Regional Challenges to Arab Development
in the new Millennium

by

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Preface

This paper is part of the works of the API Conference on "Arab Development Challenges of the new Millennium". It concentrates on the developmental implications of the regional aspects, as defined in items 2 to 4 of the themes proposed by the organizers. These points deal with the issue of building up a viable Arab regional integration, that of the impact of the introduction of the Euro on Arab countries, and assessment of the benefits of the Euro-Med Association Agreements, recently initiated by the European Union on the Arab countries. Although the latter two themes have implications for Arab viable integration, we shall maintain the order, so as to concentrate on the intrinsic needs and objectives rather than on reactions to outside variables, of which we had too much, and suffered accordingly. This will help scrutinizing the Euro side from an Arab integration viewpoint, something which is to a great extent lacking. As the conference is action oriented, we have to be brief about past experience, and pay more attention to the present and the outlook for the future having in mind not only ***what*** should be done, but rather ***how*** to do it. While doing this we have to conceive of correlated issues arising from the catch-all notion of ***globalization***, anticipating what comes out of our deliberations on the subject. Further the main yardstick by which to assess our proposals is the objective of Pan Arab development. This again has to be conceived in the spirit of the conference, namely as an interactive process rather than a simple arithmetic summation. At this point I would like to bring to the fore my belief that integration is not an end by itself, nor one possible (maybe imperative) instrument for development. I would rather prefer to conceive of both integration and development as integral parts of an operation of social change. This gives new insight into development, leads to a concept of ***social integration***, and suggests casting the analysis in a ***systems approach***, that is capable of including issues of an institutional nature.

Part I - Arab Regional Integration

Introduction

Our first concern is integration within the ***Arab world*** as a whole, including its subregions. We have however to stress that the Arab world is a variable entity: It started with seven independent States, and trebled over time. New members qualified for membership according to LAS rules, which introduced more heterogeneity. Latecomers belonged to the far west (Maghreb), the far east (Gulf) as well as to the far south. The changing ***coverage*** of the Arab world has to be taken into consideration in explaining attitudes. Nevertheless analysts prefer to stick to the broad region since this strengthens the ***eligibility*** of its members to integrate. A recent addition to the vast literature on the subject is one by I. S. Abdallah in a paper on "The position of the Arab economy in the shadows of global economic changes and groupings" presented to a symposium in Amman, April 1999 on *Arab Economic Cooperation*. However little can or should be added to assessments and lamentations of the experience which had been industrious but with a "poor harvest" to quote recent work by Y. Sayigh. Here I would like to invert the question from asking why little has been achieved, to another querying about how come, after half a century of limited results are Arabs, politicians, laymen, and scholars still speaking about integration at all. There is a problem of ***consistency*** here. Our conference is no exception !

The subject is so vast that certain boundaries need to be set to ensure ***meaningfulness*** of the discussion. Without assuming a lot of arbitrariness, I would recommend concentrating on the following items:

- Meaning of regional integration
- Pitfalls in the Arab experience
- Fate of past strategies
- Multiplicity of sub-regional arrangements
- Options for the future

Meaning of Regional Integration

Literature is not quite specific about what is meant by regional integration, and there had been long debate about whether it is a state in which all discriminations are removed, or a process which allows for partial removal, allowing for various arrangements. I would like to stress the difference between "economic" integration and what we may call "comprehensive or full integration". Again in economic integration I would like to differentiate "trade" integration, meaning by this both the formula of free-trade area, and that of a customs union. This leaves other forms of economic integration as stages leading to "economic unity". I further claim that the trade formula belongs to integration in a purely economic sense, whereas economic unity is a part of a process of "regional integration" in the comprehensive sense, which is essentially political. This seemingly paradoxical conclusion arises from the differences in ***contexts***. Trade integration is considered as a ***second best*** to overall free trade recommended by international trade theory as leading to maximum welfare of all parties concerned. Trade flows are being the subject of integration while national economies remain independent in all other economic and political matters. Further stages are in fact a part of a process that is meant to substitute voluntary full integration for coercive annexing through hostile measures. This way of thinking developed in Europe following World War I and several schools, ranging from immediate federalism to loose trnsactionalism, proposed ways and means of integration as the ***first best*** for getting together in a peaceful manner. Whereas prosperity was the objective of trade integration, peace and prosperity were the twin objectives of full integration regarding the disastrous consequences of national States under conditions of high interdependence.

The issue is different from the so-called division of labour, where relations among countries match relations with broad economic sectors, with trade being both inter-country and inter-sectoral, according to so-called comparative advantages. The advanced state of the industrialized economy creates a higher intensity of inter-industry relationships both within and among developed economies whose economies exhibit high similarity. Trade integration is based on the notion that "trade is the engine of growth"; hence removing barriers to trade helps the smooth functioning of interacting economies, thus enabling maintenance of high levels of performance. If this is not sufficient, and there is a tendency to extend command on resources and mobilizing them for the realization of objectives inspired by narrow national interests, the intensity of relationships works for full integration rather than mere trade integration. Here the introduction of economic integration is justified by the fact that economic policies are decisive in managing resources, which means that efforts should be directed towards coordinating policies. But policies use certain instruments to realize selected objectives, which means that there should be ample ***sense of community*** to justify agreement on both. It is not flows (of trade or other economic magnitudes) that matter; but rather the behaviour of economic actors. Full Integration is thus essentially social and political.

For developing countries the same options are open, and in many cases had been blindly imitated. But the main objective of such countries is to get rid of underdevelopment, which is not a mere outcome or cause of unhealthy trade relations, but reflects lack of command on resources. Any group of such countries lack the intensity of interrelationships, since distorted development led to tying each of them to more developed countries. Trade integration deals only with a small area since the problem is not with flows but rather with structures. On the other hand hostilities among them may arise as a result of differences on command on natural resources, which has no direct bearing on their immediate performances. Both prosperity and peace may be adopted as targets, but they do not carry enough weight to call for integration. Accordingly the previous arguments do not extend automatically. The trouble is not with the intermediate area of trade within (or among) regions of developing countries, but within the internal structures of national economies. Trade integration, though acceptable as a preliminary stage, bears limited fruits, and its sluggishness leads to the frustration of the integration process as a whole. The immediate need for restructuring their economies imposes on developing countries adoption of what we may call ***integrational development***, meaning by that cooperating in changing their structures into a more integrable state. This would eventually lead to entering into much deeper forms of developmental integration by means of what is known in literature as ***production (or development) integration***. Countries of the socialist block have been right in calling their gathering one of mutual economic assistance, before eventually shifting to what they called socialist division of labour. In other words, it is in the interests of developing countries to enter into a phase of cooperation to assist each other in surpassing the state of underdevelopment. This need not be regional in the strict sense, as may be illustrated by Association of Afro-Asian Solidarity or the group of 77. But production integration is essentially a stage of advanced policy coordination, and has to be considered as a form of comprehensive integration. Development is a socio-economico-cultural process that does not stop at simple changes in economic structures. The initial sense of community should be strong enough to justify foregoing vast areas of national sovereignty for the benefit of the region, which should possess ample degrees of interdependence and interaction. It is here that the Arab world, the whole of it, scores high.

A final word may be added with regard to “neo-regionalism” with which we shall deal in the third section. Here we would be dealing with ***interregional*** rather than regional integration, since member countries belong to different regions, one developed and the other developing. There is no point of speaking about full integration in either sense of the term. Further there is no point in speaking about trade integration, otherwise global liberalization would be in order. Here we have a hybrid form that combines trade integration in terms of a FTA with other measures belonging to more advanced stages on a selective basis, with the objective of deepening integration without widening it to the state of full regional integration. Arguments such as that Pan Arab integration excels other arrangements miss the point. The two types are essentially different.

Pitfalls in Arab Experience

The history of the Arab experience can be summarized in three stages in which different notions were adopted: The first is the initial concept of “***economic cooperation***” which amply described the preoccupation of the League as an inter-State organization. This was openly manifested by the 1950 Joint Defence treaty, which included ”Economic Cooperation”. The connection of the two produced what Iraq warned then against, namely the modesty of the scope and objectives of the economic component. Politicians tried to rectify the structure by asking in the mid-fifties for “***economic integration***”, through achieving “***economic unity***” by stages and as soon as possible. The too economistic approach by Lebanon and some other countries led to breaking the Arab world into two groups, one for unity and another for limited cooperation. The two-tier path coming into existence in 1964, was further complicated by a third sub-regional path initiated by the Maghreb countries, and later on by rich oil Gulf countries. A catch-all term for this state of affairs was the specifically Arabic one of ***JAEA***, Joint Arab Economic Action. We take it in the broad sense which covers all forms of cooperation and integration, though some writers observe that the concept was skillfully tailored to mean something stronger than cooperation, but falling short of integration.

The rather subsidiary concern with regional economic cooperation stamped early attempts with two features. One was the ***paucity of terms of reference***, since the whole thing boiled down to one single article in a treaty stating the objective as cooperation for the realization of the well-being of the peoples. This could mean everything or hardly anything as it turned out to be. Actual decisions were left to the spur of the moment which made action too conjunctural and reacting mainly to external factors. The other feature was the ***modesty of the agency*** responsible for running the show, which had to strive in order to gain an independent identity and later on to obtain ample jurisdiction. But this was extended with respect to joint action institutions rather than to nations themselves, hence it remained deprived of supranational qualifications or powers. Another outcome of the "cooperation" spirit is that people were not directly involved, since cooperation was meant to be an action of States, hence the absence of organizations necessary for ensuring the representation of people, either legislative or judicial. The prominent role played by the States led many writers to condemn ***lack of political will***, which seems contradictory to the fact that it was politicians who were taking the lead towards integration. I would rather prefer to speak of ***political factors*** rather than will, where political in this sense combines the will of the ruling regimes and the ambitions of the various groups of interest. In fact it was the latter that proved to be and remain the major impediment.

