Regionalism in the Arab World: Progress, Prospects, and Lessons

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Abstract

Regionalism in the Middle East and North Africa has evolved in two phases. In the first phase, the Arab League took several steps after its establishment in 1945, to boost trade and economic cooperation among its members, but without achieving any major success. The second phase, which began in the 1980s, witnessed the emergence of four key inter-governmental organisations and trade initiatives, including the Gulf Cooperation Council (GCC), the Arab Maghreb Union (AMU), the Greater Arab Free Trade Area (GAFTA) under the Arab League, and the Agadir Agreement. In this study, we critically examine the progressive evolution of these regional setups, their current challenges, and future prospects as well as the lessons learned from Arab regionalism. The GCC comes out clearly as a relatively successful organisation. Its future prospects are also promising due to current economic growth and diversification in the Gulf region. The GAFTA also has tremendous potential to grow, especially if the AMU and Agadir nations align their interests, accordingly. Finally, Arab regionalism provides valuable lessons both in theory and practice, corresponding with the 'new regionalism' trend in the developing world as compared to the integration process in Europe.

Keywords: Regionalism, GAFTA, GCC, AMU, Agadir Agreement, Customs Union, Common Market, Free Trade Area, Tariffs, Non-Tariff Barriers

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Introduction

Economic cooperation was the founding goal of the League of Arab States. It was established in Cairo in 1945, as an inter-governmental organisation. The Council of the League of Arab States is the highest decision-making body, which meets twice a year and also holds emergency sessions, if needed. All of its decisions are made on the basis of consensus, and unanimous voting. Its Charter obliged the member-states to closely collaborate "in economic and financial matters, including trade, customs, currency, agriculture and industry."[1] Therefore, until the 1970s, the Arab League concluded several agreements to promote trade and economic cooperation, which included the 1950 Treaty of Joint Defense and Economic Cooperation, the 1953 Convention for Facilitating and Regulating Transit Trade, the 1957 Arab Economic Unity Agreement, the 1964 Arab Common Market agreement, and the 1974 Investment and Export Credit Guarantee Corporation agreement.[2]

However, these agreements were not implemented in the absence of the political commitment of the member states and several structural barriers. They included institutional weaknesses, disparities in national wealth, protectionist trade policies, high connectivity costs, the lack of economic diversification, and relatively small size of economies preventing product diversification, and limiting the emergence of scale economies. The colonial legacy, regional geopolitics, the US-Soviet Cold War, and the Arab-Israeli wars over Palestine also played their part.[3]

While the first phase of regionalism under the Arab League was a failure, its consequences were largely positive. In the 1980s, when 'new

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[1] United Nation High Commission for Refugees, *Charter of League of Arab States*, http://www.refworld.org/docid/3ae6b3ab18.html

[2] Alessandro Romangnoli and Luisa Mengoni, *The Economic Development Process in the Middle East and North Africa*, (London: Routledge, 2013), 68-83.

[3] Stewart M Patrick, "The Future of Middle East Regionalism: Can an Institutional Desert Bloom?," *The Internationalist*, November 12, 2012. Also see Samiha Fawzy, "The Economics and Politics of Arab Economic Integration," *Between Hope and Reality: An Overview of Economic Integration in the Arab World*, ed. Galal and Hoekman (Washington, D.C: Brookings Institution, 2003), 13-37.

regionalism' gained momentum in the form of several regional trade agreements and economic organisations across Asia, Africa, and South America,[4] the Arab nations became more pragmatic in pursuing trade and economic integration. Two developments particularly determined the future course of regionalism, including the establishment of sub-regional groupings such as, the GCC in 1981, and the AMU in 1989, and the conclusion of the Charter for National Economic Action in 1980, and the Inter-Arab Trade Facilitation and Development Agreement in 1981.[5]

By 1990s, most Arab countries began to realise the importance of lifting trade barriers and liberalising monetary policies for better access to the global market. Several of them signed the General Agreement on Tariffs and Trade (GATT), besides concluding bilateral trade agreements with the Western countries, with the support of international financial bodies such as the World Bank and the UN Development Program. Moreover, in their quest for a Free Trade Area, several Arab countries joined the World Trade Organisation (WTO), and the Euro-Mediterranean Partnership.[6]

The Greater Arab Free Trade Area

Consequently, in 1997, the Arab League decided to revive the Trade Facilitation and Development Agreement. The GAFTA was established to eliminate tariff and non-tariff restrictions on goods' trade by January 2007. Agricultural products were given exceptions by granting individual states the exception for 10 agricultural products from the agreement during the harvesting season. Moreover, the rules of origin were fixed at 40% of the value added. The agreement was to be gradually implemented and the least developed countries were offered special delays in the process. By 2005, two years ahead of the deadline, tariff and customs

[4] World Trade Organization, http://www.wto.traptop_e/region_e/region_e.htm.
[5] World Trade Organization, http://www.wto.traptop_e/region_e/region_e.htm.
[6] Alexander Brock, "Regional Cooperation in a New Middle East," *The Council for Foreign Relations*, November 2012.

duties on goods' trade were fully re moved, and non-tariff barriers partially removed.[7]

While 17 Arab League member-states have joined GAFTA, the remaining five are seeking its membership.[8] The GAFTA is overseen by the Economic and Social Council of the Arab League. It has three distinctive features. First, the grant of concessions to the least-developed states represents a departure from the unanimity principle that hampered previous integration efforts of the Arab League.[9] Second, besides overcoming tariffs and non-tariff barriers to trade, the GAFTA seeks liberalising the agriculture trade along with specific rules of origin to ensure tariff exemption for local products. Finally, it encourages the member states to deepen economic integration by concluding bilateral and sub-regional agreements in order to establish the Arab Customs Union and Common Market,[10] a goal that remains elusive even now.

