The Need for Integration in the Arab World
and the Challenges of Globalization:
The GCC Experience

Comments presented by

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Integration has been a goal for the Arab World since the establishment of the Arab League in 1945. However, that goal was elusive for the region as a whole for a long time, for a variety of reasons. We could probably think of several key reasons:

1. In the bipolar world of post WWII, it was difficult to forge ahead with meaningful steps towards integration, as Arab countries were not of the same mind regarding their allies in the cold war.
2. Polarization within the Arab world, in part due to superpower rivalry, but also due to differences between Arab governments over their relative roles in the region.
3. Differences in the levels of economic development and the development of state institutions.
4. To celebrate their then-recent independence from colonial rule, Arab countries wanted to unite very quickly. As early as the mid-1950s, the Arab League suggested the establishment of an Arab Common Market, even "Arab Economic Unity". However, it was soon realized that many steps had to be taken before reaching those noble goals.

Thus while need for integration has been recognized on the Arab level, actual steps towards integration had been minimal when the Gulf Cooperation Council (GCC) was formed in 1981 to integrate six Gulf countries of similar political, social, and economic systems:

- United Arab Emirates
- Bahrain
- Saudi Arabia
- Oman
- Qatar
- Kuwait

Learning from the Arab-wide experience in managing integration, the GCC adopted a gradualist but steady approach to integration, building on step after incremental step over the past 23 years. For example, while the Arab League was ambitious enough to launch the ideas of an Arab common market and economic unity as early as the mid-1950s, the GCC started with only limited goals, such as the GCC free trade area (FTA). Later, after the success of the FTA, it started negotiations for a customs union.

We realized early on that it was important not to outpace the systemic capacities to accommodate change. Sometimes we are reminded when we move too fast. Either government representatives would decline to go along with a deal, or they would go along but balk at the actual implementation. In addition, to avoid frustrations and losing the momentum, it was important not to raise popular expectations beyond the GCC ability to deliver.

Second, the GCC decided to emphasize economic integration as the bedrock of its project, and decided further not to link progress on the economic and social tracks with the turbulent world of politics. Thus, while our states from time to time had their political differences, movement on the economic track went ahead.

The first economic agreement was signed in 1981, the year the organization was set up. It went into effect in March 1983, launching the first steps towards integration between member states in several areas of economic activity, including, trade, movement of persons, and harmonization of policies, laws and regulations. Later, in 2001, partly in recognition of the progress made up until that point, and in part in recognition of the ambitions of most GCC citizens, a new, more comprehensive, Economic Agreement was signed. It spelled out in much more detail the new architecture of GCC economic integration.

I would like to discuss some aspects of economic integration that GCC member states have negotiated and put into effect:

1. Trade: The GCC FTA was established in 1983. There was a desire from the beginning to treat this step as only a first step towards complete trade liberalization between member states. First, agreement on a common external tariff was sought, then a full customs union was negotiated. Negotiations lasted for over ten years, but agreement was finally achieved and the GCC Customs Union was established in January 2003. To ease the adjustment process, a transition period of 3 years was agreed to for certain aspects of the Customs Union.

2. The Common Market: Starting from 1983, GCC states began the long process of establishing a common market. First, only 5 main areas of economic activity were included in the common market coverage:

a. Movement
b. residence
c. Work in the private sector
d. Movement of capital
e. Engagement in economic activity

Even in those five areas, agreement was initially on general principles only, to be followed by an incremental movement to apply the main idea of a common market, that of non-discriminatory treatment. The expression "common market" was never mentioned in that agreement as a goal.

Later, in the 2001 Economic Treaty, common market coverage was extended to include all areas of economic activity. Ten main areas of were identified in the treaty:

f. Movement and residence
g. Work in private and government jobs
h. Pension and social security.
i. Engagement in all professions and crafts
j. Engagement in all economic, investment and service activities
k. Real estate ownership
l. Capital movement
m. Tax treatment
n. Stock ownership and formation of corporations
o. Education, health and social services

The same gradual approach was used in extending each element of the common market coverage. Take the example of non-discriminatory treatment of GCC citizens in terms of engagement of economic activities, namely the establishment of businesses in GCC countries other than their own. First and until 2000, we had a list of permitted business activities. That list kept growing yearly, and in 2000, in the Bahrain Summit, the list was replaced with a short negative list. The negative list originally included 17 activities where only citizens were allowed to engage in. That list has been periodically reviewed and it is down now to 10 activities.

Realizing that the GCC states were now ready to complete the process of the GCC Common Market, the Doha Summit in December 2002 set a deadline of 2007 for completing this process.

3. Monetary Union: First the idea was agreed to in principle, then a timetable was agreed to in the Muscat Summit. The timetable calls for the completion of the Monetary Union in January of 2010, with several interim steps until then. We are now in the process of setting up convergence criteria for the MU.