Perhaps the most serious symptom of paucity of terms of reference was the failure to spell out stages of economic unity, which led to using big words ascertaining final objectives with limited statements defining the way to achieve them. Thus the CAEU decision on the creation of Arab Common Market, ACM, boiled down to pushing ahead the 1953 preferential Trade Agreement into a FTA. This had the dual effect of scaring countries of a one leap towards integration, and mixing up matters, since integration appeared to be a poor rehearsal of familiar and less binding economic cooperation. This did not encourage the newly independent Maghreb countries to join, and they created their "Permanent Consultative Committee" which recognized the close interrelationships between the process of industrialization and promotion of trade flows. Here again the lack of precision in stating the initial arrangement led to calling for "The Rabat Project" which did not recommend itself for the approval of the countries concerned as a viable plan of action. Again political factors took the lead and disputes brought the institution to a stand-still, to be revived in 1989, but again to slacken. The machinery for AMU and the 1981 GCC both suffered from defects similar to those exhibited at the Pan-Arab level.

The Fate of Past Strategies

The seventies brought out the need for more articulation due to several reasons. First was the propagation of the concept of "***interdependence***" to back the state of détente initiated by the SALT Treaty, and support the ongoing internationalization process, both in money markets (the so-called eurodollars), and the rapid growth of multinationals as full-fledged transnationals. Many fora, including the UN, responded to both political changes, the breakdown of the Bretton Woods system and the prolonged state of stagflation by looking for a "new international order"; some called even for a "world order". For Arabs the Ramadan War of October 1973 initiated a new phase of looking at Arabs as an entity and appreciating their combined potentials. There was need to take all the new factors in consideration to define strategies for the future in three areas:

(1) ***Joint development***, both overall and sectoral, to make use of the newly sensed sources of power in the international arena, hoping that finance is no more a problem at the overall level.
(2) ***International relations***, especially as there seemed to be unprecedented possibilities of reshaping relations with prior colonial powers who were turning into strong trade partners,

and as a force that has appreciable weight in dealing with the chronic Middle-East problem. Euro-Arab dialogue emerged as an equal-foot affair, albeit for the Arabs to define collectively their views.

(3) ***Regional relations***, where there was need to allow for the above factors in determining the exact path to be adopted towards regional cooperation and integration to be adopted both by countries of the region and the institutions of JAEA. This was to be supported by reorganizing the institutional framework accordingly.

In short Arabs set themselves to undertake an errand similar to that of our conference. It is in here rather than sheer assessment of the past that a few paragraphs seem to be in order. Two attempts are worth mentioning.

i) The CAEU Strategy of Arab Action

By 1970 there was need to reconsider the future of Arab unity, having approached the end of its first phase of FTA. The Council spelled out its mind in decision No. 634 of December 3rd., 1973 on what countries should do to go ahead with their economic unity. Main points were:

- Economic Unity is a ***realizable ultimate target***, but no definite date was given. Hence the Agreement on Economic Unity still remained as a suitable framework for further action.
- Arabs should aim at balanced development based on intrinsic powers spelled out by integration in an era where there is ***no place for small entities***. Note that the same expression is used today as if it were an innovation.
- This requires the formulation of a ***multi-stage plan of action*** that leads to maximization of production and increase of welfare of Arab citizens.
- There is need for more elaborate ***harmonization of economic policies***, including plan coordination, without imposing as a condition unification of socio-economic systems, one of the issues suspected to have handicapped integration so far. In particular there was need for a unified oil policy, and diversification out of oil. At the same time enough resources have to be directed towards improving the network of Arab infrastructure.
- Creating suitable investment environment to seize the opportunity of plentifulness of financial resources. Jointly financed ventures came to the fore and some even considered them as “the” acceptable form of economic integration being least infringing to national sovereignty.
- External relations should be marshaled towards supporting Arab development objectives. Arabs have to negotiate as one block with other powers and regional entities, while giving appropriate weight to relationships with African and friendly countries.
- Further, situations in international fora should be harmonized to support the Arab strategy.

This indicated shift from neo-functionalism to ***traditional functionalism*** or even to transactionalism. The Strategy gave priority to convincing more members to join, at the expense of rigorizing the path towards unity. This convinced some countries more inclined towards Pan-Arab unity like Libya and UAE to join. Less developed members were persuaded through offering them special arrangements taking account of their conditions.

ii) The Economic Council Strategy of JAEA

The above strategy failed to attract other countries, namely Maghreb countries (Algeria, Morocco and Tunisia) and Gulf countries (Bahrain, Oman, Qatar and Saudi Arabia), besides Djibouti. Kuwait which pushed ahead the execution of the economic unity agreement in 1962 for political reasons regarding protecting its existence from Iraqi ambitions, refused bluntly the ACM formula, and asked in 1972 for a trade agreement as an alternative to it. This was debated over the seventies until approved in 1981. But the important thing was the Economic Council’s decision to develop a Strategy for JAEA. The explanatory memorandum presented in 1975 by LAS acting under-secretary for economic affairs (Z. Shafei) reflected the alternative line of thinking in two dimensions: The first is the emphasis on development as the main common (but not necessarily joint) target. The second is the call for reconsidering the whole process of joint action, whether common market or something else. In other words, there was a clear indication that integration leading to economic unity is no more a "must" as claimed by CAEU. Opinions in the *Committee of Twenty* formed for this purpose differed widely. One may distinguish:

- Preference by some members to concentrate on the abnormal opportunity of abundance of financial resources to get the maximum out of them.
- Rather than being dragged by the exceptional, others invited Arabs to pay attention to areas of development that need concerted action to realize collective self-reliance.
- Avoiding broad issues of development and concentrate on certain common problems, such as considering national security as a common concern, or assisting less developed countries.
- Defining some common targets in a number of areas either to achieve certain levels of growth or to deal with certain difficulties such as reducing food insecurity.

The task was eventually handled by a tripartite group headed by B. Dajani, secretary general of Arab Chambers whose report observed that over three decades a ***joint sector*** came into existence with a rather elaborate setup, and there was a wealth of information that cumulated within conferences, committees and institutions which can be utilized as a foundation for a workable growing system. Rather than choosing targets or selecting issues, the recommendation was to ask Arabs to allocate resources to improve what they have already started. The approach was too pragmatic to catch up the mind of the 1978 Baghdad conference on Strategy to which the Federation of Arab Economists heavily contributed. The task was finalized by another tripartite team headed by Y. Sayigh, and elaborated in a group of experts meeting, then approved by the Arab Economic (and Social) Council, AECOSOC, and eventually by the 1980 Amman Summit. The latter, consecrated to economic issues, endorsed also a Charter of Pan-Arab Economic Action addressed to member countries rather than JAEA institutions, a unified agreement on investment as well as a decision on Arab joint development decade for the benefit of the less developed Arab countries. Strategy considered Integration as a long term target together with security in all dimensions, human and technological development, precipitation of self-reliant development while closing the gaps within and among Arab countries, and creation of an Arab economic order that contributes to a more equal world order. But integration did not figure out among Strategy priorities for the period 1980-2000, which included as one topic joint Arab development planning, requiring the plan to be imperative at least as far as joint action sections, which was a topic forced by the S-G of CAEU (F. Qaduri) to the discontent of many parties including the authors of the document. The section of Strategy on mechanisms required the AECOSOC to prepare the frame of the national plan and the Arab institutions to translate it into sectoral plans to be coordinated jointly by the secretariats of AECOSOC and CAEU, for approval by the Summit and implementation by relevant institutions under the supervision of AECOSOC.

iii) Multiplicity of Joint Plans

The Strategy of JAEA proved to be a closure of a chapter rather than opening of a new one. The reason was confusion about joint plans. At least three types were simultaneously introduced:

1) Plan of joint action which is essentially meant to be endorsed by countries through the Summit and implemented by joint action institutions.

2) Plan of joint projects which was imposed by the Summit on the Charter, a reflection of some attempt to limit planning to projects that may be financed jointly if approved by AECOSOC.

3) Joint development plan which was a chapter in the Strategy, making the whole an element of the part, and threatening to given supranational powers to an executive machinery. The problem was further complicated by drafting the Arab Development Decade independently of any of the above, although it should have been a part of the plan implementing the Strategy.

The plan frame as I drafted it together with a group of experts pointed out this contradiction and tried to go beyond the narrow limit of joint projects to what may be considered as activities identified by joint action institutions, and suggesting a 10 % share of total Arab investments for the first five years of joint action, together with increasing total allocations for research and development, while administering 50 % of them jointly. The obsession for co-financing and resentment to calling the plan "national" (in the Pan-Arab sense) blocked approval of the plan. And that was the end of the Strategy. Even Y. Sayigh in a recent assessment of the poor harvest of JAEA, hardly referred to the Strategy itself even as a yardstick to measure accomplishments. For face-saving purposes the whole thing was compressed into an activity managed by AFESD on joint projects for food security, which quietly passed away.

Three remarks seem due. The first is that the whole issue of integration was put in the hands of an organism designed for strict cooperation, AECOSOC. Second rather than precising the time path over the term of the Strategy, this path was left to plans which were unfortunately turned into multi-country projects that were not accepted since they reflected a choice by experts rather than the free selection by countries, an anti-planning attitude. Third, the Strategy defined areas of priority and did not articulate how to proceed progressively towards integration, since this was not definitely considered as a foreseeable goal. The core issue was not tackled.

