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ECONOMIC AND FINANCIAL INTEGRATION OF ARAB COUNTRIES: PRESENCE AND PROSPECTIVE

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ABSTRACT

Under present circumstances ,there is an increasing importance of Arab countries to be economically and financially integrated as this will lead these countries to cope with the ever growing international economic and financial blocs. Among these is the giant E.U. ,NAFTA , and APEC economic blocs . Economic blocks with collective self-reliance have many positive effects in terms of decision-making in various fields on both the local and international levels . The international rapid developments and changes are bound to have a negative effect on individual Arab State economies because they are facing giant economic blocs. This is the era of international financial and economic blocs. The integration between the Arab countries will lead to reduce the gap with international economic blocs and to face the negative effects of the phenomenon of globalization and other challenges . An Arab economic bloc will have many

benefits that will be accrued by the Arab countries in the future. However, different accelerating conditions and developments may have big negative impacts on the Arab individual economies when facing and probably compete with these giant blocs. Economic integration and self dependence among Arab Countries would lessen the gap between the predetermined Arab bloc and global economic blocs and make Arabs able to face the negative influences of globalizations and other challenges. The main aim of this study is to focus on the realities of Arab economic and financial integration prospects and how to face all the challenges of the twenty-first century in order to become, economically, financial and Politically integrated and strong .

Key words *:Economic integration , Financial Integration , Integration Barriers , Economic Blocs*

JEL: F15, G21, F14 F23

I-Introduction:

The emergence of regional economic and financial groupings in various countries of the world began in the first half of the twentieth century and named the era of economic and financial blocs , where these communities formed 80% of the world's population and controlled about 90% of the global trade and arrived in GDP for three big gathering (EU , NAFTA and ASEAN) to 81% of global output , which means that 19% of the economic process are outside those communities that are increasingly important and have a central role in the economy.

The Financial and economic integration among Arab countries are needed for the sake of maximizing and activating the Arab countries' links on the basis of economic and political process of institutional mechanisms to meet the challenges of the times , particularly the phenomenon of globalization. Arab Integration must be the term which offsets globalization and defend the territorial boundaries and identity, culture, language and finally the Arab entity (Jumaili, H.M 1998) .

This paper calls for the the establishment of economic blocs among Arab countries to improve their competing position in the international market by taking advantage of their unique features and to benefit from the agglomeration regional economic blocs ,these benefits include economies of scale of large and wide markets , increased absorptive capacity , increased investment opportunities , and reducing unemployment rates through the recruitment process and the increased capacity and competition. As for Arab economic integration, it is now in its most sever crises. The real economic and financial integration among Arab countries enables them to establish large joint projects; as well this integration between Arab countries will enhance the structural productivity and specialization among Arab economies as it will contract the gap with larger international economic blocs. This objective not be achieved unless there is political coordination among Arab political systems.

The success of the economic integration of the Arab countries requires the following:

1- Governments are required to provide the conditions and laws that enable the privet sector

to be an economic power with unified goals and strategies.

2- Establishing an infrastructure to achieve integrated goals and strategies, and be able to break

the physical barriers and logistics that may be an obstacle to the transition of funds and personnel amongst Arab countries..

3- Override super facial visions of integration and to promote free trade in goods and services towards integration that leads to real prosperity of regional communities objectives of regional community in real prosperity, and to enact laws that ensure the fulfillment of these goals.

4-Successful regional economic and financial integration needs certain Mechanisms to compensate for the policies of openness and economic integration, and this requires to

Providing institutional funding for regional investment and social development along with

. the establishment of funds for social development and structural funds

5-Arab economic and financial integration has to be in a partnership form between the public and private sectors. This process aims to achieve compatibility both sectors. However, this integration requires significant investments to make a structural change which leads to a transition from the private economy into the market economy (Balassa, ,B.,1961). .

.II-Study Objectives:

1-To identify the past experience of Arab economic integration and the international experiences to draw conclusions from both. Phase out obstacles being faced and are facing the Arab economic integration process. .

2- Identify the main challenges facing Arab countries in the twenty first century..

3-To visualize the prospects for a strong Arab nation in economical, social, and political prospects and to face all challenges upfront.

II-1-Methodology of the study:

Researchers have implemented the scientific method, in describing analyzing and criticizing the present Arab economic integration since the establishment of the Arab League in 1945 as well as other global experiences to take advantage of them and the most important challenges and future prospects for the construction of strong Arab economy that depends on the Arab and foreign available sources.

III-Literature:

The realities of the current century points out the importance of cooperation and integration to build the economies of the countries, because it has been difficult for a single country to achieve accelerated economic growth and social development in this era of highly advanced technology and the requisite possession and use of human skills and financial resources and other primary resources as well as diverse and large markets disposal. Self potentials and capabilities alone cannot achieve individual country progress.