4. Harmonization of laws and regulations: Over 50 unified laws and regulations, and several common strategies and policies, have been adopted by the GCC to create a unified legal environment.

Can the GCC or any other sub-regional integration contribute to Arab integration? The answer is yes, as long as the two have similar objectives and work within the same general principles. The GCC as a bloc was formed to support Arab integration, not as an alternative to it. That principle is explicitly stated in the GCC Charter of the organization and is evident in its day-to-day work.

How does that apply in practice? First, GCC integration serves as a model, to prove that actual steps of integration can be taken without significant adverse effects. Second, the accumulated knowledge and expertise gained through the GCC integration process can be utilized in negotiating overall Arab integration. For example, the success of the GCC FTA certainly helped in concluding the GAFTA, which has been gradually introduced since 1998. It is due to be completed in 2005. No doubt that the success of the GCC FTA helped bring GAFTA into existence. Relying on their experience gained at the GCC level, GCC delegations to GAFTA negotiations have been quite instrumental in achieving that outcome. Similarly, GCC success in forming a customs union and removing trade barriers are now being studied at the Arab-wide level. Already, committees have been formed to discuss the formation of an Arab Customs Union.

In addition, obviously the integration of regions within the Arab world will help in its overall integration in that prepares each region separately for Arab integration when that time comes.

Prospects for Arab Integration:

Recently, prospects for overall Arab integration have changed, improved in fact, due to a number of developments on the global level, I will mention three:

- The fall of the Soviet Union and the change to a largely uni-polar system.
- The establishment of the WTO and the challenges of economic globalization.
- The September 11 events and their aftermath.

I do not need to discuss the impact of the fall of the bipolar system, as that has been covered in other presentations at this forum. But I will briefly discuss the effects on Arab countries of economic globalization. I will later discuss the effects of September 11 events and their aftermath.

Most but not all Arab countries are firm believers in economic globalization, for all the obvious reasons:

- macro efficiency
- better reallocation of resources
- specialization
- transfer of technology
- expanded markets for national products
- lower prices
- more choices for consumers

However, as with any worthwhile project, globalization has brought with it some negative consequences. Probably just like the rest of the world, Arabs have mixed feelings about globalizations. We can identify three basic different reactions in the GCC region, which probably apply to the rest of the Arab World:

1. Move ahead, come what may. In the long-term, macro efficiency will spill over into every sector of the economy.
2. stop. Another variation is to stop until we have figured out effective ways to deal with the negative effects.
3. Move ahead, but make deliberate steps to mitigate the negative effects, to outflank or at least moderate their impact.

Adjustment Process:

These mitigating or outflanking is what is sometimes called, “adjustment process” However, WTO, which is the main driving force behind globalization does not deal with adjustment pains, leaving it to national governments and other international bodies.

So what have been the most negative aspects of globalization? Those that have taken place and those that are feared in the future.

1. Effects on traditional sectors:
   - Agriculture, fishing, herding, and traditional crafts declined due to cheaper imports.

2. Urban migration:

As rural areas diminish in prod capacity, migration to major cities is on the rise. To take advantage from own hometown, the city of Riyadh grows at an average growth rate of 8%. It is now a city of about 5 million inhabitants, compared with less than one million just 30 years ago.

With this fast urban sprawl, you have the usual problems of urban decay:

i. Strain on urban resources
ii. crime,
iii. drugs, and more recently,
iv. urban terrorism

3. Effects on national industry:

National producers for too long have relied on:

a. protective tariffs
b. subsidies
c. soft loans
d. tariff exemptions for industrial inputs.

While some of them have remained competitive despite being supported by those measures, some have not. They became inefficient and unable to compete in an open trading environment.

4. Effects on small businesses:

a. Small businesses do not have as many choices as banks and other large enterprises in adjusting to globalization. Some businesses have had to cease to exist, at least temporarily, because they cannot compete with lower-priced imports.

b. Businesses that are able to develop market niches are surviving.

5. Effects on workers:

a. Lower wages: according to a recent IMF study, in one GCC country wages for nationals have been falling at an average rate of 3% annually since 1997.

b. Unemployment: unemployment has been on the rise for the past several yrs. Unemployment has reached the double digits in some GCC countries, and is increasing at an average annual rate of 10-15%.

If we add to these factors the aftermath of the September 11 events, we can see the formidable challenges that face our region. To cite an obvious example, investment flows into the region had been at very low levels during the ten years preceding September 11, but they have now become a trickle. The Arab World receive on the average about 1% of international investment flows, or about $13 billion annually, while capital outflows are three times as much.

All of this adds up to an urgent need to further integration in the Arab World. That integration has to be based solid steps of popular consensus and sound economic principles. Globalization is no longer a choice, it is a reality. The challenge now is to adapt and adopt appropriate measures to benefit form its fruits and mitigate its negative consequences.

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