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Urgency to grow

Escalating protests against unemployment and prices should impress upon Arab leaders the need to integrate faster to promote growth, as they meet for their second Economic Summit, writes [Niveen Wahish](#)

First it was Tunisia followed by Algeria then Saudi Arabia and Jordan where Arab youths took to the streets in anger against high food prices and unemployment. With over half the population of the region aged below 25 and youth unemployment at 25 per cent in the Middle East, according to UN and International Labour Organisation figures, these protests could spread like wildfire. Egypt which suffers the same ailments is vulnerable too. Inflation, rising cost of living and failure to efficiently meet the needs of vulnerable groups are all issues "under the surface", Magda Kandil, executive director of the Egyptian Centre for Economic Studies (ECES) told *Al-Ahram Weekly*.



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Discontent lies under the surface in the Arab world

This is a pressing issue that Arab leaders need to tackle as they meet for their second economic summit next week in Sharm El-Sheikh. The solution, according to Mohamed El-Orabi, assistant minister of foreign affairs in charge of coordinating the second summit, is in the growth that could be propelled by greater Arab integration. "That is where salvation lies for all the youth," he said.

But growth does not happen overnight as there is a lot of groundwork to be laid. At the first summit two years ago in Kuwait, Arab leaders laid out an ambitious plan with multiple projects not much of which has been achieved. This year, says El-Orabi, they are not making any more commitments until they catch up with their former pledges. A progress report with what has or has not been achieved will be presented by Secretary-General of the Arab League Amr Moussa to the leaders on 19 January.

To start out, according to an Arab League report, small steps have been taken to achieve the first summit's plan to slash unemployment by half as well as to reduce the number of those employed with an income below poverty level. The League had declared 2010- 2020 an Arab Employment Decade. It also targeted raising productivity by 10 per cent. A \$12 million programme to be spent over five years was prepared by the Arab Labour Organisation. Additional funding was to be procured from member states and other regional and international funding institutions. But issues such as the fact that several Arab countries have not ratified Arab labour agreements and the low competitiveness of Arab labour compared to Asian labour are an obstacle. Other difficulties include the weak role of the private sector in human development and restrictions placed by labour recipient countries.

Should these issues be resolved, says Kandil, that could help immensely in resolving unemployment. She wondered why Gulf countries are employing Asians at a time their neighbours are begging for help. She said Arabs should put their heads together to see how Arab labour could be trained to fit exiting jobs.

On a more positive note, one of the accomplishments of the first meeting is a \$2 billion fund for small and medium enterprises (SME). The fund, according to El-Orabi, could help create multiple job opportunities in the SME sector. Already, around \$1.2 billion are in the coffers. It will be managed by the Arab Fund for Economic Development. But Gamal Bayoumi, head of the Arab Investors Association questions how investors will get their hands on the money. For starters, says El-Orabi, no new institutions will be created but the fund will work with existing organisations in each country that deals with SMEs. The fund has already received \$500 million from Kuwait and an equal amount from Saudi Arabia. Egypt's contribution is only \$20 million. Bayoumi laments such a small contribution especially since Egypt will be benefiting the most from this fund by virtue of the size of its population and the nature of its economy. "This means that policy-makers are not giving Arab integration the due importance," he said.

Another success is the electric grid. Although it was initiated before the summit, the Arab League umbrella according to Bayoumi will make completing it much easier especially with the World Bank through its Arab World Initiative, offering to finance joint infrastructure projects. Maghreb countries will be connected by the end of 2012. Connection between the four Gulf countries will be complete by 2011. Extending the Egypt-Saudi grid will begin this year and is scheduled to take three years. The Saudi and Yemen connection should be complete by 2013. Egypt, Sudan and Ethiopia have the feasibility and technical studies ready for implementation.

A plan to connect Arab countries with a railroad was not as successful. In fact, only about 25 per cent progress has been made in that regard. The Arab Fund for Economic and Social Development funded a feasibility study for the project which recommended that individual countries carry out various steps to support private public partnerships in infrastructure projects. The project was faced by varying degree of enthusiasm.

El-Orabi, though, says that what may be easier to implement is greater cooperation in maritime transport. Arab transportation ministers agreed to a project connecting marine ports in Alexandria last month. Nonetheless, this is a project that requires a lot of groundwork to be laid.

Among the issues the two years have failed to meet was greater involvement by the private sector and the civil society. But last minute frantic efforts to make that happen took place in December with the launch of the Arab Business Initiative, a gathering of high- profile businessmen across the Arab region. They will be meeting on the sidelines of the summit to voice their concerns and needs and present those to the Arab leaders. A similar meeting will be held for youth and for civil society.

After more than 50 years of talk about integration, Arabs have only been able to create a free trade area whereby, with some exceptions, there is a tariff free exchange of goods between 17 of the 22 members. But plenty of non-tariff barriers hinder the full benefit of such an agreement, Bayoumi says. Intra-Arab trade is around 12 per cent of their trade with the outside world. This is not a factor of barriers but also similarity rather complementarity of industrial structures as well as a lack of competitiveness.

What also exists between Arab countries is some sort of movement among Arab citizens which has created demand for transportation, banking services, telecommunications and insurance services. What still needs a push is easier visa procedures for individuals and the right of establishment of professional services.

A customs union, according to Bayoumi, is still problematic because of the need to unify customs treatment for non-members on around 7,000 items.

In fact, a recent paper on "Arab Economic Integration: Missing Links" by Bernard Hoekman and Khalid Sekkat, says that efforts to convert the Greater Arab Free Trade Area (GAFTA), also known as the Pan-Arab Free Trade Area (PAFTA) "into a customs union or a common market of the type described in the international economics textbooks may prove to be difficult given the need to agree on common external and domestic policies in a variety of areas. The experience to date, both outside the region and within it, has illustrated the difficulty of obtaining such agreement." They say that "institutional mechanisms are needed to guide and assist governments in mobilising and maintaining support for integration efforts." The authors say that "the economic success of the European integration process owes a lot to the creation and operation of supranational institutions that have the mandate to monitor and implement the integration provisions." The authors see that Arab leaders would not be willing to create supranational institutions and transfer sovereignty.

The authors suggest "focussing on areas of cooperation for which the issue of sovereignty is less problematic but the economic payoffs to joint action are significant." They say that "areas in which potential economic payoffs of targeting cooperation to further integrate markets and include producer services appear to be significant (including through FDI from any source, in or outside the region), certain social services (such as higher education), and factors of production (labour, temporary movement of people and investment capital). All of these are key inputs that determine the productivity and competitiveness of firms located in Arab economies."