GAFTA member-states trade mostly in hydrocarbons, manufactured goods, food items, and chemical products. In terms of trade flow, intra-regional trade has grown faster than the region's trade with the outside world. The GAFTA also has high trade surplus with the rest of the world.[11]The Gulf countries constitute almost two-third of the trade volume, which primarily consists of crude oil and natural gas exports.

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[7] Government of Egypt, Ministry of Trade and Industries, *Trade Agreements Sector*, http://www.tas.gov.eg/NR/rdonlyres/164E81D4-27BB-4D63-9DA7-33C8A315ACFF/1074/Gafta2.pdf.

[8] Ahmed Galal and Bernard M. Hoekman, ed., *Between Hope and Reality: An Overview of Economic Integration in the Arab World*, (Washington, DC: Brookings Institution, 2003), 1-12.

[9] Julia Devlin and John Page, "Testing the Waters: Arab Integration Competitiveness and the Euro-Med Agreements," in *Towards Arab and Euro-Med Regional Integration*, ed., S. Dessus, et al, (Paris: OECD Development Center, 2001), 189-224.

[10] Javad Abedini and Nicolas Peridy, "The Greater Arab Free Trade Area (GAFTA): An Estimation of the Trade Effects," *Journal of Economic Integration no.* 1 (2008): 3.

[11] "Full, Free Trade Agreement Can Enhance Inter-Arab Ties," *Gulf Times*, May 12, 2013, https://www.gulf-times.com/story/352290/full-free-trade-agreement-can-enhance-inter-arab-ties.

Saudi Arabia is the leading exporter, followed by the UAE. Both countries also lead the region's trade partnerships.[12]

The GAFTA has, indeed, helped to increase the level of intra-regional trade by 20% to 26%, [13] which is still far lower than the expected volume. The share of intra-regional trade also remains under 10%of the global trade volume (as compared to Europe's 66%, East Asia's 35% and Southeast Asia's 25%).[14] Only South Asia and the Arab Maghreb lag behind the GAFTA region with just a 5% intra-regional share in global trade.[15] Various factors account for this dismal situation.

First, tariffs have reduced only marginally and are still very high. For example, while Asian tariffs range from 8% to 13%, they are estimated at around 17% for Arab nations. The region only compares with South Asia in terms of trade restrictions.[16] Since non-tariff barriers are only partially removed, they remain higher than in other developing regions[17] and include stringent regulations, import authorisation procedures, and customs clearance processes.[18]
Second, the GAFTA has a poor trade facilitation track-record for lacking harmonious and transparent cooperation. Its member-states are still

[12] QNB Group, "A Free Trade Agreement Could Further Boost Intra-Arab Trade," http://www.qatarisbooming.com/article/qnb-group-free-trade-agreement-could-further-boost-inter-arab-trade.
[13] Timo Behr, *Regional Integration in the Mediterranean Moving out of the Deadlock*?" (Paris: Notre Europe, April 2010), 25.
[14] Nasser Saidi & Aathira Prasad, *Trends in Trade and Investment Policies in the MENA Region* (Jordan: MENA-OECD Working Group on Investment and Trade, 2018).
[15] Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World: The Path of Economic Integration* (Washington, DC: The World Bank, 2013), 44. Also see Lisheng Dong and Günter Heiduk, ed. *The EU's Experience in Integration: A Model for ASEAN+3* (Bern, Switzerland: Peter Lang, 2007), 204.
[16] Matteo Legrenzi and Marina Calculli, *Regionalism and Regionalization in the Middle East: Options and Challenges,* (New York: International Peace Institute, 2013), 1-6.
[17] Ahmed Farouq Ghoneim, et al., "Shallow vs. Deep Integration in the Southern Mediterranean: Scenarios for the Region up to 2030," *Mediterranean Prospects* 13 (2012).
[18] Steffen Hertog, "The GCC and Arab Economic Integration: A New Paradigm," *Middle East Policy* 14 (2007): 53.

unwilling to cede control over trade and tariff issues.[19] Institutional and practical constraints further compound the problem. The strict interpretation of rules of origin often lead to disputes, for which there is no proper resolution mechanism. Practical constraints include the high trade connectivity costs due to poor transport and communication infrastructure, and varying economies and currencies of GAFTA members.[20]

Third, the GAFTA was meant to prevent its member-states from reaching bilateral and multilateral trade agreements outside the MENA region.[21] Yet, many of them have joined WTO and signed bilateral preferential trade agreements.[22] The Arab states have also failed to diversify their exports, which are still confined mostly to hydrocarbon and agricultural products. Instead of trading with each other, the Arab countries also prefer to trade with Europe. Furthermore, while Jordan, Egypt, Bahrain, and Oman have signed free trade agreements with the US, Maghreb states have joined trading arrangements with the Mediterranean European nations and African organisations.