III-1-Economic Integration:

Economic integration is the coordination process between several countries is aimed to reduce or

cancel any obstacles to their bilateral trade. It could include the coordination of monetary and fiscal policies among these countries. A major objective of economic integration is to reduce production costs , which works to increase the volume of bilateral trade between these countries. There are several economic and financial integration levels. These include : preferential trade agreements , free trade areas , customs unions , common market , and finally the Economic and Monetary Union . It can be seen that integration levels are inversely proportional to the degree of regulation, barriers , and control laws . It is worth mentioning that greater integration levels between the countries would diminish the role of the individual governments to control and make any adjustments that would strengthen their power . On the contrary this integration would urge these governments to adapt to this new situation for the sake of well-being and prosperity of their people in the future.

Theory of economic and financial integration is concerned with the effects of unifying the individual country's policies and regulations and by complete or part of the countriy's individual regulations and tariffs restrictions with the bloc member countries and other world countries. Theory calls for removing all trade barriers and implement a unified export tariff , establishing a single market and, more recently, using a unified currency. This theory was first explored by Viner in 1950 and was modified by by Meade and Lipsey and others. This theory concentrated primarily on the short term effects of regional complementarities. At later times , Viner's principles were modified and replaced by relaxing some of the extreme limiting assumptions on its original principles, thus paving the way for a logical understanding of the integration process (Viner,J.,1952). However, our thoughts have accepted this integration philosophy process was after it has been strengthened by the incorporation of economies of scale and trade regulation effects, which Viner had largely missed (Grimwade,N.,2013).

Generally, economic and monetary union is an advanced step in the process of economic integration. The degrees of economic integration can be divided into six steps:

1. Priority trading area enjoys reduced tariffs between selected countries.
2. Free trade locations that have no internal customs on part or total goods between country members.
3. Tariff union with the same footing of external customs for nonmember countries and to set a common trade policy.
4. Individual markets with some product regulations and free migration of products, funds, workforce and other relevant activities.
5. Economic and financial unions will form a single market with a unified currency and funds policy.
6. All above conditions along with decent fiscal , monetary , and other economic and financial policies will form a full economic integration(European commission,2014).

III-1-1-Forms of Economic Integration:

Economic integration can take many forms. Balasaa presented four stages for economic integration.. They are : (1) area of free trade , (2) unified customs , (3) a common market , (4) Economic Union(Balasaa ,1962).

1-Free Trade Area: It is a number of countries that have low or have no price controls in their custom policies. Free trade areas permit the concerned countries to concentrate on their competitive products , so they plan to produce the goods which are competitive and more efficient at making, as this will increase their efficiency. An example of the most and largest free trade bloc is North American Free Trade Agreement (NAFTA). This bloc includes: Canada, the United States and Mexico as major members in North American.

2- Customs union: it is an agreement between two or more regional countries who agree to remove all ,or part of the trade regulations, and reduce or eliminate the bilateral customs tariffs. A customs union generally levy a tariff on imports from outside countries and they usually do not allow free flow of capital and workforce among their countries. Most often, participant countries set up an agreed upon external trade policy, however, in some cases they use different import policies. Purposes for establishing a customs union usually leads to increasing economic efficiency and building closer political and cultural ties between their people.

3- Common market: It is a group of countries, or a set of neighboring countries that agree to levy a few or no customs on the bilateral trade with its market members, but they charge common tariffs on trade with non-member countries. An example is the European Community.

4- Economic union: It is a type of trade association composed of a common market and with a customs union. Member countries have similar policies on their products, no conditions on goods movement of member countries. Member countries usually use one currency. Objectives of such unions are : promoting countries' economic efficiency , and promoting l political and cultural relations.

5-Full Economic integration : This is the form of the highest degree of integration where countries become like one economy to assume the authority to determine the different policies on them. It should be noted that some of the economic blocs gradually passed these stages until it reached the fourth type economic bloc like the European Union . Arab countries ,however, should gradually begin to follow the form of integration until you reach the latter form, such as the European Union Arab states began to Common Market in 1964 and did not start gradually, such as the European Union?(Srinavasan, T.G. ,2002).

III-2- Financial Integration:

It is is a principle in which financial market neighbors, regional and/or globalists are closely linked together. Several forms of financial integrations include: Sharing of Information among the different financial institutions; coordination the best practices among financial institutions; publicizing cutting edge technologies among financial institutions; firms should be able to borrow and raise funds directly from international capital markets; investors participate investment activities in all international capital markets; cross-border capital movement; and free participation in the domestic financial markets by international investors.

Financial integration is important for many reasons:

1- Monetary policy implementation : financial system should be highly efficient in order to secure smooth and effective transmissions of monetary policy.

2- Monitoring integration is important for regulators and central banks ,because financial integration has drastic effects on financial system structure and stability. (Tayebi,K.S..Fakhr Z.S.,2006).