A Multitude of Sub-Regional Arrangements

Rather than bringing Arabs together, the Strategy and its plan drove them apart. The growing sense of dissatisfaction inspired an attitude for subregionalism since the overall regional entity did not fulfill ambitions. At that time Egypt went off the line, while the Maghreb arrangement came to a dead end due to mounting disputes. Iraq, in spite of its Pan-Arab slogans, invited Gulf countries to create their strong common market, but these responded coolly owing to the big differences in economic structures, and maybe doubts as regards underlying political intentions. These countries seized the opportunity of the first Gulf war to create their closed rich-man club. Political and security concerns were prominent, and control on regional resources was geared towards fulfilling common objectives, including independently running the show with respect to international relationships. Between parentheses this was among reasons for the Amman Summit avoiding taking a decision on proposals by experts on such relationships. Cooperation figured out openly in the title of the organism, and the economic component was treated by means of a Unified Economic Agreement which establishes the main components of a common market.

As mentioned before, 1989 witnessed the emergence of the AMU, not to mention the still-born Arab Cooperation Council. In fact the other so-called Pan-Arab entities have turned into sub-regional, as may be seen from Table (1). Even PAFTA (Pan-Arab Free Trade Area)

Table (1) Membership in Regional Arrangements of Arab Countries

Arab Countries	PAFTA	CAEU	ACM	GCC	AMU	COMESA
I. GCC Countries						
Bahrain	♦			♦		
Kuwait	♦	(out)		♦		
Oman	♦			♦		

Qatar	♦			♦		
Saudi Arabia	♦			♦		
U.A.E.	♦	(out) ?		♦		
II. Maghreb Countries						
Algeria	..				♦	
Libya	♦	♦	♦		♦	
Mauritania	..	♦	♦		♦	
Morocco	♦				♦	
Tunisia	♦				♦	
III. Other Countries						
Comors	..					♦
Djibouti	..					
Egypt	♦	♦	♦			♦
Iraq	♦	♦	♦			
Jordan	♦	♦	♦			
Lebanon	♦					
Palestine	..	♦				
Somalia	..	♦				♦
Sudan	..	♦				♦
Syria	♦	♦	♦			
Yemen	..	♦	♦			

which was assumed to be joined by all Arab countries is still partial. Three countries, namely Algeria, Comors and Djibouti have not as yet endorsed the 1981 trade agreement. Apart from the exceptional case of Somalia the other three less developed countries, Mauritania, Sudan and Yemen have not joined so far, although they are expected to do so soon. It is interesting to notice that the last countries are members of the CAEU, and some are members even of ACM. It seems that the lessons of the experience were not encouraging. But the main difficulty facing PAFTA is the extensive negative lists claimed by some members. The worst performance is that of Lebanon, a usually robust proponent of free trade; its recent hardships may be the cause. On the other hand there is an intersection with OAU African Community, which called through the Abuja 1991 agreement for the creation of African sub-regional arrangements. The Eastern-Southern African Common Market, COMESA already includes four Arab countries, and is expected to its finish FTA by October 2000 and move towards a customs union over the next four years. Egypt has been recently invited to join AMU which is open for other Arab and African countries. Since CAEU has already entered the stage of a common market, it has been invited to go ahead with it, hence it called for concluding the FTA by 2002 rather than 2007. No clear indication is given to show where Pan-Arab integration is heading

What Options Are There ?

Our findings so far may be summarized as follows:

- Integration is no more the definite end target of joint Arab economic action as it used to be.
- The principal institution has been constructed with cooperation and not integration in mind; it remains so, which limits its potentialities to undertake responsibility for full integration..
- Claims for integration seem stronger at sub-regional levels, especially for Gulf and Maghreb. Even then, the paces are quite slow and not promising of complete unity in the near future.

- The recent Pan-Arab move towards a minimum form of integration, PAFTA, lacks unanimity in membership, even though there is no commitment for further integration steps.
- The question still remains as to the definition of integration in Arab terminology. Besides solving issues of a general nature raised in the first section, there is need to crystallize the position as regards Pan-Arab Unity specifically.
- Another setup, the Pan-African is cross-sectioning the Pan-Arab frame. It binds one of the Arab subregions, the AMU, together with COMESA which is African, to a full Pan-African Community within the coming three decades. Nothing is being done so far as to the manner of resolving the resulting interaction with Arab integration endeavours, not to mention complexities due to the overlapping of COMESA and the South African SADC,

I suggest to discuss the options open to Arab countries as follows:

i) The Headlong Unity Option:

We have seen that unlike developed countries integration among developing countries is not an outcome of intensive relationships. Neither is gradual integration starting from the minimal FTA required to soften hard feelings created by recurring wars. Some have advocated Arab unity on historical and emotional foundations. A much sober view is based upon future developmental needs in a period where the marginal benefit of trade integration is narrowed as a result of the strong drive towards multilateral liberalization. If full integration is to be advocated, it has to be as quick as possible, since the feeble interrelationships do not promise an appreciable increase in extra benefits gained initially. Sense of community is already developed and does not require preparatory arrangements. Further difficulties faced were not due to over-exercising sovereignty, on the contrary international forces called for strengthening it since its lack was actually one of the main symptoms of underdevelopment, if not the major cause. Limiting cooperation to the inter-country area, such as the case with trade integration, implies maximizing national yields, which may deepen sense of difference. Experience of the UAR still provides a lesson, but the ten-years old case of Yemen shows that external and internal factors, strong as they may be, are not insurmountable. To avoid disappointments we have to prepare for unity carefully. I would recommend adopting a procedure known in formulating constitutions, namely building working groups representing various social and national groups and asking them to draft what may be a constitution for the unified entity, together with plans of action defining the manner in which its machinery would replace national ones, and drafting structures of decision-making procedures in various facets of life. The final decision has to be put to nations concerned for voting.

ii) The Federal Formula:

The exercise proposed above has to be triggered from *a priori* agreement as to the structure of the union to be formed. ***Three forms*** may be distinguished: ***real unions***, confederations, and federations. The UAR experience casts doubt on the first, and the doubt increases the more numerous and apart are countries concerned. It would lead to more centralism than allowed for by current common wisdom Although LAS is presently considering a Libyan proposal for a ***confederation*** I personally would recommend forgetting about it altogether. In fact it is even less advantageous than the current formula of LAS, since it asserts the permanence of disintegration into national states, and gives the national regimes more power over regional as well as national matters. It may be recalled that the USA would have not survived more than a decade if it preserved its initial confederal form. My recommendation would go for a carefully built ***federation*** with a balance between the local and the overall, and a careful counterbalance between the ownership of wealth and command over resources for the benefit of the whole. This requires a proper weight to be given to depletable assets, especially oil which - in spite of all its services to Arabs - was a source of split between the haves and have nots, and other types of resources, giving appropriate weight to human resources and to the factor "knowledge". The more care is put into studying the requirements of such a setup, the less unfeasible it seems to be. If the Gulf and Maghreb groups prefer to continue their own way, then the remaining countries may form a nucleus which is capable of later attracting the two sub-regions. They have already experimented with various forms of joint action, including membership of CAEU.

iii) The Inner-Six Formula:

Having said that, one may examine the alternative of a sub-region repeating the example of a smaller nucleus group setting the move towards a larger one. As we know, the Benelux initiated the move towards the European Community by fighting hard against the modest British industrial FTA proposal during the fifties. But it was the combined strength of the three big members that made the "Inner Six" capable of playing the role of a catalyst, and an effective nucleus, especially as the European conflicts were essentially Germano-French. Some Arab writers have conceived of the GCC as the Arab Benelux. But two decades have shown that progress realized is modest, and falls generally in areas already visited one way or the other by JAEA. There was a chance that the group could have developed together with Egypt and Syria into an "inner-eight" as a development of the ***Damascus Declaration*** (with Morocco a potential ninth member) consequent to the second Gulf war. But the formula turned to be a lip-service expression of gratitude to some have-nots who stood besides the haves in preserving their rights. The important thing is that GCC has been considered from the beginning as a closed club concerned with "cooperation". Unity had been denied as an objective. The intention was to offer a paradigm that may be imitated by other regions rather than joined by them, which means the approval of co-existence of similar arrangements rather than expanding to cover more members. Even if it wants to do the job, its powers and policy structures do not help it to shoulder tasks similar to those of the "Inner Six" of Europe. Over two decades it only helped to modernize its members' economies, adding little to the security capabilities or to the imprecise objective of diversifying respective economies. The Jebel Ali experiment has inspired a mood of merging into the global economy à la Singapore model, rather then seeking refuge in a stronger regional structure (namely the ASEAN in that case) à la Luxembourg which found EU more comfortable than even BENELUX..

