Directions of Economic Integration in the Arab East

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Abstract

Economic integration is one of the most important premises of globalization. The purpose of this paper is to analyze the effects that economic integration can generate in the Arab East, but also to investigate the current state of integration in the region. The benefits that a state can benefit by strengthening its position in the field of economic integration, either through preferential trade agreements or through foreign direct investment or labor migration, are obvious. The Arab East can thus attract a more sustained economic growth process for the less developed countries, either through intra-regional cooperation, through contact with the Arab states that are members of the Gulf Cooperation Council or through trade links developed with Europe, United States or the rest of the world. Also, regional development in the Arab world can benefit developed countries, either by developing successful partnerships with other global regions, or by delivering large-scale projects of particular regional importance, such as infrastructure or telecommunication.

Key words: economic integration, Arab East, Arab world, Arab integration, globalization
J.E.L. classification: F02, F2, F15

1. Introduction

The literature offers arguments to build a hypothesis that regional and global integration is attracting more rapid economic growth, but there are also studies which demonstrate that integration leads to economic growth, but not to a steady growth.

According to the 2010 edition of the Longman Exams Dictionary, integration is: "(1) the combining of two or more things so that they work together effectively ... (2) when people become part of a group or society and are accepted by them... (3) the process of getting people of different races to live and work together instead of separately "(Longman Exams Dictionary).

From these definitions it can be concluded that integration is a precondition of globalization. Globalization involves the interconnection of several states, ranging from regional to multilateral level; this interaction must prove effective.

The concept of economic integration is not new, but has recently returned to the economic debate. The cause of the concerns in the sphere of integration is economic growth. Ehigiamusoe and Lean (2019, p. 1) conclude, following a review of the literature, that economic integration has an impact on economic growth through several channels, including: capital accumulation, productivity growth, trade and financial integration.

2. Theoretical background

The literature offers both arguments in favor of demonstrating this hypothesis and at the expense of it. For example, in 1995, looking for the effects of the European Common Market on the economic growth of its member states, Landau (1995) did not find significant differences between the economic growth registered in the Member States compared to the rest of the European countries. The immediate conclusion is that membership in the European Common Market did not lead to economic growth, or that economic integration, in this case, and economic growth are two independent variables.

Contrary to the conclusion of the above mentioned study, two years later, in 1997, Henrekson et al. (1997, p. 1537), who used a basic regression to analyze the period 1975-1990 on the effects that European integration in the European Free Trade Association (EFTA) and the European Commission (EC), concluded that "EC and EFTA memberships have positive effects on economic growth, and no significant difference in the growth effects between EC and EFTA memberships" (Henrekson et al., p. 1537).

In 1999, Vanhoudt analyzed the effect of Europe's unification on the increase in average labor productivity without finding any scale effect in this sense (Vanhoudt, abstract).

In 2005, Badinger studied the permanent or temporary nature of economic growth generated by global integration (through the General Agreement on Tariffs and Trade) and the European regional integration of 15 states, between 1950-2000. The study's conclusions reject the hypothesis of permanent growth, suggesting economic growth in certain periods of time. Moreover, the author states that European GDP per capita would have been one fifth less at the time of the study if there had been no integration since 1950 (Badinger, p. 50).

For East Asia, in an article published in 2007, Dee puts forward two presumptions about economic integration: one that economic integration would lead to economic growth, and secondly that preferential trade agreements are an effective means to promote economic integration. However, the author asserts, following a partial assessment, that this type of agreements would do little to remove the impediments to economic growth in the region, suggesting rather the need to implement a non-discriminatory competition reform (Dee, p. 405).

Rouis and Tabor (2013), through its comprehensive analysis of the Middle East and North Africa, underlines the importance of deepening economic integration as a means of restoring economic growth, generating jobs and building more democratic and inclusive societies (Rouis and Tabor, p. 1). The authors said the economy of the Middle East and North Africa region is among the least integrated economies in the global economy (Rouis and Tabor, p. XIX).