III-3-The benefits of economic integration :

Economic integration benefits can be summed up as follows :

1-Creates a wider market for products due to the multiplicity of markets and the increase of consumers in front of these products in the countries within the group. The trade and exchange gateway has a good start in achieving integration as for agricultural or industrial goods , which have no other markets except their home markets. So such countries will find wider distribution channels through other markets within the group. And consequently this will lead to economic multiplier effects leading to increased production of the types required and which is gaining new markets.

2- Create a vast and joint market. different types and levels of labor groups will find more work opportunities and better invest of their energies. This improves their income and standard of living. Also, producers and businessmen will find more opportunities to get what they need from labor, expertise and disciplines in ease.

3- Availability of investment opportunities in front of the large capital owners, and benefiting from theirs economic potential. This leads to high returns for the capital owners and enhancing the factors of production in countries benefiting from capital invested. This leads to increases in: production , incomes , and living standards in the countries of the group.

4-It provides the opportunity to establish huge joint ventures that may be difficult for a single country to establish especially for intensive capital projects that and those which require high level of technical expertise or large markets to cope with them.

5-It Allows its Member States to more competitive in the international market as well as other economic blocs. Economic integration will bring better conditions for its foreign trade export and import activities.

6- Economic integration leads to specialization among countries of the Organization and benefit from the comparative advantages enjoyed by some countries in the group. It works to increase production and quality improve within each state and diversify among them. It also helps to diversify industrial products and take advantage of the complementary aspects(Abedini, J. and N. Péridy. 2008).

III-4- Financial integration and currency unions:

The incorporation of financial integration on the international and local levels began before the establishment of Economic and Monetary Union . At the European level efforts were exerted to integrate the European Community in 1957 and that was before the European Central Bank's announcement of the Treaty of Rome. establishing the European Common Market as an objective of the European ultimate objective of increasing economic prosperity and contributing to the establishment of close union between the European countries . This was inevitably followed by laws and treaties to establish the European Economic and Financial Union.

Among these agreements : the Unified European Act (1986) and the Treaty on European Union (1992). This was in anticipation of laying the foundations of the European currency unification (Berger et al , 1999) . In January, first, 1999 , the European States Members in the euro area began to implement a common monetary policy , the euro has been introduced as the legal currency unit for all European Union member states. Rose and Engel have traced that international currency union countries were having higher trade volumes, lower exchange rate risks, and more synchronized business cycles than countries of own currencies(Rose and Engel ,2002).

Progressive Tracks aiming for markets unification:

Concerned governments were having no intention to impose further barriers or conservative policies for protection , then their measures will mostly be the market split effects, this is simply because such governments differ from others who implement policies in partner countries through Imposing additional compliance costs on foreign products. The preferential Trade Agreements usually offer new techniques to discuss and agree on specific principles that will lead to lowering costs. These are (Hoekman and Winters, 2009):

- Hegemonic convergence principle: a big country is basically able to dominate its own economic or financial principle on its counter parties, and this is usually enforced due to its market size.

- Competition between rules principle: occurs upon governments sharing equivalent policies . This has been implemented by the EU model in reducing the market segmentation. The European Commission and European Court of Justice have carried out sever actions against the limited movement of goods and forced the principle of product standards(Kheir-el-Din and Ghoneim, 2005).

IV - Experiences of international economic blocs:

The global economic blocs have a significant impact on the global economy. These conglomerates constitute about half the world's population and more than 80% of annual global production.

Following is a brief on each of these conglomerates and the circumstances of their creation and their features:

IV-1-Wuropean Union(EU):

EU integration process began by establishing the Economic and Monetary Union . European

Union began by what is known as the Rome Convention in 1957, which was to stages to remove the barriers and expand the bloc which now consists of 27 members instead of 15 countries. It has become a common market in 1993 and then it has been developed to an economic union later. It started by the merging between the economic and fiscal policies to reach into a unified monetary policy, and a unified currency, the euro. Although all EU countries were full members in the economic union, yet some have taken a further step and adopted the euro as their common currency. These countries make up the euro area.

It is important to conclude that the experience of the EU is highly relevant to past Arab countries' integration efforts and to propose future attempts .Both the EU and earlier

AEI sought to coordinate between their economic and financial principles towards full integration.

It is important to look at the process of European economic integration outcomes such as lowering transaction costs ,abolishing most barriers to prosperity, and assuring long term benefits.

Critical success factors of E.U.:

1) Sharing a common vision of interoperability.
2) Political consensus at sector level among all Member States.
3) Identify and focus on major business needs and drivers .
4) Interoperability is a driving force to trigger innovative applications and products which they will bring new jobs.
5) Semantic building blocks are key for achieving cross-border European Public Services in the coming years.
6) Technical standards and semantic interoperability .
7) Trust and Privacy are essential preconditions for cross-border interoperability.
8) Transparency and traceability of exchanged information .