In terms of area, diversification of economy and dynamic factor mobility, the Maghreb counterpart seems a better candidate. But the trouble is that it has wasted the nineties in internal, regional and external harassments that in many instances brought it to a standstill, and it is hardly off the ground up till now. Affiliations with external powers have already got the precedence. It may open its membership to other countries as it did in fact in the case of Egypt. But it is bound in the final analysis by OAU African limitations. There is reason to expect contradictions with purely Pan-Arab arrangements. Like its comrade, its economic powers are not powerful enough to act as a nucleus. The two arrangements are not enthusiastic even about their own unity, hence incapable of giving a lead even towards integration in the traditional sense.

iv) The Limited Economic Integration Formula:

As indicated above, the other extreme to integration in terms of unity, is to stop at the boundaries of a free-trade area, viz., PAFTA. But this is no engine by itself. First, if it represents a one-round process so long as it is meant as a purely economic integration errand. Second, facts shows that it has been a forced correction of a state of affairs that emerged from the fact that the underlying trade agreement is no longer tenable under conditions of eliminating the preferential conception of international relations. Third, that underlying agreement is the outcome of attitudes opposed to the already established setup of Arab economic unity, being a belated response to the 1972 Kuwaiti demand for a trade agreement to replace that of economic unity. Fourth, the machinery established for its creation is in the form of a plan of action to establish a free-trade area, nothing more nothing less. Fifth, it is being one of the areas JAEA supervised by AECOSOC which is essentially a cooperation and not integration agency. Finally it still waits completion of membership, which if realized would bring into being the first Pan-Arab form of integration, but stop at that. Anything beyond that would not emerge *de jure* out of it, though it may become *de facto* achievable.

v) Integrational Development, the ASEAN Model:

We have so far covered what may be the two extremes. The intermediate area may be considered as continuation of present state of affairs with some modification. The completion of PAFTA does not necessitate a move towards stronger forms of integration, but at the same time it does not bar economic cooperation in the proper sense of the word. What concerns us here is that type of cooperation conducive to better environment for Pan-Arab integration in the full sense. The nearest model is that of the ASEAN, which like the Arab World possesses a definite area. It is defined to cover ten members and it has steadily grown from five in 1967 to become *ASEAN-10* by the end of April 1999. Further, it has special arrangements with more advanced countries through the ASEAN Regional Forum, ARF. From the beginning it was meant for cooperation to the benefit of the people in the region, and with the purpose of realizing peace and prosperity in a turbulent area. It experimented for some time with preferential trade arrangements but concentrated on certain forms of what we may classify as integrational development activities. Like Arabs, the Southern ASEANs were fond of ***joint projects***. They even started with some big public enterprises, the ASEAN Industrial Projects (AIP), to be allocated to member countries. Then opened the area for the private sector and encouraged movement of capital. Progress in the scheme ASEAN Industrial Joint Venture (AIJV) initiated in 1983 (concurrently with the Arab Conferences of Business Men and Investors) was too slow to be promising. Further, recent experience has shown the dangers of too much openness of markets for short-term and portfolio capital. In 1992 it was decided to complete an ASEAN Free Trade Area, AFTA by the year 2008, the target date was later brought nearer. What is interesting is that they combined with the CEPT (Common Effective Preferential Tariff) of AFTA another scheme that replaced AIJV, as of 1997, namely Agreement on the ASEAN Industrial Cooperation (AICO) Scheme, which aimed at promoting ***joint manufacturing activities*** of companies operating in ASEAN, and offering the products of such operations a preferential tariff rate in the range (0 % - 5 %), which was originally the final rate of CEPT.

Attempts similar to AIP and to AIJV proved futile in strengthening inter-Arab relations, and we still quote proofs of meager integration. Causes for such a state of affairs are numerous. But a related issue is to argue, as I. S. Abdallah seemed to do in his aforementioned contribution, that one way of reducing the strong pressure of transnationalism is for Arabs to have their own multinationals. But what matters is not the transnational structures and the movement of capital together with technical know-how. it is rather the global nature of production activities and the role played by R&D, leading to raising the capacity to develop both processes and factors of production, creating new types of products and going beyond opening employment opportunities at current rather low levels of productivity under stagnant largely imported technologies. Factor mobility characteristic of common markets and prominent in Arab interrelationships, and supported by joint projects with an integrational orientation would be conducive to further development gains if it is accompanied by raising intrinsic productivities. This should be part of the cooperation for so-called integrational development. Here is an important area for human development, in which joint activity may be considered as a strong element of paving the scene for joint developmental integration.

vi) Ahead with the Arab Single Market:

We are presently in a state where a FTA is on its way, attempts are being made to revive the ACM, while the JAEA Strategy has expired, 2000 being its final date. Other types of joint activity are still going on their sluggish manner, at the Pan-Arab level, and less so on the sub-regional level. Attempts are made to strengthen the structure of overall joint action, including the construction of an Arab Court of Justice, but little is done in the field of people participation through a proper legislative scheme. Even if the principle of status quo is considered as a basic scenario, a minimum set of amendments have to be considered. The following points may help start meaningful discussion about an appropriate plan of action:

- Collective work has to be started on building a new JAEA Strategy, that goes beyond defining certain tasks to be given priority over a couple of decades; and defines a stepwise movement towards advanced stages of integration, or even complete unity.
- The outcomes is to be finalized in a pan-Arab conference that includes State representatives, joint action institutions as well as representatives of social groups and their agencies.
- The results of deliberations should be expressed in terms of a draft "integration agreement", that would replace the Arab Economic Unity Agreement, to be endorsed by all Arab countries. The Agreement should be detailed enough and should contain an elaborate machinery which rectifies and strengthens the decision-making process at the joint level. It should cover sufficient set of activities to keep the wheel running for sufficient time.
- Areas not covered by the integration mechanism (if any) may be reorganized under the supervision of the AECOSOC. Reasonable justification has to be given to leaving them outside the binding integration scheme .

Although the next stage may be termed a "Single market", that goes beyond freedom of movements including liberalization of production factors markets to provide the framework of management of country economies.. There had been too much factor movements with too little impact on further integration. There is need for an ample dose of policy coordination to give guidance to an effective movement of factors. More important still, is to take care of enhancing the productivities not by excessive addition of external capital and knowledge, but rather by intrinsic upgrading. The process is thus one of social change which I believe is a fundamental foundation for a sound development strategy, and it fits with the concept of integrational development. It would require the approval of the spirit of joint Arab development, and the time span required is not meant for the creation of psychological attitudes favouring integration, but is rather a prerequisite of the development process and the time needed to produce tangible results. The integration machinery (CAEU or any alternative) has to revive and improve upon techniques previously devised for plan coordination and regional development. There is room for support from research institutions, in planning area such as API, and in other scientific areas as well.

Part II - Trans-Regional Issues - The Euro

Economic vs. Monetary Union

Partial monetary integration in the form of a European Payments Union, EPU, helped to pave the way towards European trade integration. The case for monetary integration as such had been recognized in literature, even before the concept of economic integration surpassed the traditional stage of a customs union. It was considered in connection with international monetary systems, and discussions of what would form an "optimum currency area". But as the process of regional integration moves beyond a free trade area towards a single market, or even an economic union, the need for intra-area exchange rate stability and, eventually irrevocably fixed exchange rates gains strength. This causes a conflict with the autonomy of monetary policy at the national level, thus creating the need for monetary union. Cross-border demand for similar products produced in different member countries is sensitive to price changes. This implies that a major change in exchange rate within the region would shift competitive advantages, thus having an impact on profitability and triggering political reactions.. Owing to similarity of structures of EU economies the first effect of intra-area exchange rate fluctuations would be to distort competition across firms located in different countries and producing similar products, rather than to adjust shifts in the demand and supply of different products through changes in their relative prices calling for a higher degree of specialization as between economies with widely divergent comparative advantages. Their high openness in terms of ratios of foreign trade to GDP, coupled with high inter-trade, makes it more likely that a depreciation of their relative exchange rates will lead to inflation over the medium term, without any significant improvement in its competitive position.

Having completed the customs union ahead of schedule, Europeans looked forward to build up their monetary union, and two main schools emerged: the "economists" who were emphatic about realizing full coordination of economic policies prior to any move towards full monetary integration, and "monetarists" who conceived of this latter as a vehicle towards economic union. The 1970-"Werner" report came with the happy solution that a three-stage process makes it feasible over a decade. Bur the 1970s world monetary turmoil and compelling inflationary pressures gave more weight to domestic policies to control them. The completion of the single market led to the formulation of a new three -stage system, with more firm commitment. Thus repercussions are essentially those due to the Economic Monetary Union, EMU, and not simply the emergence of a single currency substitute to multiple currencies among which narrow spreads had been maintained for over two decades. However, euro is not simply a regional currency that is being created, like e.g., the CFA franc; it is one of the foundations of the international monetary structure, with huge markets going with it, mixing the regional with the global. This is occurring at a time when the notion of "networks' is playing an increasing role in the European texture, including networks for information. Hence impacts on Arab countries and lessons for full integration per se have to be investigated.

The introduction of the euro is not yet complete. Only when the euro banknotes and coins are introduced in 2002 will we be able to see the wider effects of the new currency, such as increased price transparency, lower transaction costs and improved competition in the markets for goods and services. The political and symbolic effects of a single currency, which are already evident, are bound to strengthen further and will gradually deepen and widen European integration. The popularity of euro is also reflected in its increasing use as an anchor for other currencies. More than 50 European and African countries have adopted foreign exchange arrangements in which the national currency is linked - in one way or another - to the euro or to a basket of currencies in which the euro is an important component. The geographic expansion of the EU will pose further challenges both to Europe and other parties, including the Arab region. Both the composition and behaviour of the euro would be also affected by the difference between EU and euro zone, and we have to look into the mechanics of more currencies joining the zone, especially the sterling.

The Behaviour of the Euro

Changes brought around by the creation of the euro are numerous, and in so far as impacts on Arab experience are concerned we may stress three dimensions. The first is the nature of the single currency introduced; the second the management of this currency through monetary policy; and the third is the organizational issue of supervising monetary variables.

Since money had been traditionally one of the fundamental jurisdiction of the national State, these issues have to be treated from two viewpoints, namely, the role of the State which is currently undergoing dramatic changes, and the role of the regional organisms at quite advanced stages of integration.