The literature, in author's adaptation after ESCWA, *Assessing Arab Economic Integration, Towards the Arab Customs Union* (pp. 26-27), Krugman (1993), Brou and Ruta, (p. 191), Rugman and Verbeke (p. 441) and Antras and Foley (2011), gives arguments in favor of regional economic integration, as shown below:

• Regional economic integration limits the impact of major global economic shocks on the national economy;

• Governments can support the weak economic sectors in their own country at regional level;

• Barriers to trade are less numerous and complex, which can be managed more easily by a state involved in a regional economic agreement;

• Developed countries can easily exert a stronger influence on common agreements; in this way, in a regional context, the interests of developing countries could be more easily represented and pursued;

• Possibility of targeting goods of supranational interest, such as infrastructure at regional level;

• The literature notes that there is a tendency for multinational corporations to act at regional rather than global level (see Rugman and Verbeke, 2004 and Rugman, 2005. Free-trade agreements, drawn up at regional level, help boost business in the region; in this way, regional welfare could be increased by firms which register increased productivity and pay higher wages (Antras and Foley, 2011).

3. Research methodology

In order to investigate the positive effects that economic integration could bring to the Arab countries, but also to determine the current degree of integration in this region, I used qualitative, indirect research methods. I have consulted in this regard international databases and specialized literature. Serving the actual purpose of research, I used the descriptive method. The presentation of this paper is of an observer nature. From a temporal point of view, this research is transversal, analyzing mainly the current state of integration in the Arab East and the effects that integration brings.

4. Inter- and intra-regional integration in the Arab countries

In the Arabian region, economic integration is mainly achieved through trade agreements, labor swings and direct foreign investment flows. It also discusses the development of cooperation between states, but also the alignment of macroeconomic policies.

Preferential trade agreements are an effective means of enhancing inter- and intra-regional integration. Towards the end of 2010, in a report by the World Bank, Rouis and Tabor (p.79) recorded 278 preferential trade agreements in all regions of the world, with the indication that there has been an unprecedented increase in this area over the past 15 years where the number of these agreements has doubled. The main motivation for drawing up preferential trade agreements is primarily to open foreign markets, but also to regulate or exclude tariffs and the quantitative ceiling of trade in goods and services between the parties involved. Rouis and Tabor also capture other qualities that a detailed agreement may have, including highlighting some controversial issues such as the role of the state and regulating subsidies or budget constraints designed to favor national firms. They also contribute to stimulating regulatory reform aimed at cross-border issues, contributing to improving competitiveness and productivity in participating countries.

In the Middle East and North Africa there are many preferential agreements, whether intra-regional, as in the case of the member countries of the Gulf Cooperation Council, the Maghreb countries (Arab Maghreb Union) or the entire Arab region (Free Trade Agreement of Arabia) or inter-regional, between the Arab region and Europe (the Euro-Mediterranean Free Trade Area Agreement) or the US (Free Trade Agreement). The benefits of implementing trade agreements in the Arab countries vary, with the most significant advances being made in developed countries (members of the Gulf Cooperation Council).

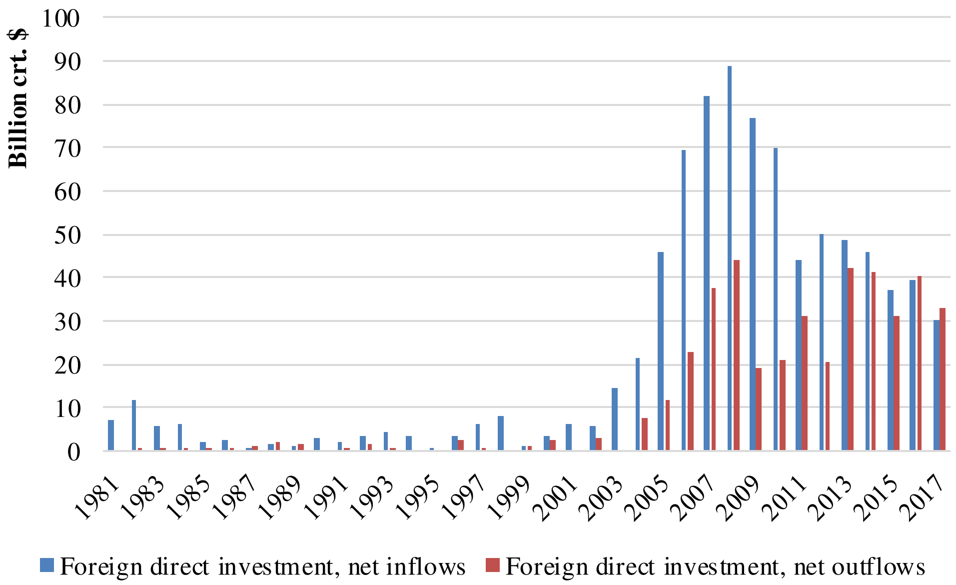
As for capital, there are considerable discrepancies between the Arab countries. The member countries of the Gulf Cooperation Council, as well as Algeria and Libya, are wealthy countries, while the rest of the region is poorer in varying degrees. Regional integration can also benefit these countries with limited financial resources as long as the capitals of other states can finance direct foreign investment in these countries, taking advantage of common cultural and linguistic capital and geographical proximity. In this way, the labor force in the states with limited capital will take advantage of the chance of local employment, without having to migrate, and the economic growth of the host states will be attracted as well. In the process of regional integration, information asymmetry is considerably reduced, benefiting the Arab states.

