capita income US$ PPP based	Per capita Income Growth *1980-2001*	Life Expectancy	Population Growth %	Adult Illiteracy
Algeria	30.8	6,090	-0.29%	70.6	1.6	32.2
Bahrain	0.7	16,060	0.11%	73.2	3.6	12.1
Djibouti	0.6	2,370	-4.39%	44.9	1.9	34.5
Egypt	65.2	3,520	2.72%	68.3	1.8	43.9
Iran	64.5	6,000	0.21%	69	1.7	22.9
Iraq	23.8	-	-	61.8	2.1	60.3
Israel	6.4	19,790	1.83%	78.5	2	4.9
Jordan	5	3,870	0.16%	71.7	2.8	9.7
Kuwait	2	18,700	0.94%	76.7	2.9	17.6
Lebanon	4.4	4,170	1.25%	70.6	1.3	13.5
Libya	5.4	-	-	71.9	2.3	19.2
Mauritania	2.7	1,990	0.19%	50.9	2.8	59.3
Morocco	29.2	3,600	1.22%	68	1.6	50.2
Oman	2.5	-	2.53%	73.8	2.4	27
Qatar	0.6	-	-	74.8	2.1	18.3
Saudi Arabia	21.4	13,330	-2.41%	72.8	3.3	22.9
Somalia	9.1	-	-	47.3	3.3	-
Sudan	31.7	1,970	1.62%	57.9	2.1	41.2
Syria	16.6	3,280	0.83%	70	2.4	24.7
Tunisia	9.7	6,390	2.25%	72.4	1.2	27.9
Turkey	68.5	5,890	1.54%	69.8	1.4	14.5
United Arab Emirates	3	20530	-3.52%	75.3	2.4	23.3
West Bank and Gaza	3.1	-	-4.54%	72.4	3.9	-
Yemen	18	790	1.53%	57	3	52.3
Source: WDI						

Table II- Economic Performance Indicators for MENA in 2002

	Nominal GDP US$ bn	Real GDP Growth 80-01	Fiscal Balance % of GDP	CPI yoy	External debt % of GDP	Current Account % of GDP	Revenue % of GDP	Oil Revenue % of GDP	Exports US$ bn	Fuel Exports % of Exports
Algeria	55.9	2.16%	0.2	1.4	40.5	7.8	36	22.6	18.71	96.8
Bahrain	8.4	3.34%	-5.1	1	-	-1.5	19.9	-	6.69	59.2
Djibouti	0.6	-0.74%	-0.7	2	55.8	-	31.3	-	0.07	-
Egypt	83.7	5.03%	-5.8	2.7	32.1	0	20.1	-	15.3	40.0*
Iran	110.2	2.67%	-2.3	15.8	8.35	3	28.5	17	34	67.3
Iraq	26.1	-	-	70	244	8.9	-	-	13.3	99.0
Israel	103.7	4.25%	-4.5	6.5	71	-1.3	37.1	-	27.5	-
Jordan	9.86	4.21%	-1.1	3.6	77.6	11.1	35.9	-	3	-
Kuwait	32.2	5.12%	14.9	2	34	20.7	64.2	42.4	15.4	91.6
Lebanon	17.3	3.03%	-14.8	4.3	98.7	-	-	-	2.4	-
Libya	19.2	-	3.9	-9.8	29	-0.2	46.7	35.6	8.3	97.6
Mauritania	0.98	2.95%	-	-	-	-	-	-	0.5	-
Morocco	37.3	3.22%	-3.4	0.6	49.9	-	24	-	10.9	3.7*
Oman	20.3	6.70%	0.9	-0.7	28.2	11.2	38.3	-	11.5	81.0*
Qatar	17.5	-	8.2	3.5	-	21.5	-	-	8.2	92.0*
Saudi Arabia	188.5	1.58%	-6	-0.5	-	6.2	30.2	23.5	71.5	87.8
Somalia	0.7	-	-	-	2.5	-	-	-	0.05	-
Sudan	13.5	4.08%	-0.9	8.3	173.9	-6.8	13.2	-	1.95	77.6
Syria	21.9	3.99%	-3.4	3	98	-	27.2	-	7.8	76.0*
Tunisia	21.3	4.33%	-3.5	2.8	61	-3.5	24.4	-	6.86	9.3
Turkey	181.6	3.51%	-8.7	18.4	61.5	-2.85	28.2	-	41	-
United Arab Emirates	71.4	1.97%	-11.1	2.9	-	8.6	21.7	15.5	48.4	63.0
West Bank and Gaza	-	-0.44%	-	-	-	-	-	-	-	-
Yemen, Rep.	9.5	5.86%	1	12.2	49.7	5	32.1	7.2	3.6	86.1