As to the nature of the single currency we may observe that there are several means of accomplishing the irrevocable fixation of intra-regional exchange rates. One is to use some currency as a fixed anchor; this may be an external currency such as the US dollar, or the French franc for the CFA region, or one of the member currencies, e,g,, the Deutsche mark. For member countries this would subject their economies to policy changes of the authorities issuing the anchor. The alternative provided by the euro, and made possible by the preceding ecu, is that of ***supra-nationalization*** of money. This means that monetary policy is shifted to a supra-national institution, irrespective of what is happening to other compartments of economic policy. Under the EMU treaty the single monetary policy is oriented towards a union-wide objective, namely the maintenance of ***price stability*** (Maastricht, Article 105). Other policy areas, including fiscal and wage policies, largely remain the responsibility of national authorities which have to regard them as a matter of common concern and shall co-ordinate them within the European Council (Article 103). The Stability and Growth Pact provides guidelines for fiscal discipline at the national level. Price stability is defined as maintaining an year-on-year increase of below 2 % in the Harmonized Index of Consumer Prices (HICP) for the euro area over the medium term. During 1999 the ECB Governing Council decided to set a reference value of 4½ % M3 growth per annum over the medium term, without reacting mechanically to deviations of actual monetary growth from the reference value. This will remain throughout 2000. The success of this policy is due to strict adherence to convergence criteria by the eleven member economies and more recently by the Greek Drachma. Controlling inflation supported the argument advocating the search for solution of other problems, such as high unemployment in other policy areas. So long as growth remained satisfactory, there was less worries about the external value of the currency.

Although only 17 months elapsed since the inception of the euro, we are having some evidence as to the outcome of the policy structure adopted. Many analysts expected a higher than the initial par value of US $ 1.175. The period up to 1st of June 2000 has witnessed a persistent downward trend down to US $ 0.933, a drop of 21 %. During the same period the euro depreciated vis-à-vis the yen by 26 %, from ¥ 137.5 to ¥ 101.41, while the drop with respect to the more aligned sterling was 11 %, from £ 0.702 to £ 0.624. Currencies denominated in US dollars have undergone a forced appreciation by the same ratio against the Euro and related currencies. It has to be borne in mind that the US witnessed during the 1990s a prolonged low inflation upswing labeled by some writers as “New Economy”, and caused some to claim "the end of the business cycle" and the "death of inflation". Explanations differ, and some economists attribute it as a fortuitous phenomenon fueled by weak oil prices and a strong dollar, as well as flexible labour, product and capital markets. But the implications for the euro are evident even though the low-inflation reasonable growth enjoyed by EU was accompanied by high rates of unemployment.

The situation is further complicated by the current state of split between the jurisdiction of monetary policy which is regional and ***banking supervision*** which remains a national responsibility. This has led the ECOFIN Council to agree on April, 8, 2000 on the desirability of the country authorities showing more conformity by working on region-wide, or even a global, basis. European Banking activities are being more exposed to external risks than they used to be, as a result of rapid increase in ***wholesale*** activities in cross-border activities. But the spread effect is having a positive impact on financial stability than what could be realized under high concentration of interbank liabilities. As banks can borrow more readily from foreign institutions it is easier to finance liquidity shortages. On the other hand access of bank clients to finance across the borders reduces the urge for mergers in order to catch more operations from internationalized activities. Here strength gained by capital markets after the euro enables banks to further internationalize their assets. Although most of the retail activities relate to the home market, there is a rapid growth in business with customers in other Euro areas.

With respect to the ***international impact*** of the euro we note *first* that since the internationalization of the euro is mainly a market-driven process, the Eurosystem adopts a neutral stance, neither fostering nor hindering the international use of its currency. *Second*, the implications of the international role of the euro for domestic monetary policy will not prevent the Eurosystem from maintaining price stability as its primary objective. Price stability is also a key precondition for a currency to develop an international role. It is a necessary requirement for investors outside the euro area to be confident that their purchasing power will be preserved over time, since price instability constitutes one of the main factors which cause exchange rate and asset price volatility. We have to take into consideration that the euro is being introduced at a period of rapid change in techniques, components and organizational structures. To mention but one change, the so-called ***foreign exchange market*** is becoming less and less tangible, highly accessible, and time saving. There is a change from paper intensive processes to information technology and internet is bringing together parties hardly known to each other, with implications for the supervision activities. The internationalization of financial activities complicates the accomplishment of supervisory tasks as both the currency used for transactions, the legal system on which to rely in the settlement of disputes, as well as the exercise of prudential controls, may belong to different countries, or to different jurisdictions. The traditional two key functions that the Bretton Woods system had entrusted primarily to the official institutions, viz., fixing exchange rates and governing capital flows, are being taken over by the markets. The distinction between the three traditional branches of finance - banking, securities and insurance - becomes increasingly blurred. As a result policy instruments have become much more complex.

Developments in Financial Markets

Having studied the new product, the euro, we have to consider now its markets. Emergence of the single currency created an immediate change in the money market, a slow unification of the bond market, and a still slower one in the equity market, owing to the time needed to unifying the market's infrastructure and securities settlement systems. We shall consider developments in these markets briefly.

With respect to ***money markets*** the market for retail banking will remain national or even local (regional or sub-regional) in many respects. Cross-border activities largely belong to wholesale operations. But they need not be confined to cross-border mergers or acquisitions. Whereas market segmentation is no more due to multiple currencies, it may still exist as a result of differences in the rules and practices governing the working of the labour market, proximity to customers, and remaining differences between national regulations and legislations in member States. There would still remain substantial cultural and linguistic barriers.

As to capital markets the euro soon took a leading role in the global financial markets due to the economic size of the EU. In the ***bond markets*** the euro quickly became particularly popular as a currency for international bond issuance. Euro-denominated bonds accounted for more than 40% of the volume of new issues during 1999, which is comparable to the market share of bonds denominated in the US dollar. Gross issuance of corporate bonds denominated in euro increased by almost 300% in 1999 compared with 1998. This gave more room for low-grade borrowers in new bond issues and led to more diversification in the bond market. A phenomenon of the nature of junk bonds is developing.

Performance in ***equity markets*** is much slower to flourish. There had been large increase in mergers and acquisitions in the euro area, being now easier to fund acquisitions. The introduction of the euro has rapidly and effectively contributed to the healthy consolidation and integration process which are now witnessed in many business sectors across Europe, thus leading to improved competitiveness and higher growth potential for the euro area as a whole. Nevertheless investors from outside the area have remained suspicious which reflected on the performance of its exchange rate, a process which is self-perpetuating. Thus we have a case where a "credit risk culture" is developing within the bond markets of the euro area after the removal of the intra-exchange rate risk, but with doubts arising from inter-regional exchange risks. The integration at the euro area level means that issuers across the euro area have privileged access to a large number of investors on a large and open market place. This perspective is certainly favourable to the emergence of "new markets" for the benefit of relatively small and/or new firms.

Thus, in spite of the popularity of the euro as a currency for bond issuance and as an anchor, or pegging, currency, this is not accompanied by a corresponding interest in the euro on the investors' side. The euro area capital markets are still suffering - in spite of their rapid development - from a lack of efficient integration. In addition, there are still many uncertainties as to the structural developments and policies affecting the future of the euro area economies, especially in view of the persistent worry about high unemployment rates and downward trend in euro effective exchange rate.

Implications of the Euro to the Arab Region

The importance of the euro to Arab countries arises from the fact there exists a special relationship between the two groups, though largely asymmetrical, and differing in nature and depth from one Arab country to the other. These cover various dimensions from trade, energy supply, investment, and financial flows to areas such as migration, defence, environment, and culture. The EU is the most important economic and financial partner of most MED countries, where the share of the EU even exceeds 60% of the Maghreb external trade, reaching 75% in the case of Tunisia. This has been backed by Association Agreements of a preferential nature for over two decades. Trade arrangements were complemented by financial protocols to support economic development. The EU us a major source of incomes from services, especially tourism, and workers' remittances as well as foreign direct investments transferred to MED countries and other financial flows, including grants. However, significant asymmetries remain between the two groups, especially in terms of demographic trends, standards of living, economic size, trade relations, and economic structure. Furthermore, while the EU is the dominant commercial partner for all MED countries (except Jordan), the MED region as a whole accounts for a negligible fraction of the EU's external trade. Whereas this imposes on MED countries to take into consideration conditions in EU while determining their macro-economic policies, it is hardly likely that they join the euro area, since disparities in economic structures and considerations governing factors mobility do not work in the direction of making the two groups an optimal currency area. Some factors emanate from the EMU, besides the euro per se.

With these remarks in mind we may discuss the various impacts on the Arab region under ten separate headings, although interconnections are unavoidable.

1. The Impact on Growth

As mentioned before, the EU has shown continuous growth during the last decade. The launching of the euro, as a final stage of building up the economic and monetary union, has eliminated nominal exchange rate volatility related to the uncertainty of ERM exchange rate movements and associated costs of exchanging different currencies within the euro area, making prices directly comparable. Price transparency, as well as price stability and control on inflation, reduce transactions costs and help to avoid misallocation of resources, and hence foster efficiency and growth within the EU. Further the single currency leads to lower borrowing costs, through reduced uncertainty, increased market efficiency and increased liquidity, in fully liberalized and integrated financial markets, hence reduction of risk premia built into real interest rates and from the elimination of premia resulting from less liquid markets. This should stimulate investment, and again foster growth. However, benefits are slow to materialize, they are essentially long-term and structural in nature.