Global FDI flows have increased considerably in the Arab region over the past two decades. If, in 2001, FDI inflows accounted 1% of the overall FDI, in 2008 the share increased to 6.6% (ESCWA, 2014). In 2014, Sekkat (p. 139) captures a reversal of 2002 trends, highlighting that the Arab region now receives a share of foreign direct investment worldwide higher than the FDI share of global GDP. Among the factors that contributed to the increased attractiveness of the Arab region for foreign investors, helped the "reduction of red tape and business licensing, reduction of barriers to international trade, greater infrastructure investment, and legal frameworks to protect the rights of investors." UNESCWA, 2015, Assessing Arab Economic Integration Towards the Arab Customs Union, p. 29).

During the period 2000-2007, the fastest growth in the history of foreign direct investment in the Arab region took place.

Intra-regional investment flows have also increased significantly over time. By example, from $ 1.4 billion in 1995, they reached $ 35 billion in 2008 (before the financial crisis, when a maximum investment point can be seen on the graphs above). However, if in the first period they accounted for 50% of the total foreign investment inflows, they have accumulated only 37% in the second period. From 1995 to 2011, intra-regional investment worth 178.5 billion dollars, accounting for about one-third (31%) of total entrants in the region. The most attractive investment point is the real estate market and financial securities. (ESCWA, 2014, Arab Integration: A 21st Century Development Imperative, pp. 44-46).

Figure no. 1. Foreign direct investment in the Arab world[i]



Source: World Bank, accessed on 30.01.2019

Another factor contributing to regional economic integration is the labor force. Economic disparities between countries are also reflected in the workforce: the less developed countries support growing needs in developed countries. Migration reaches dazzling odds in the Arab East, both due to increased staffing needs and unstable social status, coupled with conflicts in Arab states. The most important destinations for Arab immigrants are the Gulf Cooperation Council countries, where the economic performance of the oil industry has created the premises for sustainable development and economic diversification, which is the force of attraction for workers in the region. At the opposite end, there are underdeveloped states where economic instability and weak and non-inclusive growth fail to reduce the poverty rate, which is why the population of these states emigrates under the influence of these impetus factors.

Remittances are a source of considerable external financing, contributing to reducing the balance of payments deficit in several countries in the Arab region (for example in 2010, 24 billion of dollars from the Arab region were sent to other Arab states, a significantly higher amount than in previous years) (UNESCWA, 2015. Assessing Arab Economic Integration Towards the Arab Customs Union, pp. 28-29).

5. Conclusions

As a result of Arab Spring's losses, policy-makers could rely on deepening economic integration to overcome the major obstacles that pull back the economies of Arab states, including youth unemployment, inefficient public sectors alongside unstable governments and shocks generated by conflicts.

Beyond the benefits of regional agreements, states should not disregard the usefulness of multilateral agreements designed to engage them globally. On the contrary, the deepening of regional integration alongside multilateral integration leads to an increase in positive effects on economic growth. Regional economic integration initiatives can contribute to economic diversification but also to specialization, notably through a better link with global value chains.

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