IV-2-: NAFTA Bloc:

The idea of this bloc in response to an anti-European bloc (now the European Union). It has made U.S.A. the establishment of this bloc an agreement of free trade for North America and named "NAFTA" and includes the U.S.A., Canada, Mexico, in 1992, and its purpose is to unite the Americas economically in the trading bloc and one to the face of Europe and Japan. Perhaps the goal of the establishment of this bloc is the fear of the United States of challenges to its economy in the twenty-first century, and thus get a larger share of the central administration of the new global economy .

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IV-3- The Asia-Pacific Economic Cooperation (APEC) :

Asia-Pacific Economic Cooperation (APEC) is a cartel of 21 countries within the Pacific Rim. These countries aimed to promote the principle of free trade and create economic cooperation within the countries of Asia-Pacific area. This group of countries have a common denominator in that they all are newly industrialized economies . These countries account for about 40% of the world's population, and about 54% of the world's GDP, and about 44% of international trade.. APEC bloc constitutes 21 members, most of them are on the Pacific Ocean cost. However, the prime principle for APEC membership is that the member is considered as a separate economy, but not as a country . This means that, APEC calls them as member economies but not as countries .

Reasons for Establishment:

-Founded in 1989 as a result to the growing mutual dependence of countries within Asia-Pacific Area and to cope with the other blocs worldwide.

-To offset the highly developed Japan that might monopolize all economic activities in the Asia-Pacific area.

-To build a modern markets for agricultural products as well as natural resources.

Bloc Key Points:

- Bloc members represent about 40% of the glob’s population, and 54% of the world's GDP , and approximately 44% of international trade.

-Established in 1989 in reaction to the high degree of interdependence moves of Asia-Pacific countries , and the creation of many international trade blocs worldwide.

-Bloc works to upgrade the living standards and education levels through continued economic growth and to adopt a feel of community and the gratitude of common interests between Asia-Pacific members.

Bloc Terms:

-Free trade :world trade with no governmental interferences, without tariffs or customs on imports.

-Trade bloc: it is a group of interregional countries, where barriers and trade regulations among the participating countries are reduced or cancelled .

Bloc Main Agenda:

-Accelerating growth in order to generate employment opportunities.

-Creating green and environmentally sound growth.

- Promoting and strengthening regional cooperation via lessening trade and investment barriers and deepening regional economic cooperation.

- Strengthening technical regulations, standards, and conformity requirements that are barriers to lowering market costs.

- Sharing scientific and technical resources in the pursuit of green growth.

- Promoting gender equity within the context of inclusive and balanced economic growth and development(Curry Jr.,R,2012).

IV – 4-Association of Southeast Asian Nations(ASEAN) :

Was founded in 1967. It includes Brunei, Kingdom of Cambodia, Republic

of Indonesia, Lao People's Democratic Republic, Malaysia, Union of Myanmar, Republic of the Philippines, Republic of Singapore, Kingdom of Thailand and the Socialist Republic of Viet Nam . The ASEAN Economic Community is considered the prime objective of all Asian Southeast countries with the following properties:

(a) Forming a unified market and production foundation,
(b) To form an economic region with high competition,
(c) To form a sustainable economic development area,
(d) Forming a fully integrated globalized economy.

The ASEAC bloc has many cooperative areas : development of human resources , building capacity; encouragement and appraisal of professional qualifications; interpretation and consultation of policies on macroeconomic and financial policies; trade financing tracks; developed infrastructure and communications networks; upgrading the electronic transactions; coordination and innovation of industries across the region to promote regional sourcing; and encouraging the private sector involvement in building AEC.

However , the main objective is to build ASEAN to be conglomerate economic and financial bloc with free migration of goods, services, investment, skilled workforce, and freer capital movement (Acharya,A.,2009).

V-Economic and Financial Integration experience of Arab Countries :