The benefits realized so far since the beginning of 1999 cash on the realized convergence in macroeconomic criteria, although there is continuing demand for restructuring and for more flexible markets, especially labour markets. The introduction of the euro has not and will not by itself automatically increase the euro area economy's long-term growth potential. The impacts of EU growth on Arab countries are both direct and indirect. The indirect ones stem from the improved performance of the EU and the derived demand on imports from these countries, The direct ones stem from gains from both enhanced opportunities and stronger competition in EU markets, and taking advantage of lower borrowing costs in more competitive European financial markets. The IMF *World Economic Outlook* (October 1997) had projected a positive output effect in the order of 0.1 % of GDP for developing countries taken as a group by 2001, reaching 0.3 % by 2010. The impact for MED countries may be higher owing to the relative importance of their foreign trade relations with the EU.

2. The Demonstration & Spill-over Effects

The introduction of the euro could encourage Arab countries to increase their efforts to enhance regional trade, economic, and financial relations in the light of the expected benefits. But this would require paying more attention to the policy coordination component of integration which *ipso facto* necessitates sound macroeconomic policies at the country level. This does not imply that a process of monetary integration can be precipitated at the Pan-Arab level. But the lessons from EU unification of policy criteria and guidelines on formulation of macro policies and pursuing more sustainable growth-oriented policies, can have a so-called spill-over effect on Arab countries. Consolidation of banking system operations is growing rapidly, and there is a growing feeling for such consolidations within the Arab banking system.

3. Imported Inflation

The experience of the 1970s have shown how detrimental are the effects of inflation imported from strong trade and financial partners. They have led to large indebtedness and to a standstill if not a retreat in the pace of development. In the light of the policy guidelines which focus the monetary policies related to euro, recurrence of such a state of affairs in not impossible but is highly unlikely. Arab countries are thus relieved from the heavy burden of need for sterilizing the derived inflationary pressures. This would reduce considerably uncertainties relating to their planning for the future .

4. Foreign Exchange Volatility

The launching of the euro removed the volatility of intra-regional exchange rates. Some writers expected that the prior volatility among European currencies would be moved to volatility with other major currencies. This may be more probable in absence of coordination between them as major currencies become fewer, eventually three. We have to take into account that that the behaviour of the trade cycle in the euro area matched that of the German cycles, and less so the British or the American. Arab countries heavily interdependent with the European economy have to reduce the impact of the euro cycle by diversifying their structures. However, the behaviour of the euro is not confined to the narrow area of monetary policy geared towards controlling inflation. Much depends on the other policy instruments which are governed by the Stability and Growth Pact, and we have seen that experience so far reflected a reasonable state of growth. Further the irreversible fixation of intra-EU exchange rates is not sudden, being a gradual outcome of carefully planned measures. The rather good performance of the US economy caused no conflicts that barred better coordination and at the same time it precluded strong cyclical variations. The 1998 Far East financial crisis has invited still better coordination. There were no increase in foreign exchange volatility, which is a positive element for non-European countries, including Arab countries, both with respect to attracting more foreign investment and capital flows, and reducing the costs related to the inconsistencies in the currency composition of their current and capital transactions, especially for those countries that have strong trade links with the EU but pay contractual financial obligations on their debt in US dollars or yen. This is all the more so for highly indebted countries such as Algeria, Jordan, and Syria, which are constrained in their ability to diversify their external liabilities because of limited access to international capital markets.

5. Exchange Rate Systems

Arab countries have various exchange rate regimes, which reflect different economic conditions in terms of inflation, trade, and financial integration as well as different priorities among policy-makers in the conduct of macro-economic policies. Some, like Syria have a fixed exchange rate arrangement in the form of a currency peg to the dollar. Others peg their currency to a basket of currencies as in the case of Morocco and Kuwait. The basket for Jordan is highly dominated by dollar. While Lebanon follows an independent float, other countries like Algeria, Egypt and Tunisia adopt a managed float. Studies undertaken by AMF on coordinating Arab exchange regimes have tended to recommend relating them to the SDR, being the nearest to represent the structure of partners in trade and indebtedness, The Euro would thus figure as a major component if a basket is to be chosen. It may prove to be useful a common peg, if its area expands to cover the sterling as well as new members, including the first new candidate, Turkey. This has to be considered in the light of prior discussion on volatility of the euro exchange rate. But a flexible peg seems recommendable to allow for the differences in macroeconomic conditions in Arab countries and with EU members on the one hand, and the intensification of relations as a result of partnership agreements on the other. This will have implications for the long searched action of inter-Arab monetary integration. Arab countries, especially in Africa, have to watch for any tendency in the African continent to use the euro as a nominal anchor, especially in cases where this is a substitute for the $..

6. Currency Denomination & Trade Invoicing

Related to the issue of foreign exchange regimes is the issue of better alignment of currency denomination to trade structure, and reducing hedging costs. Tradition had been on the side of the US dollar in quoting most raw material prices, which constitute a major portion of Arab exports. The disparity between the share of trade and the share of currency of denominations is thus more pronounced in the case of Arab exports than imports. Oil plays an important role in this respect. It is unlikely for the euro to replace the dollar in this function in the short to medium term. Further any attempt of this nature would require international consensus. But the fact that all euro members use the euro as their currency, the invoicing of trade with all of them will now be in terms of the euro rather than in dollars. This will precipitate the observed downward trend in invoicing in terms of the dollar, thus directly influencing the external trade and exchange policy of Arab countries. With the extension of the EU and euro areas the trend will increase in the near future. This will be more pronounced in imports, not only from the euro area countries, but also from other countries neighbouring to EU, including African countries, and inter-Arab trade, especially if partnership agreements develop into regional integration.

7. Foreign Exchange Reserves

The composition of foreign exchange reserves is affected by the direction of trade flows, the currency denomination of foreign debt and the type of foreign exchange arrangements.

However historical patterns have shown larger concentration in US dollars and much less in European currencies, mainly the German mark. The euro is a widely accepted asset, belonging to a major economic and trading partner, hence it naturally becomes one of the main exchange and reserve currencies in the world. Whereas foreign exchange reserves are mostly held in US dollars in the Mashrek and Gulf regions, the composition in the Maghreb favoured European currencies, the German mark and French franc. The introduction of the euro will provide an opportunity to re-align foreign exchange reserves in the light of trade flows, the currency denomination of balance-of-payments transactions, and exchange arrangements. Trade with the euro countries would intensify following partnership agreements, and more invoicing is expected in euro, while the share of euro-denominated liabilities is also expected to increase, and more Arab currencies may use the euro as an anchor. Hence it is expected that Arab countries would gradually diversify their foreign exchange reserves in favour of the euro.

8. Implications for Financial Flows

Foreign investors have been hesitant to shift portfolios out of the dollar and into euro-denominated assets, which slowed euro developments in equity capital markets than in other financial markets. But the emergence of the euro itself need not affect the flow of FDI from the European markets since FDI decisions are made on the basis of the specific economic characteristics and fundamentals of the recipient economies, including a stable macro-economic framework and transparent and market-oriented regulatory systems. Immigrant workers remittances may be affected by workers having wider opportunities to invest their savings within the euro area, but this is a rather remote possibility. Exchange rate stability in the euro area could also enhance the regularity of the transfers of workers' remittances and affect the currency composition of transfers. There had been recent attempts to consolidate financial markets, the most important of which is the one relating to the London and Frankfurt markets. This may reduce options for tapping finances from different sources. But on the other side this may be offset by increased efficiency and competitiveness resulting from widening the markets, and reducing the cost of access to them.

9. Impact of Debt Management

Besides the mismatch between currencies of trade and of invoicing for Arab countries, there is even a more skewed relation between their pattern of trade and the denomination of their external financial liabilities, most of which are denominated in US dollars or yen. This came as a result of the characteristics of European bond markets, which were segmented national markets, considerably smaller, less liquid, and thus more expensive for similar transactions than the large US bond market. The correction of such mismatch is expected to be much slower than that related to trade, especially as the emergence of euro has no impact on contractual financial obligations on the current outstanding debt. On the other hand, we have seen that the elimination of intra-European currency risk makes European financial markets more attractive to portfolio investors, offering lower costs of borrowing, increased flexibility and more opportunities to large investors (public and private foreign securities issuers and international asset managers). This will benefit Arab countries that have access to international capital markets, such as Tunisia, while avoiding the cost of hedging owing to mismatch between the currency denomination of its trade and capital flows.

10. Structural Adjustment

One effect of absence of the exchange rate instrument within the euro area is that the less advanced areas, especially in the south, normally more competitive to Arab countries, cannot rely on it any more to secure higher competitiveness; they have to go ahead with their structural reforms to become permanently competitive in the EMU. This may leave Arabs more free with the use of the exchange rate policy, but it would eventually encourage them to go ahead with their own structural reforms. Partnership agreements work in the same direction. One of the announced objectives of the new EU policy towards Mediterranean countries, is to act as an anchor for structural adjustment policies already under way in many of them. Since such adjustments are market-oriented, the introduction of the euro with its various implications discussed above, would precipitate their pace to enable them to fully benefit from increased opportunities in the European markets and to become more competitive in the increasingly competitive global environment. This is a part of the neo-regionalism discussed later on.