Fourth, the GAFTA covers only trade in goods, not in services, factor mobility, or investment.[23] This is despite the recent surge of the services sector in the Gulf region. There is no provision for factor mobility across the GAFTA region, which hampers economic productivity by restricting the use of labour, capital, and land across state frontiers. Another barrier

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[19] Danielle Gendrano, *League of the Arab States: Greater Free Trade Agreement* (New Jersey: Institute for Domestic & International Affairs, 2007), 13-17.

[20] Bashar Malkawi and Mohammed El-Shafie, “The Design and Operation of Rules of Origin in Greater Arab Free Area: Challenges of Implementation and Reform,” *Journal of World Trade* 53, no. 2 (2019): 242-27.

[21] Jamal Zarrouk and Franco Zallio, "Integrating Free Trade Agreements in the Middle East and North Africa," *Journal of World Investment* 2 (2001): 403-426.

[22] Jamal Zarrouk and Franco Zallio, "Integrating Free Trade Agreements in the Middle East and North Africa.”

[23] Nicolas M Depetris Chauvin, *The Rise of the Gulf: Saudi Arabia as a Global Player* (Berlin: Konrad-Adenauer-Stiftung, April 2010), 50-51.

to trade and business activity is the insufficiency of investment flows from within and outside the region.[24]

Fifth, the private sector remains largely under-developed beyond the Gulf region. The regionalisation process, marked by increased societal access to sources of information and digital connectivity, has helped to generate private business and commercial activities among the GCC members. However, in the rest of MENA, state enterprises prevail over the corporate sector. Without state patronage, private businesses are unable to gain due access to capital and markets at home and abroad.[25]

Finally, the regional integration process as a whole remains paralysed due to the same factors that failed the Arab League's quest for regionalism in the first phase: institutional deficiencies, political divisions, conflicts and wars. The Arab League member-states have concluded many declarations of intent and accords, whose implementation is hindered by their unwillingness to forego national economic interests at the expense of regional integration processes.[26]

The Agadir Agreement

Egypt, Jordan, Morocco, and Tunisia signed the Arab Mediterranean Free Trade Area agreement in 2004. Commonly referred to as the Agadir Agreement, it came into force in 2007. Lebanon and Palestine also signed it in 2016. Other GAFTA/Arab League member countries that have free trade agreements with the European Union (EU) are free to join the Agadir process.

[24] Matteo Legrenzi and Marina Calculli, *Regionalism and Regionalization in the Middle East: Options and Challenges,* (New York: International Peace Institute, 2013), 1-6.
[24] Ahmed Farouq Ghoneim, et al., "Shallow vs. Deep Integration in the Southern Mediterranean: Scenarios for the Region up to 2030," *Mediterranean Prospects* 13 (2012).
[25] Adeel Malik and Bassem Awadallah, "The Economics of the Arab Spring," *World Development* 45 (2013): 296-313.
[26] Economic and Social Commission for Western Asia, *Arab Development Outlook: Vision 2030* (Lebanon: ESCWA, 2015), 153.

The Agadir Agreement seeks to establish a free trade area for the member states to promote economic cooperation and regional integration by implementing GAFTA and establishing a Common Market. This goal is to be achieved through policy coordination with respect to trade in goods and services, regulatory reforms regarding taxation, customs, and financial services, and removal of tariffs and non-tariff barriers.[27]

The Agadir Agreement is sponsored by the European Commission under the Barcelona Process, which was initiated by 15 EU states and 12 Mediterranean nations in 1995. The goal was to establish a Euro-Mediterranean Free Trade Area (EMFTA), which is different from GAFTA in three respects. First, it aims to fully liberalise trade in industrial goods, while trade in agricultural goods is to be liberalised under GAFTA terms. Second, it commits the member-states to remove all non-tariff barriers and liberalise trade in services in accordance with WTO rules and respective national laws. Finally, the Agadir member-states subscribe to the Euro-Mediterranean rules of origin. Hence, they get easier access to the EU market than other GAFTA countries.[28]

The intra-Agadir trade volume has, indeed, increased since 2007, but it has grown less rapidly than the member states' trade with GAFTA members and the rest of the world. Several reasons account for the extremely low level of trade and slow pace of integration among Agadir countries.[29] First, its geographical scope pales in comparison to GAFTA. While the Agadir membership is open to all Arab League/GAFTA member-states having free trade agreements with the EU, only Lebanon and Palestine have joined it. Hence, the Agadir nations will continue to

[27] The Agadir Agreement at: http://www.agadiragreement.org/Pages/viewpage.aspx?pageID=243; "Lebanon, Palestine Join Agadir Free Trade Agreement," *Ahram,* April 3, 2016.

[28] European External Action Service, "Agreement Setting up a Free Trade Area Between the Arab Mediterranean Countries*,"* http://eeas.europa.eu/delegations/egypt/documents/eu_egypt/trade/agreements/agadir.pdf.

[29] "Intra-regional Trade Between Agadir Agreement Members Sees Steady Growth," *Global Trade Matters,* February 2, 2020, http://www.globaltradematters.org/intra-regional-trade-between-agadir-agreement-members-sees-steady-growth/.

face tangible limitations in trade and market access, unless they are joined by Algeria and other Arab League members.[30]

Second, tariff reductions under the Agadir Agreement are meaningless, as they were already agreed upon in GAFTA. The efforts to overcome non-tariff barriers and raise the level of investments and agricultural productivity have also not produced desired results. Since Agadir nations are also party to GAFTA, which grants duty-free access to the member-states, the effects of the Agadir Agreement cannot be separated from those of GAFTA.