Efforts of Arab countries toward a financial integration have started with the establishment of the Arab League. The economic development in the League of Arab states showed a good diversity of oil rich countries and poor countries. A significant difference between them is indeed prevalent. For instance, the richest Arab country in the League has a GDP per capita 73 times higher than that of the poorest Arab country. Arab organizations and institutions seem to have good names, but the question is to what extent are they achieving their objectives. In general , despite the efforts mentioned, the degree of Arab markets integration remains low. It is important to note that efficiently implementing the goals of the current institutions would be the way towards integrated Arab financial markets. Serious action has to be taken by the Arab leaders. It should start with supervising these organizations and watching their performance closely before setting up any new ones(Ateyeh,M.,2014,). Greater financial and monetary integration will enhance the trade integration in the region and will an additive of financial institutions and markets developments, increase competition. Territorial finance can act as the safety valve against international capital market rampage and any monetary policy upheaval resulting from the industrialized countries.However, there remains significant heterogeneity across countries in the Arab world, especially between the oil-exporting Gulf Cooperation Council (GCC) countries, the developing oil exporters, and the emerging non-oil exporting economies. Also, financial development in many Arab countries remains at an early stage(World Bank Report,2010). Integration in between Arab countries has been looked for decades. Efforts of Arab regional integrations have started by late 1950s, earlier than most of any developing country in the region. All Arab states have signed too many agreements to reduce trade barriers and tariffs on a preferential basis. Most of the analysis on the causes of intra-Arab integration failures focused on the level of intra-regional trade in goods. Arab countries exhibit a wide range of GDP per capita, it was less than US$ 1,000 in Yemen and over US$ 25,000 in the UAE. These differences will generate incentives to engage in intra-industry trade driven by product differentiation in order to respond to differences in incomes and preferences. For such trade to expand ,there has to be a reduction the trade regulations. The economic debate on intra-Arab integration is split in two perspectives: First, it concentrated on the products market only. The second ,there are the political conditions that have a role in both driving and constraining regional integration(Hoekman,B, Sekkat,H, 2010). In the eighties of the last century, three regional Arabic economic blocs were established:

-The ArabGulf Cooperation Council between the six Gulf Arab states (Saudi Arabia, Qatar, Kuwait, Bahrain, Oman and the United Arab Emirates) with the objective of establishing a free trade area -between the GCC countries,.

- The Arab Maghreb Union in 1989, which was intended to unify the external tariff among its members, it included Algeria, Morocco, Tunisia, Libya and Mauritania.

-The Arab Cooperation Council established in1989 and included all of Egypt, Jordan, Iraq, and Yemen.

Political factors played a key role in the establishment of these three blocks. However, the events experienced by the region such as the war Gulf have resulted in an end to the Arab Cooperation Council because of the participation of Egypt against Iraq in the second Gulf War in 1991, while GCC had recorded a significant success in forming economic integration .It was agreed at Doha meeting in 2007, Gulf states leaders have agreed to achieve a full monetary union by 2010. but this goal has not been achieved for those countries , despite the strong will of the GCC leaders. The Arab Maghreb Union is semi- paralyzed so far due to political differences amongst the member states . Recently , attempts by Tunisian new present to revive the Arab Maghreb Union again. Entered the Arab Free Trade Zone in its fourth year ten by the year 2012. As the number of Arab countries that have acceded to the region sixteen Arab countries: Jordan, UAE, Bahrain, Tunisia, Saudi Arabia, Sudan, Syria, Iraq, Oman, Palestine, Qatar, Kuwait, Lebanon, Libya, Egypt and Morocco. The non-tariff restrictions constitute the main obstacle to liberalize the inter-Arab trade which is being sought for the liberalization of trade in services and join other Arab states for the Greater Arab Free Trade. The historic stations of the joint Arab action is are a few in terms of the number of joint projects, particularly in the financial field and some achievements in the inter-Arab cooperative projects, but they did not reach the target levels. A significant gap still exists among the results of the Arab achievements and results achieved by other economic conglomerates such as the European Union.

V-1-Evidences on the Non- Integration of the Arab Countries: The proof on the lack of regional economic integration of the Arab countries is exclusive and has been well documented. The main 'stylized facts' are as follows:

1- Arab countries did not take a part in the late globalization dilemma of the1980s and 1990s and are weakly integrated..

2- The foreign trade of the Arab countries is low (2.7 percent)of total world trade volume. and it equals their share in the world income. It is worth to note that, the trade volume of Arab countries is equal the African sub-continent. Excluding the oil exports of the oil producing

countries, the volume of both imports and exports of Arab countries have been stagnant and is consistent with their low GDP levels.

3-Arab countries' have very limited products base . They mainly export natural resource. Such exports have no added value for the long run.

4- Most Arab countries are composed of young and fast growing populations, this is a critical component for the future of the Arab countries. Arab countries have to concentrate on initiating and developing service exports, a field is considered one of the fastest growing product of international trade and probably the most profitable.

5- Most Arab countries , especially the oil producing countries ,have pegged their currencies to the US $, so they fall in the U.S. dollar exchange rate risk.