Source: IMF, SIS, UN, World Bank *2001

Table III- Military expenditures/GDP*	
Algeria	3.5
Bahrain	4.1
Djibouti	4.4
Egypt, Arab Rep.	2.6
Iran, Islamic Rep.	4.8
Israel	7.7
Jordan	8.6
Kuwait	11.3
Lebanon	5.5
Mauritania	2.1
Morocco	4.1
Oman	12.2
Saudi Arabia	11.3
Sudan	3
Syrian Arab Republic	6.2
Tunisia	1.6
Turkey	4.9
United Arab Emirates	2.5
Yemen, Rep.	6.1
Source: WDI	*2001

Table IV- Health Expenditures/GDP*	
Algeria	3.6
Bahrain	4.1
Djibouti	7
Egypt, Arab Rep.	3.8
Iran, Islamic Rep.	5.5
Iraq	3.7
Israel	10.9
Jordan	8.1
Kuwait	3
Lebanon	12.4
Libya	3.3
Mauritania	4.3
Morocco	4.5
Oman	2.8
Qatar	3.2
Saudi Arabia	5.3
Somalia	1.3
Sudan	4.7
Syrian Arab Republic	2.5
Tunisia	5.5
Turkey	5
United Arab Emirates	3.2
Yemen, Rep.	4.9
Source: WDI	*2001

Table V- Overseas Development Aid /GDP*	
Algeria	0.33%
Bahrain	0.23%
Djibouti	9.57%
Egypt	1.27%
Iran	0.10%
Israel	0.16%
Jordan	4.89%
Kuwait	0.01%
Lebanon	1.44%
Mauritania	26.01%
Morocco	1.51%
Saudi Arabia	0.01%
Sudan	1.37%
Syria	0.78%
Tunisia	1.89%
Turkey	0.11%
West Bank and Gaza	21.78%
Yemen, Rep.	4.59%
Source: WDI	*2001

Table VI- Trade Openness* (X+M)/GDP	
Mauritania	132.1%
UAE	98.4%
Djibouti	86.5%
Oman	84.9%
Libya	79.5%
Tunisia	77.0%
Jordan	73.2%
Qatar	69.0%
Kuwait	63.8%
Israel	60.4%
Saudi Arabia	54.7%
Bahrain	53.7%
Morocco	52.9%
Iraq	52.3%
Algeria	51.3%
Syria	48.0%
Turkey	47.9%
Yemen	47.9%
Iran	44.2%
Lebanon	32.5%
Somalia	31.6%
Sudan	30.4%
Egypt	25.4%
Source: Author's Calculations	*2002

Table VII- Local Trade Openness*	
Jordan (2003)	26.2%
Oman	16.3%
Syria	11.5%
UAE	11.2%
Qatar	9.5%
Libya	9.4%
Sudan	8.4%
Bahrain	7.5%
Iraq	7.0%
Tunisia	6.6%
Morocco	5.1%
Somalia	5.0%
Lebanon	4.6%
Djibouti	4.5%
Mauritania	4.2%
Turkey	4.1%
Algeria	3.9%
Iran	3.8%
Yemen	3.7%
Saudi Arabia	2.6%
Kuwait	2.2%
Egypt	1.8%
Israel	1.3%
Source: Author's Calculations	*2002