Third, Agadir's reliance on the EU rules of origin is problematic, as these are in conflict with the US rules of origin. Hence, the member states have to choose either of them, which leads to a violation of the Agadir terms.[31]

Fourth, lack of trade complementarity limits the export potential of Agadir nations. Hence, unlike Egypt and Jordan, Morocco and Tunisia operate tariff and non-tariff restrictions on trade in goods.[32] Moreover, since Agadir countries export almost the same products to Europe, their relatively easier access to the EU market under the Barcelona Process does not contribute much to regional trade. In fact, over-reliance on trade with the EU has led to a hub-and-spoke relationship, with the terms of trade favouring the EU at the expense of Agadir nations.[33]

Finally, like other Arab regional setups, the Agadir Agreement lacks the binding and comprehensive conditions that characterise trade agreements in other regional blocs. As in the GAFTA case, the member states remain unwilling to compromise national interests for the sake of regional

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30 Luc De Wulf and Maryla Maliszewska, *Economic Integration in the Euro-Mediterranean Region,* (Warsaw: Centre for Social and Economic Research, 2009), 26.
31 Luc De Wulf and Maryla Maliszewska, *Economic Integration in the Euro Mediterranean Region.*
32 Anouar Boukhars, *Maghreb: Dream of Unity, Reality of Division.* (Doha: Aljazeera Centre for Studies, 2018), 6.
33 Nicholas Peridy, "Towards a Pan-Arab Free Trade Area: Assessing Trade Potential Effects of the Agadir Agreement," *The Developing Economics* 43 (2005): 342.

connectivity. Practical constraints such as poor transport links, and strict regulatory controls constitute additional structural barriers.

The Arab Maghreb Union

Algeria, Libya, Mauritania, Morocco and Tunisia signed the Treaty of Marrakech in 1989 to establish this organisation, even though its idea was conceived decades ago at the 1964 Conference of Economic Ministers of Maghreb countries in Tunis.[34] Saudi Arabia's facilitation of reconciliation between Tunisia and Libya in 1987, and restoration of diplomatic relations between Algeria and Morocco in 1988, acted as a catalyst for the purpose.

The AMU is governed by a Council of the Heads of State of the member countries, where decisions are made through unanimous voting. The Charter sets its key goal as fostering "the movement of goods and persons, unifying customs systems, and gradually liberalising the movement of goods, services and factors of production" among member countries. A corresponding objective is to ensure "large scale economic cooperation; develop agriculture, industry, trade, and food security; and implement joint economic cooperation projects" while identifying the establishment of an Economic Union in the Maghreb as an end goal.[35] Despite sharing a common history, culture, and language, the member countries have varied economies, including oil-exporting Algeria and Libya, middle-income Morocco and Tunisia, and lower-middle-income Mauritania. All AMU states are also part of the Arab League, GAFTA and the African Union. Mauritania, Morocco, and Tunisia are WTO members. Morocco and Tunisia are key Agadir nations as well.

AMU states trade primarily with Europe due to historical and economic reasons. In order to enhance their exports to EU countries, they have

[34] Tomer Broude, "Regional Economic Integration in the Middle East and North Africa: A Primer," in *European Yearbook of International Economic Law*, ed. C. Hermann and J.P. Terhechte (New York: Springer, 2009), 269-296.
[35] Treaty Establishing the Arab Maghreb Union, https://wits.worldbank.org/GPTAD/PDF/archive/MAGHREB.pdf.

joined important trading regimes. While Algeria, Morocco, and Tunisia are part of the EMFTA, Mauritania is a signatory of the Economic Partnership Agreement between the EU and West African nations. Morocco and Tunisia have joined the European Free Trade Association. Morocco and Tunisia have a bilateral free trading arrangement with Turkey. Morocco has a free trade treaty with the US. All AMU states are included in the African Continental Free Trade Area. More recently, Algeria, Libya, Morocco, and Tunisia have also joined China's Belt and Road Initiative (BRI).

In 2010, AMU member-states decided to establish a Maghreb Free Trade Area, but the agreement has not been ratified due to unresolved political and security issues. The organisation's dismal performance is apparent from the fact that its last Heads of State summit was held in 1995.[36]Consequently, King Mohammed VI of Morocco was compelled to proclaim at the 2017 African Union summit that "AMU was dead."[37]The seventh AMU summit was planned for 2019,[38] but it was also not held.

AMU members have individually made substantial progress in trade. However, the share of intra-regional trade is less than 5% of the global trade volume, which is one of the lowest in the GAFTA region and also as compared to other regional organisations in the developing world. Their bilateral trade volume is also extremely low.[39] Several reasons explain AMU's failure in promoting intra-regional trade.

First, almost half of the Maghreb landmass is inhabited by Algeria, the largest state, and Morocco, the second largest. Both of them remain

[36] Yasmina Allouche, *Regional Power Rivalry and the Failure of the Arab Maghreb Union* (Istanbul: TRT World Research Centre, January 2019).