6- The Arab countries have very low bilateral trade ; Arabs intra-regional trade share is about 3.5 percent of their GDPs. Also ,on the average Arab bilateral trade is 11% of the region's imports and 8% export only

V-2-Impact of Arab Economic and Financial Integration:

To measure the impact of economic or financial integration, Generally, every country needs a general equilibrium formula to assess the effect of the integration process. To test Arab Economic Integration(AEI) is benificial , the EAI changes could be introduced to determine the expected impact for any individual country and for the Arab region as a whole. However, an assessment of the impact of AEI on all Arab countries is not available. Simulations were carried out for both superficial and profound types of integration, concentrating on the effect of developing the efficiency of economics and finance sectors in light of their importance to the competitiveness of Arab firms. Reorganizing the service sector affects all forms of economy , not just the external sector, ;it includes the removal of high obstacles of entrance for all the domestic and abroad firms ; and also it removes all policies that cause extra costs transactions. This differs from merchandize trade liberalization, which gives rise to efficiency gains only. Trade liberalization equalizes between domestic and international prices, it is also the reason to reducing the cost of reconciliation adjustment. To sum up, AEI has a positive economic and financial impact . Profits can be much higher with AEI actions as it increases the service sector efficiency and it removes all trade barrios (Ahmed,G. 1999).

V-2-1-Evidence on the Impact of AEI :

There are two evidences have been related to the effect of AEI:

The econometric studies and the emulations of calculated general equilibrium. Konan

has undertaken Computable General Equilibrium adjusted emulations for Arab countries of lower and higher trade zones forms of integration.

Study results were:

• Overall service sector integration has generated higher gains than those resulted from trade and the free zone revenues.

"In the cases of Tunisia and Egypt, the volume of the profits is a manifold from what would be gained from low level integration."

• In the case of Yemen and the GCC, "output promised to grow by up to 14 percent in Yemen and 7 percent in GCC countries over the long future"(IMF,2004).

V-3-Arab Economic Integration Barriers :

Evidence on economic and financial growth and their determinants and the abroad trade condition of Arab states proposes that growth tends to be below the efficiency level and globalization is low , this is due to :

1- The old Arab states tradition of guarded trade policy implemented by Arab regimes which favored interior-oriented policies during the 1960s , 1970s , and early 1980s. were highly away from the free trade.

The controlled trade policy GCC regimes, regulated and deregulated policies have been sustained despite the calls for free trade policies during the past two decades.

2- Political and safety principles have lowered the volume of trade and the extent of bilateral trade as a result of sanctions or trade embargos.

3- The merging between protectionism and other similar factors such as donations generated similar production structures, resulting in a lack of product diversification or complementarities. However, the wide diversities in the per capita income among GCC countries could have resulted in product differentiation. However, specialization and trade in product quality were confined by the confined volume of Arab markets.

4- The relatively small volume of the Arab economies have prevented product variegation by confining the economies of scale and of limited scopes.

5- There are significant differences between the costs of doing business of the Arab countries; in the Gulf Cooperation Council states , there is a clear reduction in the costs of doing business.

However, the relatively high logistics and other costs have an adverse effect on the trade competitiveness with other countries , also, the rising costs of establishing new projects accompanying the increase of commissioning of incorporation will lead to inadequate and inefficient infrastructure and related services.

6- Economic colonialism: This period of colonization is an important factor for the lack of economic and financial growth. Public Arab administrations and governmental structures have been inherited from the Ottoman Empire rules and policies. This era was followed by European colonial powers and all Middle East and North Africa countries were governed by the French law, which was the most likely reason that contributed to the lack of economical ,financial development as well .

7- The curse of natural resources : As for the Arab countries who are oil dependant, as these countries have become rich due to the international high demand for natural resources such as oil and gas ,these countries have relied on this natural wealth and thus have neglected to develop any economic or financial reforms needed to diversify the funds resources of the State. However, the majority of these countries have neglected harmonizing the pricing of of public services such as transportation , water and means of communication and other public services with their costs. So the people of these countries have become totally dependent on the income generated from the exploitation of their natural resources . This has led to a lack of capacity to search for economic diversification . This led to a high degree of concentration in the structure of production and exports , but vulnerable to fluctuations in energy prices.

It has been observed that some of the Gulf countries with low petroleum resources , such as Dubai and Bahrain , and some other countries such as the Republic of Yemen have become pioneers in the development of new economic strategies that are based on economic diversification including services and non-oil sectors . Liberal policies have caused some Arab countries such as Egypt and Lebanon in the migration of its labor force, to the GCC countries which are rich in the natural resources but they lack the national manpower . As a result ,labor exporting countries it have become labor-exporting countries and become reliant on the workers' remittances. As these labor exporting countries did not take any procedural steps to cope with future unexpected conditions , such as lower oil prices as well as the reliance of oil producing states on their newborn work force to replace the foreign workers.

Arab labor-exporting countries have become hostages to Arab oil-producing countries as they rely on their exported work force remittances , did not take any reforms necessary to meet the changing economic conditions that require a change in the economic policies and strategies .

(Saidi, Nasser. 2004).

8- The size of the Arab countries: Arab countries are small in size with semi primitive markets as these markets lack the universally desired commodity diversification , this is due to limited and no diversity of natural raw materials coupled with primitive factors of production. Thus, all international community integration indicators show that the majority of Arab countries lag behind in this area. Also they are backward integrated at the regional level.

