

# **TOWARDS MORE FUNCTIONAL ECONOMIC COOPERATION IN THE MIDDLE EAST**

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The Middle East (ME) is neither fully integrated as an economic region, nor does it stand out as a coherent socio-political context. It consists of countries among which the level of economic relationship is quite low. This is a major reason why, despite various attempts to cooperate since the 1950s, regional organizations have with few exceptions failed to bring concrete benefits to individual countries in particular and the region in general.

The major concern of this paper is to scrutinize possibilities of establishing functional cooperation and/or integration alternatives among different sets of country pairs or trios, so that they can yield measurable increases in regional production, consumption and welfare as an overall outcome. When the economic benefits of such cooperation exceed its costs, then we may also expect the sustainability of such an attempt.

The ME is a vast geographic area. Depending upon the definition, its boundaries may stretch from the Atlantic Ocean in the west, to the Indian sub-continent in the east, from Asia Minor in the north, the Caucasus in the northeast, and the Saharan desert in the south. However, in most cases geographical limitation is employed for the benefit of research focus. Most studies include only North Africa, the Arabian Peninsula, the Gulf, Turkey and Iran. Pakistan and Afghanistan are almost always excluded. In this study, only the Arab ME and Turkey are included. As reliable data have not been available for Iraq for many years, that country is also kept out of the research frame. Additionally because of their negligible economic roles in the region, Sudan, the Comoros, Mauritania and Djibouti are also excluded from the research, even though they are a part of the Arab world. And although Israel's technical, economic and human resources offer various opportunities for

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regional cooperation it is included in the argument only as a potential actor because of the persistent unfavorable climate between itself and the Arab ME.

## **GENERAL BACKGROUND**

There is geographic proximity in the ME. However, physical infrastructure for the transportation routes, harbor facilities, and airline connections, which facilitate integration among the ME markets, is insufficient or not complete. Therefore, technical, and structural deficiencies in transportation and communication within and among the countries of the region impede initiatives for integration of markets. Beyond this, many factors contribute to the fact that there is a low level of economic relationship between the countries of the ME. First of all, the production structures of the ME countries dominate this outcome. With the exception of Turkey, Israel, Egypt, and Syria, most countries of the ME are still producers and exporters of raw materials and importers of manufactured goods.

So far as trade is concerned, one has to make two essential qualifications: First of all, despite the level of high trade openness of most countries in the region, and with the exception of oil trade, the ME is not among the top three trading regions in the world, and neither is any country in the region included among the top 25 world exporters. Only 11 of the 22 Arab League states are members of the WTO. Algeria, Lebanon, Saudi Arabia and Yemen are still observers. So far as world equity and foreign direct investments are concerned, the ME does not qualify as one of the luckiest geographies either. This is also because of such factors as lack of sufficient infrastructure, low level of economic development, and lack of skilled labor etc., which are independent of political and/or military causes of instability.

The region's economic relationship is mostly extra-regional in nature. The factors, which command this reality, can be summarized as follows:

### **1. Low level of economic development**

The ME is composed of countries at either a low or an intermediary stage of economic development. Israel, which has higher level of economic development, and more complex and dissimilar factor endowments to the regional average, especially in human resources, is the only exception in the region.

### *2. Limited economic diversification*

The ME is mostly composed of countries the product and export diversification of which is limited to few commodities, and/or services. However, even though Israel once more spins out as an exception, Syria, Egypt, Tunisia, and Morocco have improved the level of diversification in their respective economies during the last decade, and have entered a new period where they may leapfrog to become emerging economies. On the other hand, the UAE has significantly diversified its economy, and improved its infrastructure to become a service-oriented country in recent years. As economic and trade diversification has occurred, some of the raw material-producing economies of the ME have become producers and exporters of intermediary consumer goods. This trend is slowly transforming such economies into newly emerging ones, which in turn qualifies them for intra-industry trade, especially in textiles, processed food, light consumer electronics, and appliances. The following table (Table 1) demonstrates this trend:

**Table 1: Product concentration and intra-industry trade indices in ME countries**

Country	Product Concent. Index *	Intra-Ind. Index**	Country	Product Concent. Index	Intra-Ind. Index	Country	Product Concent. Index *	Intra-Ind. Index**
Jordan	0.27	0.16	Bahrain	0.63	0.16	Syria	0.56	0.11
Lebanon	0.13	0.18	Egypt	0.28	0.18	Kuwait	0.56	0.07
S.Arabia	0.74	0.13	Oman	0.72	0.14	Morocco	0.18	0.24
BAE	0.62	0.22	Qatar	0.73	0.07	Tunisia	0.21	0.29
Turkey	0.10	0.31	Israel	0.28	0.62	Libya	0.77	0.04

Sources: UNCTAD, Handbook of Trade Statistics, 1997 and UN COMTRADE 2000. \* 1997, \*\* 2000, The higher the concentration index, the lower the diversification in production, and the higher the intra-industry index the higher the trade diversification and the trade of close substitutes.

### **3. Low level of complementarity**

Similarity in factor endowments in the ME naturally leads to lack of economic complementarities, which in turn works as an impediment to regional integration in the region. Out of an index value of 100,

the most successful regional integration models, the complementarity index for the EC (6) is 53.4, while it is 56.3 for NAFTA. The complementarity index numbers for the most unsuccessful regional arrangements like LAFTA and the Andean Pact are 22.2, and 7.4. In the ME, the highest degrees of complementarity are found between Lebanon and Arab countries (34.3), Egypt and Arab countries (28.0), and Jordan and Arab countries (25.5).<sup>1</sup>

#### **4. Economies linked to previous colonial ties**

Indeed, the economies of the ME are mostly linked to their previous colonial ties, and/ or their economically complementary relationships. With the exception of Israel, they do not or cannot qualify for top manufacturers of most products either. They rarely display revealed comparative advantage in industrial production, which may be indicative of their export competitiveness. However, the oil producing ME countries do display absolute and revealed comparative advantage in that product. Along with oil, the ME countries mostly provide raw materials, and/or intermediary products to their extra-regional trade partners. The following table (Table 2) shows the principal trade partners of ME countries:

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<sup>1</sup> Samiha Fawzy, 'The Economics and Politics of Arab Economic Integration', Mediterranean Development Forum (MDF4), Amman, Jordan, 2002, p. 8.