[37] "Full Speech of King Mohammed VI at 28th African Union Summit," *Morocco World News*, January 31, 2017, https://www.moroccoworldnews.com/2017/01/207060/full-speech-king-mohammed-vi-28th-african-union-summit/.

[38] Maya Barth, *Regionalism in North Africa: the Arab Maghreb Union in 2019* (Brussels: Business International Centre, June 2019).

[39] Alexei Kireyev, et al., *Economic Integration in the Maghreb: An Untapped Source of Growth* (Washington D.C: International Monetary Fund, 2018), 7.

hostage to their conflict over Western Sahara. The border between Algeria and Morocco has remained shut for the past couple of decades.[40] The civil war in Libya after the Arab Spring additionally worsened the security situation. Soon after the 2011 Arab uprisings, the AMU states did express some interest in conflict resolution,[41] but they are yet to make any concrete effort in this regard.

Second, the restrictions on intra-regional trade remain high, including both tariff and non-tariff barriers. AMU states have higher tariffs among themselves than while trading with Europe. They range from 19% in Algeria's case and 12% on average for the rest of the countries. Non-tariff barriers and other trade restrictions are aside.[42]

Third, there are serious logistic and transportation bottlenecks. Land and air transportation networks between Maghreb countries are extremely poor. The maritime connectivity is even worse, with shipping costs exceeding by around 25% as compared to the developing countries.[43] Long delays at border posts and stringent customs clearance procedures constitute other trade barriers.

Fourth, intra-regional investment flows are significantly restricted as compared to other regional organisations, representing less than 1% of the total investment flows. Morocco's investments in Africa alone exceed that amount, which makes it the second largest investor and the third largest exporter in Africa.[44] Finally, rather than concentrating on developing trade and economic cooperation within the Maghreb region, the AMU members

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[40] Carlotta Gall, "Fighting Is Long Over, But Western Sahara Still Lacks Peace," *New York Times,* February 22, 2015.
[41] Lahcen Achy, "The Arab Spring Revives Maghreb Integration," *Al-Hayat,* March 6, 2012.
[42] Alexei Kireyev, et al., *Economic Integration in the Maghreb: An Untapped Source of Growth* (Washington D.C: International Monetary Fund, 2018), 14.
[43] Nasser Saidi, "Will the GCC Take Leadership of Arab Economic Integration?," *The Huffington Post,* December 19, 2013.
[44] "Morocco in Line with AfDB's High 5s," *All Africa,* July 22, 2016, http://allafrica.com/stories/201607221044.html

prefer to build bilateral and multilateral links with Europe, sub-Saharan Africa and, more recently, China. Moreover, despite trading heavily with Europe, the AMU states have failed to attract investment inflows from the EU.[45]

The Gulf Cooperation Council

The GCC was established in 1981 by Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and the UAE in response to the regional security threat from Iran post-1979.[46] But its relative success in subsequent decades has been in the economic sphere. GCC's founding goal was also to "achieve coordination, integration and interconnection among member states' economic, social, educational, research, cultural, legislative, and transport fields, and to develop compatible systems so that unity can be achieved."[47] The Supreme Council is the GCC's highest decision making body, which meets annually and consists of the Heads of State. Its decisions are made on the basis of unanimity. Based in Riyadh, it also has a Commission for the Settlement of Disputes which seeks to resolve problems between the member states. The GCC member-states own "almost 45% of the world's crude oil reserves and around 15% of natural gas reserves." Their combined GDP of about "$2 trillion a year in relation to around 56 million" population is among the largest in the world, constituting "more than half of MENA's GDP."[48] The Gulf region also connects three major maritime trade routes – Africa and Europe via Suez Canal and Asia-

[45] Nasser Saidi, "Will the GCC Take Leadership of Arab Economic Integration?," *The Huffington Post,* December 19, 2013.

[46] Joseph Kechichian, "The Gulf Cooperation Council: The Search for Security," *Third World Quarterly* 7 (1985): 853-881. Also see Scott Cooper and Brock Taylor, "Power and Regionalism: Explaining Regional Cooperation in the Persian Gulf," in *Comparative Regional Integration: Theoretical Perspectives, ed.* F. Laursen (Aldershot: Ashgate, 2003), 105-124.

[47] See Charter of the Cooperation Council for the Arab States of the Gulf, May 25, 1981, http://www.gcc-sg.org/eng/indexfc7a.html.

[48] Economist Intelligence Unit, "The GCC in 2020: The Gulf and Its People," *The Economist,* September, 2009, 2. Also see Mardo Soghom, "Migrant Crisis: Where Have the Gulf States Been?," *The Atlantic,* September 8, 2015; Institute of International Finance, *Arab Spring Countries Struggle: GCC Prospects Favorable* (Washington D.C: IIF, 2013), 3.