9-Nationalization policies and the expansion of the predominantly Arab governments to account the means of production through nationalization processes of these companies Governments usually claim that the resources and all means of production belong to the people. Most of Arab governments have adopted non-market strategies of economic development. These non-market- models are based on socialism principles and thus commodities are swapped with commodities or services of other countries that follow the socialist system.

V-4- Arab economic and financial integration Elements:

Arab countries share a number of characteristics that favor their economic integration, expansion of trade, direct investment, and capital flows. Geographically and according to the gravity model13 of international trade, short distances between main urban centers and long common borders suggest that transport and transactions costs should be low favoring a large volume of

trade between the Arab countries. The key institutional features that helped drive integration in the above example are:

1) Strong political backing that enable and support a central executive body to manage and drive the process;

2) Financial and other mechanisms for redistribution devised to sustain integration and cooperation.

3) Short distances between main urban centers and long common borders

suggest that transport and transactions costs should be low favoring a large volume of

trade between the Arab countries.

4)The common language which greatly reduces the transaction costs associated with gathering information, making contacts, and conducting negotiations.

5) The creation of enabling institutions and facing the issue of loss of sovereign decision-making and independent government policy. Economic integration will be a matter of political will and of the willingness to make and implement compensatory mechanisms.

6) The implementation of an Arab Regional Integration Agreement (ARIA) and other agreements which will require deep political reforms of existing institutions such as the Arab League, and the creation of new institutions that will drive the Real Economic and financial Integration process. The Arab League, at the present time, has not been able and was not enabled to play a regional integration role.

7) Regional Arab Monetary Fund has be evolved as economic and financial integration institutions.

8) Integrated Infrastructure is the Basis for Economic Integration: the success of modern economies and societies owes much to the overcoming of physical obstacles to communication and access to markets and trade. As a major component of the REI, the Arab countries should invest to link and integrate the physical networks that underlie and facilitate trade, the mobility of factors of production, capital flows, and direct investment. These include: air, rail and road transportation, energy, oil and gas pipelines, and modern ICT networks.

V-6-Proposed mechanism for coordination between Arab Economic regional groupings:

To achieve the benefits of economic and financial integration , coordination between regional economic groupings in their requirements and needs for the establishment of joint ventures projects. There is no doubt that joint ventures represent an important input for economic integration to achieve its objectives,; this requires the provision of a set of basic conditions which can be summarized as follows:

1 -Joint Arab projects should be established within a comprehensive framework of a development plan taking into account the real economic cooperation and integration for long terms.

2 - To move from the concept of holding projects to productive projects that is distributed between the Arab countries and to focus on service-industry productivity integratives.

3-To run these joint Arab projects on sound economic fundamentals and far from political considerations.

4- Joint venture projects should meet in the first place the needs of Members of the Economic Community and should not involve any multinational corporations.

5-It is essential that joint-venture projects are carried out with shared efforts concerning: financing, management, technology, marketing, and employment of trained and experienced high.

6- Planning for these joint venture is based on the yield and economic development in the participating countries and by encouraging the private sector to participate in these projects.

It is worth to note that the first Arab economic summit was held in Kuwait in January 2009 as the first Arab economic summit in the light of the major global changes. This initiative was pr a governmental issue, however , the private sector has participated on equal footing . Many practical measures have been effected in order to activate the joint economic action and to remove the obstacles facing the completion of , Arab Free Trade Zone and the establishment of Arab Customs Union , as concrete steps in the establishment of the Arab common market based on the gradual stages.

VI-Reconnaissance remarks:

The Arab countries should consider an Arab Regional Integration Agreement (ARIA) as a motive and encouragement for an economic and financial development strategy to deal with the inside and outside challenges confronting them..

It is a vital step to be committed for the sake of reducing the complementarities between the Arab countries in the form of levitating policies that coincide with cross-state convergences of

income. To move forward, the Arab states need to shape up their self and the bilateral policy

reform package, including:

1- Acknowledgement of the Greater Arab Trade Area to build an Arab Regional Integration Agreement with a larger scope through infiltrating trade in services that align with the GATS,

freedom of capital movement in between Arab states , investment, free work force movement..

2-Provide funds for investment to aid the integration process as the Arab states are in need to invest in trans-national and regional infrastructure projects. The Arab countries are urged to carry out intensive investments in infrastructure with private sector participation. There is vast need for a wide Arab integrated network of transportation, communications, energy, telecommunications, and a broadband backbone; aiming to provide the “info-structure” for the entry of Arab economies and societies into the high technological stage. Trans-Arab integration Network should be directed in two fold strategic:

-One direction is towards the European Union and the Trans EU. network.