Part III - Trans-Regional Issues - Euro-MED Agreements

Introduction

In its management of relations with other regions, the EC subdivided the Arab world into various segments. The so-called Middle East includes the Gulf countries of GCC, Iran and Iraq and Yemen. This left more than the North African component of the widespread notion of MENA (Middle East and North Africa), hence the inclusion of some of them in a lump-sum group falling in Eastern and Southern Mediterranean, ESM countries around the southern frontiers of Europe, and the other group including Mauritania and other less developed countries in Africa, was covered by the Lomé Convention. The ESM countries belong to a wider group of MED countries, which includes besides three candidates for EU membership and Israel. Since 1974 a European-Arab dialogue started but stumbled on two blocks. The first was lack of a common strategy as mentioned before, while the second was the refusal of the European side to include external policy issues relating to the Middle East conflict, with the purpose of concentrating on economic, especially oil, matters. Later on oil was set aside and in 1977 ESM countries entered into Association agreements which included a preferential trade arrangement and several protocols of financial aid. Later on negotiations with Gulf countries on inter-regional arrangements for cooperation started, but could not be concluded successfully. The other oil country in North Africa, Libya, remained a singular case for several reasons. In the early 1990s there was an attempt to make special arrangements for Maghreb countries, but this was soon extended (in response to a request from Egypt) to other Med countries, and the new Mediterranean policy emerged. This policy takes account of the effects of changes in the world scenery on the EU, and makes use of a new version of regional integration that ties countries from the South to others in the North, which leads to the emergence of new-regionalism. The formula stops at the minimal trade integration of a FTA, but at the same time includes other economic and non-economic elements under the title “deepening integration”. This represents a fundamental shift from traditional integration.

This bit of history, sure known to everybody, is meant to help focus attention on the main points worth of discussion. First there is need to revisit the concept of integration once more. Second is the process of cut-and-paste in which Arab world is broken down to pieces and rearranged via the EU which is an external entity. This is in contradiction to what we already showed as need for Pan Arab integration. Questions as to why such attempts at spatial disparity are working and how to rectify the future trends deserve attention. At the same time the accompanying catch-all approach in which Association Agreements based on so-called partnership rather than aid among unequals, that exceeds what is even meant by full economic integration deserves scrutiny. The *Barcelona Declaration* as well as concluded Agreements cover three areas with broad goals:

- Establishment of a common area of peace and stability through increased ***political*** dialogue and enhanced security.
- Building of an area of shared prosperity through ***economic and financial*** partnership and the gradual introduction of FTAs by 2010.

- Bringing different peoples together through a ***social, cultural and human*** partnership. Several questions seek answering. The first is the advisability of including these widely apart areas into one basket. The second is redefining the political issue in a manner that satisfies least Arab needs. Third, the relevance of such economic integration to Arab development.

A New Form of Regional Integration: Costs and Benefits

We have already shown that the meaning and forms of integration differ according to whether it relates to developing or developed countries. Differences relate to variance in the weights to be given to the final objectives: peace, security, prosperity and progress. Trade integration as a second best to multi-trade liberalization deals with the inequality in economic capabilities arising from disparities in development levels. Hence when a FTA is essentially meant to create open trade between certain developed and developing countries, it is second best no more. In fact a full-fledged liberal multilateral trade does not exclude other parties eligible for joining a free trade arrangement among developing countries, particularly Arab countries. The proposed arrangements, as in the case of Med partnerships or NAFTA, assert liberalization of trade with partners who already have relationships stronger than other parts of the world, being thus the very case where inequality in international dealings are at their utmost. They are more likely to increase distortions than reduce them.

On the other hand full integration requires intensity of relationships but at the same time sufficient sense of community. When countries belonging to the two groups have intensive economic relationships this is where the difficulty arises rather than justifications be sought. In fact the problem lies in the fact that what prevails is not a sense of community, but rather a ***sense of estrangement***, between members of the two groups. Not only do socio-cultural elements assert segregation, but wide gaps in economic levels create a lot of hard feelings. This is not to mention past grievances created and deep-rooted since the colonial era. Applying the systems approach we can deal with the issue through studying the relationships between the three systems: the political, the economic and the socio-cultural. For developed countries, intensive economic relationships coupled with advanced socio-cultural bonds may threaten peace if political actions lean towards aggression. Hence the way out is to enlarge the domain of polity, and regional integration is essentially political, making use of already heavy economic ties. In the case of developing countries, fragile relationships in the economic sphere, both at the national and regional levels call for cooperation in what we called integrational development. If there exist strong feelings of the sense of community, then both current and future development paths can be easily reconciled. This provides enough ground for political proximity that makes political unity a meaningful instrument.

Now when two regions, one developed and the other developing are adjacent, then it is highly likely that this will involve strong interrelationships, both in economic areas and in social interaction, but with feeble overall sense of community and hence wide differences in political matters. Social interaction accompanied by development disparities leads to unrest in the less affluent partners, and threatens feelings of security of the well-offs. This was quite apparent between USA and Mexico in the NAFTA arrangement, and also between Europeans and ESM countries, especially Maghreb countries, and had produced heavy migration flows that were considered as a threat to security in the EU, especially its less developed south. The solution is found in a formula by which the three systems work as follows: In the absence of ample foundations for overall sense of community, there is an attempt to bring people together, but according to European socio-cultural norms. On the political side there again is a European definition of political issues which falls short of dealing with the soaring issues arising from the Middle East conflict, and is meant to fortify the socio-cultural component as previously defined. Having thus “Europeanized” the two system, the triangle is completed by a selective choice from the economic components of full integration. An arrangement for a trade integration in the form a FTA, is extended to what is being called ***deeper integration***, that bypasses the state of a customs union, and selects from the constituents of the common market, the liberalization of capital, while putting an embargo on the mobility of labour. The policy coordination component is formulated in a manner that leads to restructuring the less developed ESM economies in a manner that fits with facilitating right of establishment by EU firms and observing the requirements for free trade and free capital movements. EU is to act as an anchor that commits ESM countries to so-called "economic reform". Nothing works of course in the opposite direction. Nevertheless Agreements include statements asserting the freedom of both parties in choosing their own systems.

It is clear that such an arrangement is not meant to lead in the foreseeable future to a state of full integration; it could not do that even if it was invited to do as would have been realized if the membership status was offered, as was demanded by Morocco since 1987. In fact the exercise is self-defeating in the long-run for two fundamental reasons. The first is that the main goal is political, binding stability in the EU by improving conditions in ESM countries and arresting the flows of migration to the North. This is not best served by allowing business to move southward instead; in fact this would accentuate pressure northwards, especially as European business tend to be less labour intensive than ongoing businesses. The second is that cultural barriers would feed social resentment and reinforce anti-western attitudes, which enhances rather than reduces unrest in the region. These outcomes may be diluted if enough dividends of such an integration are plentiful enough to redress opposition.

The Package Deal Issue

It is true that the disparities in the three systems call for actions to reduce them, and that was what called for the Euro-Arab dialogue and why it was quite complex. A dialogue helps to define areas of common interest, points of dispute and ways and means of dealing with them. The outcome would involve various types of costs and benefits, estimated differently by each partner, which enables reaching a compromise. The attempt by one party to use its relative strength in both defining areas to be covered and solutions to be sought, would eventually lead to untenable results. This had been a menace of many political disputes, and has led to their recurrence, and in sometimes in a worse shape. In some cases costs in one area are solved by benefits offered in another. Economic benefits are frequently used to widow-dress unfair points, not only in the economic field, but frequently in other fields as well. The co-existence of all types of problems in real life leads to a multitude of such compromises.

But it is another thing to conclude that having covered the areas of the three systems together, some sort of a package deal should be formulated in one single agreement in which all costs and benefits are pooled together on the assumption that they may equate each other. The attempt to include all three systems in one package leads to two major sources of imbalance. The first is that the boundaries of topics covered in each of the three major areas do not reflect the actual interests of parties concerned as would have been the case of separate treatment of each area. The second is that overall differences in urgency of needs and firmness in positions leads to imbalanced solutions of disputes. It is true that international relationships involve cases of this nature; but they are not articulated in binding agreements such as the partnership agreements. Thus in many cases the USA raises the issue of infringing by China of human rights in connection with trade matters. But this is different from giving specific meaning - or even worse, ambiguous meanings - to human rights in international agreements such the GATT or the partnership agreements, with the intention of getting discharged from certain commitments in other areas. There is need to disconnect economic arrangements of a definite nature, such as FTA supported by measures of economic cooperation, from rather argumentative issues of political and social nature. These latter have to be the subject matter of continuous dialogue, which may lead to separate agreements on definite matters.

On the other hand the socio-cultural area is more hypersensitive since it relates to issues of national identity. While there may be some value in attempts to remove sources of the sense of estrangement between groups of countries looking forward to improve interrelations over a broad front, it should be borne in mind that the type of integration envisaged is not of the full form that is envisaged for a group of countries having a strong sense of community to each other. It is not foreseen that the partnerships would fall in the same group of association agreements offered to candidates for EU membership, whether Med countries, or eastern and central European countries. This is all the more so since one of the intentions with respect to ESM countries is to stop the flow of migration, while giving owners of capital from the North the right for entry into the South. In fact the attempts to bring socio-cultural standards closer to the European ones encourage rather than discourage undesirable migration. Even the right of establishment and movement of capital help to introduce values alien to the recipients, as may be observed in Dubai consequent to the installation of Jebel Ali free zone. Consistency seems to be lacking in partnership agreements in their proposed form.

Trade Creation and Trade Diversion

But would be the proposed economic component stand by itself ? Let us first consider its benefits, starting by the effects on trade. This issue may be considered from two angles: The first is the implications of the EMU itself, being the first experiment that materializes as a regional economic unity among major actors in the world arena. The second is the impact of a series of free trade areas created by means of Association Agreements concluded according to the proposed partnership formula. The debate over the first point emerged on two occasions. The first is the creation of the 1968 customs union. Empirical studies showed that trade creation occurred in many categories of products. Intra-trade expanded considerably in the EC while trade with the rest of the world grew at a smaller pace but more than proportionately with respect to GDP. More openness took place in line with the "second best" formula. Similar debate for the Single Market that was accused of creating a European fortress, led to similar results. What the EMU essentially added is the introduction of a single currency, the euro, which was shown to have positive effects. The next stage is the horizontal expansion of the EU itself eastwards, with possible effects similar to those that followed its expansion southwards. Coordination of economic, financial and monetary policies over a wider EU has its implications to associate members and has been considered by some writers as a threat to non-European partners.