Pacific via the Indian Ocean – which pass through Bab El-Mandeb and the Strait of Hormuz and connect major sea lines of communication.[49]

Over the years, the GCC has progressed quite smoothly. The Unified Economic Agreement, which entered into force in 1982, sought to establish a Free Trade Area and a Customs Union. The Free Trade Area was launched in 1983, which exempted "GCC national products from customs duties and other charges having similar effect under special conditions."[50] In the security sphere, a Peninsula Shield Force was created in 1984, as a standing coalition land force to defend the Gulf region from external danger. In 1987, a collective security pact was signed. Economic cooperation was put on hold due to Iraqi occupation of Kuwait in 1991, and its security implications in the next decade. In 2001, the GCC leaders ratified the new Economic Agreement, which sought to deepen integration by establishing a Customs Union, a Common Market and a Monetary Union."[51]

The Customs Union was established in 2003, with the goal "to abolish customs duties and trade restrictions between the member states and implement common customs duties and external trade regulations." Its key features included a common external tariff of 5% duty on most imports, allowing locally produced goods to move freely across regional frontiers; a common customs law, along with financial rules and administrative procedures concerning trade among the member-states; a single-entry point for the collection of customs duties; and free flow of goods between the member-states with least tariff and non-tariff exceptions."[52]

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[49] Zakir Hussain, *Saudi Arabia in a Multipolar World: Changing Dynamics*, (New Delhi: Routledge, 2016), 1.

[50] "Unified Economic Agreement between the Countries of the Gulf Cooperation Council," *World Bank*, November 11, 1981. http://wits.worldbank.org/GPTAD/PDF /archive/GCC.pdf.

[51] The Economic Agreement between the Gulf Cooperation Council States, http://www.gcc-sg.org/DLibrary/download.php?B=168.

[52] The Customs Union of the GCC Member States, https://nshr.org.sa/en/wp content/uploads/2014/01/1274258579.pdf.

In 2008, the GCC established the Common Market to promote the movement of capital and labour across national frontiers.[53] Grounded in the principle of economic nationality, it has enabled the citizens of Gulf States to reside, move and work across the GCC region. They also enjoy social benefits like health and education, as well as the right to own property and run private businesses.[54]

The GCC was supposed to establish a Monetary Union and float a common currency (the Gulf Dinar) by 2010, under the Economic Agreement of 2001. However, despite Saudi Arabia's insistence, neither of these goals have been realised due to intra-GCC differences over common fiscal and monetary policies. For example, all the member states had pegged their currencies to the US dollar in 2002. However, in the wake of the 2007-08 global financial crisis, Kuwait rescinded and decided to peg its currency to a currency basket that included the US dollar. For the same reason, Oman pulled out of the currency project in 2007. The UAE followed suit in 2009, while opposing Riyadh as the location of the Gulf Central Bank.[55]

Despite its failure to establish a Monetary Union with a single currency, the GCC has gradually evolved into an integrated economic bloc with harmonised legal and economic systems. It has also successfully coordinated external commercial policies and trade relations.[56] The Customs Union has generally contributed to the free movement of goods

[53] Villalta Puig and Bader Al-Haddab, "The Constitutionalisation of Free Trade in the Gulf," *Arab Law Quarterly* 25 (2011): 317.
[54] GCC Economic Nationality, https://www.gcc-sg.org/eng/index39e0.html? action=Sec-Show&ID=429.
[55] Matteo Legrenzi, "Did the GCC Make a Difference? Institutional Realities and (Un)intended Consequences," *Robert Schuman Center for Advanced Studies Working Paper* (2005). Also see Shinji Takagi, *Establishing Monetary Union in the Gulf Cooperation Council: What Lessons for Regional Cooperation*? (Tokyo: Asian Development Bank Institute, 2012), 107-124.
[56] International Monetary Fund, *Trade and Foreign Investment: Keys to Diversification and Growth in the GCC* (Washington, DC: IMF, 2018).

and services.[57] Intra-GCC trade has grown nearly forty since its establishment.[58]

Internal security is an area where the GCC has achieved a high level of cooperation, largely due to a common perception of regional threats as well as a shared interest in state integrity and regime survival.[59] In 2004, the Gulf countries signed the intelligence-sharing pact to counter-terrorism. An Internal Security Pact, first proposed in 1982 and revised in 1994, was concluded by all the GCC interior ministers in 2012, to reinforce security cooperation and coordination between the member states.[60]

However, in the economic sphere, the Customs Union is yet to achieve its full potential due to some unresolved matters. The first issue pertains to the tariff revenue collection and distribution system. The revenue of imported items is collected by each member state at the first point of entry and then transferred to a central account. Thereafter, the revenue is redistributed among the member states with respect to their respective proportion in GCC imports, GDP and population size.[61] Accordingly, Saudi Arabia and the UAE being bigger countries receive a greater share in revenues, which the remaining GCC members oppose.[62] Second, despite agreeing to levy a Cohesive Common External Tariff of 5% for most goods from outside the region, some member states levy higher

[57] Fred Lawson, *Transformation of Regional Economic Governance in Gulf Cooperation Council* (Doha: Centre for International and Regional Studies, 2012), 20-21.
[58] Karen Young, "Have Taxes Killed GCC Economic Integration?," *Al-Monitor*, May 15, 2020.
[59] Matteo Legrenzi, *The GCC and the International Relations of the Gulf: Diplomacy, Security and Economic Coordination in a Changing Middle East* (London:Tauris, 2011), 59.
[60] Sean L. Yom, "Regimes, Identities, and Regional Order: Kuwait, Qatar, and the Gulf Cooperation Council," *Taiwan Journal of Democracy* 14 (2018).
[61] Jayanta Roy and Jamel Zarrouk, *Completing the GCC Customs Union* (Washington, DC: The World Bank, 2002).
[62] World Bank, *Economic Integration in the GCC* (Washington, DC: The World Bank, 2010).