Table VIII - Trade Restrictiveness Rating										
Index	1	2	3	4	5	6	7	8	9	10
Rating	Open				Moderate		Restrictive			
Country	Djibouti Qatar UAE	Bahrain Yemen	Mauritania	Kuwait Oman	Saudi Arabia	Jordan	Algeria Lebanon Pakistan	Egypt Morocco Tunisia Sudan	-	Iran Syria

Source: IMF (2001)

Table IX- Effective Tariff Rate in 2002							
US$ billion	Customs Duties	Imports	Effective Tariff Rate %		Customs Duties	Imports	Effective Tariff Rate %
Algeria	1.61	12.0	13.4%	Morocco*	-	12.2	15.0%
Bahrain	0.16	4.7	3.2%	Oman**	0.12	6.0	2.0%
Egypt*	-	22.3	15.1%	Syria*	-	6.0	7.2%
Iran	1.50	18.1	8.3%	Tunisia	0.42	9.0	4.7%
Israel	0.30	28.8	1.0%	Turkey	0.40	48.2	0.8%
Jordan	0.16	4.5	3.5%	UAE	0.50	32.8	1.5%
Lebanon*	-	7.0	21.4%	Yemen*	0.19	2.5	7.9%
Libya***	0.79	7.4	10.7%				

Source: Author's Calculations from IMF and WDI data, Nashashibi (2002) *2001 **2000 ***1999

Table X– Hosts to Labor Migration

	Year	# of Foreign Workers	# of Arab Workers
Bahrain	1999	264,038	-
Israel	2003	247,000	at least 35,000*
Kuwait	2001	1,402,280	519,421
Lebanon	2001	up to 1 million	-
Oman	1996	503,648	-
Saudi Arabia	1998	2,450,000	-
UAE	2001	1,700,000	-

Source: Int'l. Labour Migration Database, IMF
* From West Bank and Gaza

Table XI– Workers' Remittances in 2002

(billion)	US$	% of GDP
Algeria	0.94**	1.97
Egypt	2.97*	2.97
Iran	0.326*	0.29
Jordan	1.751	19.8
Libya	-0.316	-1.6
Mauritania	0.002*	0.2
Morocco	3.26*	3.26
Sudan	0.634	4.7
Yemen	1.223	12.9
Tunisia	1.070	5.0
Turkey	1.936	0.8

Source: IMF,CBRT,WDI *2001 **1999

Table XII- Market capitalization of listed firms (% of GDP)				in US$ billion		
	1999	2000	2001	1999	2000	2001
Bahrain	108.1	83.1	83.2	7.2	6.6	6.6
Egypt, Arab Rep.	36.9	28.9	24.5	32.8	28.7	24.2
Iran, Islamic Rep.	21.9	33.5	8.5	21.9	34.0	9.7
Israel	63.3	58.1	53.2	63.8	64.1	57.6
Jordan	71.6	58.5	71.5	5.8	4.9	6.3
Kuwait	64.5	58.0	..	18.8	20.8	..
Lebanon	11.6	9.6	7.3	1.9	1.6	1.2
Mauritania	..	..	108.4	..	..	1.1
Morocco	38.8	32.7	26.7	13.7	10.9	9.1
Oman	27.4	17.5	..	4.3	3.5	3.4
Qatar	45.1	31.3	..	5.5	5.2	..
Saudi Arabia	37.5	35.6	39.3	60.4	67.2	73.2
Tunisia	12.9	14.5	11.5	2.7	2.8	2.3
Turkey	61.3	35.0	32.3	112.7	69.7	47.7
United Arab Emirates	..	..	11.0	7.7	5.7	7.9

Source: WDI

Table XIII- Mean Gross Foreign Direct Investment/GDP p.a. 1995-2000	
Bahrain	15.96
Egypt	1.22
Iran	0.03
Israel	3.45
Jordan	3.60
Kuwait	3.85
Libya	0.95
Mauritania	0.17
Morocco	1.72
Oman	0.40
Saudi Arabia	1.41
Sudan	2.25
Syria	0.96
Tunisia	2.26
Turkey	0.66
Yemen	2.87

Source: WDI Gross foreign direct investment is the sum of the absolute values of inflows and outflows of foreign direct investment recorded in the balance of payments financial account. It includes equity capital, reinvestment of earnings, other long-term capital, and short-term capital. This indicator differs from the standard measure of foreign direct investment, which captures only inward investment.