But the implications for ESM countries are not straightforward. On the one hand, Europe already offered preferential trade treatment through the older 1977 generation of Agreements. Low competitiveness in manufacturing industries, together with limitations that remained imposed on agricultural products, led to dependence on importation from Europe faster than exportation to it, with the result that the share of ESM countries in EU trade declined, and the admission of southern European countries worsened conditions since mid 1980s. It is true that GATT 1994 is pushing down customs walls everywhere. But the dismantling of relatively high ESM barriers is liable to cause some trade diversion. This is further accentuated by the pattern of gradual liberalization offered to those countries. During the early phase, duties are greatly reduced or even abolished on non-competitive imports, essentially capital and certain intermediate goods. This is assumed to reduce backwash effects, since adverse effects on domestic sectors is minimal. But as liberalization moves towards final, largely consumers, goods the situation becomes less favourable for two reasons. First, European products become more competitive not only to domestic products (hence trade creation at the expense of less competitive home producers) but also to those imported from other possibly more efficient producers who still have to pay the relatively high duties. Second, products that get into the European exemption list are those that satisfy the rules of origin defined by the Agreements. The imports of intermediate goods induced by expansion of exports - if any - would be obtained from the EU, rather than alternative sources. It may be argued that since the EU walls are relatively low, there is a possibility that products not using such intermediate sources, hence not fulfilling rules of origin tailored to fit European standards can become competitive in the European market if they are efficiently produced. But this calls for the play of forces not triggered by the Agreements, even contrary to what they insinuate.

Technological Implications

Here it is not simply trade conditions that matter, other items of cooperation proposed by the Agreements and supported by financial assistance seem to work in the wrong direction. It may be argued that such items entail a transfer of technology to ESM countries that makes their products more in line with European standards of production and demand. Movement of capital southwards helps to bridge both gaps in financial resources and technological skills which when coupled with free entry of capital and intermediate goods would produce goods competitive in exportation to EU. This is the essence of the "***hub and spokes***" argument which claims that the combination of capital mobility with free trade opens opportunities for movement of business across frontiers to exploit comparative advantage in the recipient economy and create trade in the opposite direction. The main flaw in this argument is that any comparative advantages there exist would have already shaped the current structure of the less developed partner, and any substantial movement in capital depends more on the vitality of the overall economy rather than some bright spots that recommend themselves for investors. If the incentive to investors is removal of European barriers to imports from ESM countries, then there should have been an influx of investments during the last two decades, something that did not occur. If the incentive is realized through manufacturing European intermediate goods imported consequent to ESM countries removing their barriers, then this would mean annexation of their economies into assembly lines to EU products. Further, the excess labour cannot be considered as a definite advantage unless three conditions are satisfied. First, labour is of the right supply in terms of productivity. Second the technologies applied allow for high labour intensity. Third, the differential advantage outweighs costs of transport of products to their final destination, including EU markets.

Thus the important thing is not to provide capital resources or trade conditions, but rather the appropriate type of technology. Both through the play of markets and versus assistance to be provided by the EU, the technologies to be transferred are highly likely to be appropriate to European conditions, and more inclined to the recently prevailing category that caused high unemployment rates there. More rigorous specifications required by the EU economies and are likely to be embodied in rules of origin, work in the same direction. If Europeans are that serious about stopping migration flows, they should concentrate on technological cooperation with Arab countries in the fields of technology of the right type and tailoring flows of finance accordingly. It may be mentioned here that it is only Israel that had been out of Med countries given the privilege of technological cooperation, though for different reasons. We may add also that technological improvement has to observe direct and indirect effects, and at the same time the conformity to socio-cultural attitudes in the countries concerned.

Redirection & Diversification of Trade

Most ESM countries have applied economic reform programs and have opted for export-oriented economies, in the face of fierce international competition. This requires opening new markets, both for traditional and innovated products. Among factors adversely affecting the development potentials of Arab countries is the combination of excessive dependence on foreign trade, high concentration in export products, as well as high concentration in markets. As we mentioned before, past preferential Agreements led to higher shares of EU in ESM countries trade, and the question arises as to whether more concentration is advisable. The inclusion of free entry for EU products implies still more dependence on European imports. The preceding discussion on technological aspects shows also that the potentials of more competitiveness in other world markets would become more and more limited. Further the maintenance by EU of the protective measures of the CAP is still a handicap to agricultural exports with narrow alternatives open.

The previously mentioned specific pattern of gradual trade liberalization has technological implications that adversely affect the objective of market diversification. Areas capable of leading further development are not likely to be run by purely domestic enterprises, and they are likely to be administered by foreign investors, who would also govern the selection of new markets. At the same time local production would be fitted to European specification to be easily marketable outside the markets of the EU itself. In the longer run the commitment to GATT 1994 and continuous trade liberalization would make the marginal benefits from the FTA with EU less effective. But this would occur after a period during which ESM countries have become more tied to the EU. We have to take into account that the advantages to exports from preferential Agreements did not safeguard the ESM countries from indebtedness and the necessity of abiding to the strict conditions of economic reform programs. Giving concessions to EU partners would still impose more hardships on the balance of payments, which cannot by amply handled by assistance from EU, earmarked to specific uses.

The Issue of Foreign Exchange

Regional trade arrangements are usually supported by parallel measures that ensure the smooth flow of corresponding payments, in order to avoid any attempt to impose obstacles on trade flows due to lack of foreign exchange resources. The EPU was one of the fundamental elements of the success of EC's trade liberalization. On the other hand gains from foreign trade are a function of changes in the exchange rates, hence the concern about volatility of such changes. If integration goes ahead, the problem of monetary integration becomes more eminent as we have shown in the second section. For ESM currencies not pegged to the euro, exchange rate fluctuations may exceed any reduction in tariffs by the EU, which are generally below 10 %.. One could argue that a devaluation by ESM in the order of the maximum EU tariff rate would have an effect equivalent to tariff elimination, without a corresponding pledge to reciprocity. This latter could be decided upon unilaterally, thus enabling exemption of imports of required producers goods which may be affected by devaluation, but with impact limited to their ratios in costs. But if the economy is heavily dependent on imports of such goods from the EU, then the process will become inflationary. What actually happened over the euro's first year or so, is that it lost 20 % against the dollar as already shown, which meant that EU enjoyed the equivalent of concessions in the same range by ESM countries as well as other exporters to EU. As the partnership agreements stand, they are not sufficient to include ESM countries within the euro zone. Conditions of an optimum currency area do not exist, and one of its conditions, namely free mobility of production factors including labour is openly banned. The high interdependence between ESMs and EU calls for the creation of some payments stabilization scheme similar to STABEX.

The Bilateral Nature of Agreements

In spite of the fact that the EU has a well-defined policy towards the Med neighbours, it maintains the right to negotiate Agreements bilaterally. This may allow for tailoring each Agreement to specific conditions of the given partner. It is for this reason that the Treaty of Rome specified (Article (238), presently Article (310)) Association Agreements to enable the EC to make special arrangements for countries eventually eligible for membership but which have not as yet satisfied all conditions. In some cases specific programs are accorded in order to restructure the given economy, as was the case with Portugal and several countries in East Europe. The Agreement may take the shape of a customs union as in the case of the three European Meds. In any case the EU brings in its Treaty as a point of departure. It even makes specific reference in the partnership agreements to Articles 85, 86 and 92 of that Treaty, and to Articles 65 and 66 of the Treaty establishing the European Coal and Steel Community, and to the EU institutional setup included there, which is another source of imbalance. Further EU uses the card that it cannot give any of ESM countries advantages beyond which it gave or could give to other partners. This makes the Agreements less balanced, and deprives the respective countries from deserved advantages, and at the same time they forfeited benefits that could be achieved as a result of pressures they could have exerted in a collective bargaining system. As a result the EU carries the weight of 15 strong economies whereas each ESM country stands alone, and it even falls under pressures resulting from conclusion of agreements by other parties who were easy going. One well-known flaw is the deprivation from the possibility of the cumulation of origin among Arab countries, even between those that have each its FTA with the EU. Even when this was allowed it was done on a selective basis. Since Arabs have already embarked on their PAFTA, they can improve considerably the conditions over bilateral arrangements through inter-regional arrangements.

Further Areas of Economic Cooperation

Some writers claim that the inclusion of arrangements for economic cooperation in some sectors and areas represents an improvement on the previous aid approach. It gets the EU much more involved in the development needs of ESM countries. This raises the issue of priorities, and the increased weight gained by sectors involved in investment and trade with the EU, to the possible negligence of areas of importance for ESM development such as small and medium industries, of high relevance to job creation and reducing unemployment, thus eventually meeting EU objectives. The New Med policy involves earmarking a lump-sum of financial assistance to all Med countries to be administered by EU rather than by protocols. Drawing on this fund is left to the zeal of countries concerned, outside the bilateral norm, on the basis that this may increase efficiency of utilization of funds, and avoiding waste arising from the nonfulfillment of conditions by respective recipients. This aggravates the misgivings about the inclusion of political and socio-cultural elements together with the economic cooperation in one package. Arabs have to search for their development elsewhere.

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