tariffs to generate revenue or protect local industries.[63] Third, non-tariff trade barriers have not been fully removed.[64]

The Common Market also lags behind in implementation due to lack of harmonisation in GCC regulatory mechanisms and policies. For example, in terms of labour mobility, although millions of Gulf nationals travel across GCC frontiers each year, the number of workers in the public and private sectors remain very low.[65] This is because the public sector employment in GCC nations is already saturated,[66] and their private and public sectors tend to discriminate by preferring their own nationals over other GCC citizens in employment.[67] Likewise, some restrictions on property and business ownership, and investments by other GCC citizens and foreigners in a member state remain in place.[68]

Several factors inhibit further economic integration of the GCC. First, the economic structure and resource base of the GCC states are almost similar. Therefore, complementarities in exports and trade are low. This leads to a low level of intra-regional trade. There is no doubt that almost all the Gulf nations are currently trying to diversify their economies away from oil, and towards other productive sectors such as technology, energy, tourism, and financial services. But crude oil and natural gas still constitute their key revenue streams, ranging between 24% of the GDP in

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[63] Bernard Hoekman and Khalid Sekkat, *Arab Economic Integration: The Missing Links"* (Brussels: The European Centre for International Political Economy, 2010).

[64] Khalid Shams Abdulqader, "GCC's Economic Cooperation and Integration: Achievements and Hurdles*," Al Jazeera Center for Studies*, March 31, 2015): 311-324.

[65] Mahmood Abdulghaffar, et al, "The Malfunctioning of the Gulf Cooperation Council Single Market: Features, Causes and Remedies," *Middle Eastern Finance and Economics* 19 (September 2013): 55-68.

[66] Salem Nechi, "Assessing Economic and Financial Cooperation and Integration among the GCC Countries," *Journal of Business and Policy Research* 5 (2010): 158-178.

[67] Mahmood Abdulghaffar, et al, "The Malfunctioning of the Gulf Cooperation Council Single Market: Features, Causes and Remedies," *Middle Eastern Finance and Economics* 19 (September 2013): 55-68.

[68] James R. England, "Real Estate Investing in the Middle East: Foreign Ownership Restrictions in the GCC," *The Metropolitan Corporate Counsel*, January 20, 2012.

the UAE to 57% in Kuwait.[69]That is why the GCC economies remain vulnerable to volatility in the global energy markets.

Second, the GCC economies rely heavily on foreign imports and workforce. Each Gulf economy, with the exception of Saudi Arabia, is relatively small and unable to provide scale economies in production.[70] There are also considerable disparities among the member states, ranging from a GDP per capita of around $15,000 in Oman to almost $61,000 in Qatar.[71] Third, the private sector's contribution to the GDP has not grown, although private investment from within the region has recently increased. As for the labour market, while the GCC citizens are concentrated in the public sector, foreign workers dominate the private sector.[72]

Fourth, the GCC is yet to establish a viable infrastructure for the transportation of goods and natural gas. Two projects for this purpose include "a unified natural gas pipeline distribution network and an integrated regional railway system."[73] Both are far from implementation. Finally, the GCC integration process has also been hampered by internal divisions such as the crisis with Qatar, and regional security threats from Iran, Yemen and Iraq.

Future Prospects

The MENA region has, indeed, been able to put in place important free trade arrangements and sub-regional cooperation formations. But most of them have not achieved their founding objectives due to the prevailing barriers that restrict the free flow of goods, people, and capital in the

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[69] "Oil and the Gulf States: After the Party," *The Economist*, March 26, 2016.
[70] Bernard M. Hoekman and Patrick Messerlin, *Initial Conditions and Incentives for Arab Economic Integration (*DC: The World Bank, 2002), 13.
[71] "World Bank Open Data," *The World Bank,* https://data.worldbank.org/.
[72] Adeel Malik and Bassem Awadallah, "The Economics of the Arab Spring," *World Development* 45 (2013): 296-313.
[73] Mirium Malek, "Saudi Arabia-GCC Gas Pipeline Studies to Commence within Weeks: Falih," *S & P Global,* April 8, 2019, https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/040819-saudi-arabia-gcc-gas-pipeline-studies-to-commence-within-weeks-falih.

region, as well as other economic, political, and security reasons. However, current trends toward reconciliation, conflict resolution, and economic diversification augur well for the future of Arab regionalism. Two developments are particularly noteworthy.

First, after decades of wars and conflicts rooted in the regional and global geopolitics, which worsened in the aftermath of the Arab Spring, the MENA region is undergoing a major shift towards geo-economics-centric reconciliation and conflict resolution, including the resolution of the Qatar crisis, the relative peace in Libya and Iraq, the return of Syria into the Arab League fold, the ceasefire in Yemen conducive to political settlement and, above all, the normalisation of relations between Saudi Arabia and Iran. Moreover, China has emerged as a major economic player in the Gulf region, in particular, and the rest of MENA, in general. Most of the Arab League members are part of the BRI and have a common stake in lucrative Chinese investments in vital projects of infrastructure, energy and technology.