Table XIV– Mean Net FDI Inflow/GDP p.a.1996-2001	
Algeria	1.05
Djibouti	0.65
Egypt	1.05
Iran	0.02
Israel	2.43
Jordan	3.55
Kuwait	0.25
Lebanon	1.27
Mauritania	0.75
Morocco	2.65
Oman	0.40
Sudan	2.63
Syria	1.00
Tunisia	2.37
Turkey	0.73
Yemen, Rep.	-2.25

Source: WDI

Table XV(a) – Intra-regional Investment Flows in ESCWA Member Countries 1985-2001 (US$ 000)

To \ From	Jordan	UAE	Bahrain	Saudi Arabia	Syria	Iraq	Oman
Jordan	-	11,223	1,400	31,799	40,297	85,282	-
UAE	29,277	-	34,782	548,059	18,002	1,970	66,879
Bahrain	3,879	12,982	-	176,974	-	-	586
Saudi Arabia	180,815	235,692	163,198	-	308,448	333	3,120
Syria	62,111	375,386	21,688	370,018	-	606	5,757
Iraq	16,784	922	-	-	-	-	-
Oman	121,111	39,185	12,214	34,989	1,176	-	-
Palestine	41,948	70,000	-	150,000	-	5,277	-
Qatar	5,984	57,270	2,833	49,885	2,343	-	14
Kuwait	27,801	954	1,035	5,461	17,526	2,836	1,921
Lebanon	1,173	613,905	21,486	855,470	140,839	340	891
Egypt	136,821	214,043	57,590	1,567,566	98,763	31,864	68,239
Yemen	18,676	12,739	223	77,180	8,973	18,252	14,255
Total	882,657	2,078,440	413,009	5,855,097	804,841	274,504	161,662

Source: Inter Arab Investment Guarantee Corporation, The Investment Climate in the Arab Countries 2001, adapted from UN, 2003.

Table XV(b) – Intra-regional Investment Flows in ESCWA Member Countries 1985-2001 (US$ 000) cont'd.

To \ From	Palestine	Qatar	Kuwait	Lebanon	Egypt	Yemen	Total	%Share
Jordan	18,891	5,337	13,361	19,241	37,029	556	268,152	**2 %**
UAE	10,949	215,712	289,262	44,136	10,702	1,546	1,283,555	**10%**
Bahrain	50	1,949	67,597	11,754	2,060	-	286,934	**2%**
Saudi Arabia	114,425	66,385	156,317	149,875	61,908	49,435	1,511,503	**12%**
Syria	69,563	12,662	308,328	240,687	5,735	-	1,485,027	**12%**
Iraq	-	-	195	-	-	1,240	19,131	**0%**
Oman	120	7,624	3,405	4,338	434	36,192	151,788	**1%**
Palestine	-	44,966	-	-	18,584	-	330,775	**3%**
Qatar	284	-	77,371	841	280	55	201,998	**2%**
Kuwait	2,992	-	-	11,111	5,469	723	78,844	**1%**
Lebanon	2,763	91,601	583,628		-	-	2,312,759	**19%**
Egypt	118,741	217,401	1,119,660	87,369	-	28,562	4,038,863	**33%**
Yemen	31,232	64,364	1,069	9,622	37,126	-	299,889	**2%**
Total	393,846	916,032	3,029,631	642,640	545,517	152,124	12,296,218	

Source: Inter Arab Investment Guarantee Corporation, The Investment Climate in the Arab Countries 2001, adapted from UN, 2003.