-Towards Asia to provide China, ASEAN, and Japan with a inter the region's energy umbrella.

3-Assist and finance economic and social policies supporting the income diversification via

increased openness of the Arab states which is requires adjustment leading to a greater level of income diversified levels. It is important to incorporate that the poorer Arab states are probably the less-open countries that require more extensive and intensive policy reforms.

4- Preference is the development of the Arab capital markets by setting the required policies for their integration, payment systems in the Arab countries need to be integrated to establish an 'Arab Common Market' system that designs the foundations for an Arab exchange rate system.

5- Provide and build institutions to create and back economic integration: It is important that Arab Regional Integration Agreement be supported by a financial mechanism which includes the establishment of a Regional Investment and Development Bank. Also a Developing Structural Adjustment Funds should be considered.

6- Offer the needed in financing of the Arab's entry into the advanced technological age and to become quite knowledgeable based economies. The technological gap between the Arab stated and the advanced economies is still big despite the recent innovative development the gap is still wide(Lessons , EU's financing mechanisms).

VI-1-Prospective Future Tracks:

The coming years will hopefully be unlike the past decades for the Arab region and its economic and financial complementarities . Confluence factors may induce an Arab wake up; as well, external forces and discriminations may set propelling forces towards creating a unified Arab market along with economic and financial integration. There are two path roads proposed for Arab states:

-In case that regional integration is neglected it will lead to randomized, unstructured trade policies, with no benefit of so ever to the negotiating power of a economic bloc. This leads to limited gains from limited integrated trade and losses from trade diversion, taking into consideration the rapidly growing Asian economies, such as China , India, and South Asian Countries.

-The other path which is based on Regional Economic and Financial Integration, Arab countries will have a unified set of Association Agreements among each other, with a well defined scopes and strategies as those carried by the EU. Such an inter-Arab covering economic, diplomatic, social, cultural, environmental, and political relations could be screened out as the large number of existing bilateral and regional agreements. This results in eliminating most barriers of trade, investment, and the migration of people would lead to an Arab awakening. This awakening can establish a market with about four hundred million or more consumers and producers. This will

allow Arab producers and consumers to benefit from the economies of scale and capacity. This Arab uprising will lead to a resurgence of economic growth and employment which ultimately leads to an improvement in the socio-economic conditions, and to a reduction in poverty.

VII-Conclusions and Recomendation :

VII-1-Conclusions

It is worth to point out that Regional integration is a vital factor of both the regional and international policy strategies of Arab governments.

Arab Awakening and Renaissance is a new belief that puts vision for the Arab region , this belief sets a deeply integrated economical forum with the rest of the global conglomerates such as the European Union and Asia ; region is likely to pose the greatest area integrated economically , financially ; and where physical barriers and moral that prevent access to prosperity and wealth would have been eliminated , and where Arab children and their future generations will be able to interact with the global community in trade , investment, and work without barriers . The vision to become realistic and within the resources available , where the technology and knowledge have become in the nation's possession . Leadership and courage with determination and long-term commitment are of deem necessity for the children and the future generations .Future generations will not forgive them if they do not move in this direction. Arab present generation owes their future children to try and take the initiative. It is time for Arab Nation to take its future in its hands. They must build their future and own it . It is unacceptable to leave the future of Arab children exposed to violence, conflicts , and laid down their initiatives from outside the region .

VII-2-Recommendations:

To move ahead, with economic and financial integration, the Arab countries need to implement an inclusive regional repair rap up policy including:

1- Build up of an Arab Regional Integration Agreement (ARIA) with a vast scope, encompassing services investments consistent with GATS, free capital migration and free investment ,free work force movement, and free enterprise establishing.
2- Arab countries need to invest in international infrastructure projects. Arab states should undertake massive investments in infrastructure along with private sector , leading to an Arab integrated network of transport, communications, energy telecommunications, and infra structure to provide the suitable foundation enabling Arab economies and states into the technological era.
3- Arab states are encouraged to enter into the high technological era in order to cope with the highly advanced countries.
4- Trustworthy tracks to continuing integration necessitates Arab states to adopt all possibilities in the way of supra-national institutions and transfer of sovereignty. This recommends to focus on areas of cooperation for which the issue of less problematic and the potentially promising of economic payoffs.
5- To increase the private sector participation in the work of the Arab Economic and Social joint work by increasing the size of the joint Arab investments through both public and private sectors.
6- To establish a joint Arab information network to conduct the movement of goods and services easily and conveniently, and open all Arab borders for the movement of Arab labor and capital away from the political sensitivity and security and reduce the dependence on non-Arab labor.
7- Conducting relevant scientific ,realistic, and logical studies to solve the problems of unemployment, poverty, inflation , foreign debt and any other problems and have them gradually resolved through sincere and optimal utilization of the available Arab resources among the Arab countries.

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