Second, Saudi Arabia and other Gulf countries are implementing major national vision programs to diversify their economies away from overbearing dependence on crude oil and natural gas. Their economic revival and growth after the global pandemic are spurring the implementation of these vision programs.[74] Saudi Arabia, being the largest Gulf state and the richest Arab nation, particularly seeks to enhance its regional and international profile under Vision 2030. Its potential to act as a catalyst for economic integration of the Arab world is already manifested in the Green Middle East Initiative and Saudi investments across the MENA region, particularly in Egypt, Iraq, and expectedly, Syria and Yemen. Aligned with the ongoing regional reconciliation and conflict resolution trends, the diversification of Gulf economies and their

[74] "Saudi Arabia tops India as world's fastest growing major economy,"*Middle East Eye*. January 31, 2023.

transregional connectivity with China and rest of Asia is likely to boost trade and investment links across the Arab world.[75]

It is clear from the preceding discussion that despite structural woes and inter-state differences, the GCC has outperformed other Arab initiatives by creating sound conditions for more active coordination among the majority of its member states. However, its intra-regional profile still pales in comparison with its international trajectory. Therefore, its members must continue to diversify their economies, expand the private sector and empower the youth with quality education and relevant skills needed for absorption in the market economy. Simultaneously, they have to extend the benefits of their collective success through GCC integration to the rest of the Arab world by creating favourable conditions for the promotion of the private sector and free trade in the region.

Other Arab regional initiatives also need to be revitalised. The presence of three parallel regional groupings within the Arab world, including GAFTA, AMU and Agadir Agreement, is problematic due to their overlapping jurisdiction and field of action.[76] The Agadir Agreement is open for membership for GAFTA/Arab League members that have signed free trade agreements with the EU. However, both the AMU and Agadir Agreement have not made any headway in increasing intra-regional trade. Therefore, while political commitment and structural reforms are required to make these initiatives more productive, the Arab states need to focus on GAFTA. Since the AMU and Agadir member-states face almost the same barriers as other GAFTA members do, their future lies in a more vibrant GAFTA process. Besides overcoming these barriers, all Arab League members should, in fact, be part of the GAFTA.

[75] "Saudi Arabia commits $2.5 bln to Middle East green initiative - Crown Prince," *Reuters*, November 7, 2022. Also see Ali Awadh Asseri, "Saudi Arabia is the Gulf's Status Quo Power," *Manara Magazine*, October 5, 2022.

[76] Talha Jebril, " Morocco-ECOWAS: Good Intentions Are Not Enough," *Moroccan Institute for Policy Analysis*, February 13, 2020.

GAFTA's success in liberalising trade is limited by the persistence of non-tariff barriers, as well as infrastructure and regulatory constraints. Rather than merely trading in goods, its member states need to develop the services industries, including trade facilitation and transportation, banking and finance, and information and communication technology. As for the AMU and Agadir nations, they will accrue more economic gains by trading collectively with Europe as a bloc. Improving regional infrastructure, creating a regional bank, and resolving inter-state conflicts, such as between Algeria and Morocco over Western Sahara, are other initiatives worth taking for the AMU. Finally, the member countries of the Agadir agreement need to overcome the problem of trade complementarity among them and in relation to their trade with Europe.

Lessons Learned

Arab regionalism provides a number of valuable lessons both in theory and practice, which are similar to the cases of "new regionalism" across the developing world. But they are different from the economic integration process in Europe.

First, all the Arab regional organisations and trade initiatives are based on inter-governmental cooperation, which is pursued as long as it serves the economic interests of the member-states. Sovereignty is a sacred principle for the Arab states. Hence, they are unwilling to create a supranational institution like the EU. Instead of sovereignty pooling, the Arab organisations serve as a means for sovereignty enhancement of the member-states. The focus remains on cooperation rather than integration. Therefore, Arab regionalism is better explained by inter-governmentalism theory, although its liberal facet is visible in the GCC, marked by EU-like regionalisation trends, denoting increased interaction among social and market forces.

Second, Arab regionalism challenges the Eurosceptic view that democracy is a precondition to economic integration. All the Gulf nations have authoritarian systems of government, and yet they have moved steadily on the integration path, from the establishment of a free trade area to the partial realisation of the Customs Union and Common Market in the GCC. Their current quest for economic diversification is also happening under similar political conditions. Other cases like the AMU and Agadir Agreement constitute an abject failure of regionalism, not because of the nature of politics but due to economic barriers and security issues.

Third, GCC history makes it clear that Saudi Arabia is the driving force behind its progressive evolution. This is not surprising. The most powerful economies in any regional setting have a pragmatic interest in deeper economic integration, such as Germany in the EU. That is why Saudi Arabia seeks GCC's monetary union and the common currency, a proposition that is resisted by smaller Gulf nations like the UAE and Oman. The Kingdom has to assuage its political and economic concerns if it wants tangible progress in the Gulf integration process beyond the Common Market.

Finally, Arab regionalism confirms the causal link between security issues and economic integration. Regional organisations emerge as a collective response to perceived or real dangers from outside. GCC's creation due to the Iranian threat is a pertinent example. Moreover, the persistence of security conflicts may hamper the process of regionalism. The border conflict between Algeria and Morocco, for instance, is the key factor behind AMU's dismal performance in the past three decades. Reconciliation and conflict resolution trends in a region – such as in the Gulf and the Middle East at present – could also create the enabling conditions for regionalism to flourish.■