**Table 2: The Principal Trade Partners of the ME Countries as of 1999**

Country	In Exports %	In Imports %	Country	In Exports %	In Imports %
<b>Algeria</b>	Italy 20.6	France 23.1	<b>Bahrain</b>	India 14.4	France 15.6
	USA 16.0	USA 10.6		S.Arabia 5.4	USA 11.0
	France 15.8	Italy 8.6		USA 5.3	UK 5.8
	Spain 9.0	Spain 6.9		Japan 4.4	S.Arabia 5.6
	Nether. 8.4	Germany 5.6		S.Korea 3.6	Japan 4.1
<b>Egypt</b>	USA 15	USA 15	<b>Oman</b>	Japan 27.3	UAE 26.3
	Italy 13	Germany 10		Thailand 17.6	Japan 15.8
	Nether. 10	S.Arabia 9		China 12.2	UK 8.8
	UK 7	Italy 8		UAE 12.1	Italy 7.2
	Germany 6	France 7		S.Korea 11.9	Germany 5.7
<b>Israel</b>	USA 5.4	USA 19.6	<b>S.Arabia</b>	Japan 17.0	USA 23.3
	UK 5.4	Bel-Lux 10.5		USA 14.8	UK 17.2
	Nether. 4.8	German 8.8		S.Korea 11.0	Japan 8.5
	Germany 4.8	UK 7.5		Singapore 8.0	Germany 5.8
	Bel-Lux 4.7	Italy 6.7		Nether. 3.8	Italy 4.7
<b>Jordan</b>	India 13.9	Iraq 21.6	<b>Syria</b>	Germany 20.9	France 10.7
	S.Arab. 7.7	USA 9.9		Italy 12.3	Italy 7.9
	Iraq 6.2	Germany 9.7		France 9.5	Germany 7.1
	China 1.9	Japan 4.8		S.Arabia 8.9	Turkey 5.0
	Lebanon 1.7	UK 4.7		Turkey 7.7	China 4.4
<b>Kuwait</b>	Japan 24.9	Japan 12.8	<b>Tunisia</b>	Germany 28.0	France 23.0
	USA 12.6	USA 12.3		France 22.0	Germany 23.0
	S.Korea 11.5	Germany 7.2		Italy 17.0	Italy 15.0
	Singapore 8.2	S.Arabia 6.2		Belgium 5.0	Belgium 3.0
	Nether. 7.2	Italy 5.8			
<b>Lebanon</b>	UAE 10.0	Italy 12.0	<b>Turkey*</b>	Germany 17.1	Germany 12.9
	S.Arabia 9.0	France 10.5		USA 10.0	Russia 8.3
	Syria 7.2	Germany 7.7		Italy 7.4	Italy 8.4
	USA 7.1	USA 6.7		UK 6.9	USA 7.9
	Kuwait 6.7	UK 4.5		France 6.0	France 5.5
<b>Libya</b>	Italy 41.0	Italy 22.0	<b>UAE</b>	Japan 28.0	USA 8.9
	Germany 17.0	Germany 14.0		S.Korea 8.2	Japan 8.4
	Spain 12.0	UK. 8.0		India 5.7	UK 7.5
	France 8.0	Turkey 6.0		Oman 4.2	Germany 6.2
	Greece 5.0	France 6.0		Singapore 3.9	France 6.2
<b>Morocco</b>	France 36.3	France 25.7	<b>Yemen</b>	China 24.9	S.Arabia 11.7
	Spain 10.6	Spain 11.2		Thailand 22.1	UAE 10.5
	UK 9.5	USA 6.5		S.Korea 11.3	USA 5.8
	Germany 5.3	Germany 6.0		Singapore 5.9	France 5.6
	Italy 5.0	UK 5.4		Japan 3.7	UK 5.1

Source: UN International Trade Statistics, 1999, Direction of Trade Statistics, IMF, and EIU Country Profile 2001, \* 2001 figures from dtm.gov.tr

The already established economic relationships between ME countries and their traditional trade partners is another factor preventing the improvement of intra- regional trade. Although there has been an improvement in the situation in recent years, intra-regional trade in the ME is still very low. Intra - Arab trade is still between seven percent and 10 % of total Arab trade as of the early 2000s.<sup>2</sup> Intra- Arab trade was approximately 8.6% in 1999.<sup>3</sup> The intra-regional exports as a share of total exports reached 8.2 % the same year.<sup>4</sup> Nevertheless, the following table (Table 3) shows how negligible intra-regional trade between the countries of the ME at bilateral levels remains:

**Table 3: Intra-regional trade of the ME countries for 1997 (as a percentage of their cumulative trade to the region in their total trade)**

Country	Share	Country	Share	Country	Share
Jordan	0.41	Bahrain	0.10	Syria	0.09
Lebanon	0.53	Egypt	0.10	Kuwait	0.8
S.Arabia	0.06	Iraq	-	Morocco	0.07
BAE	0.15	Oman	0.07	Tunisia	0.04
Yemen	0.20	Qatar	0.19	Algeria	0.02
Turkey	0.18*	Israel	0.22	Libya	-

Source: Compiled from the Direction of Trade Statistics 1998 by the author. \* Compiled from the DIE Foreign Trade Statistics, 1999.

## 5. Regional tariffs still too high

Regional tariffs are still too high with respect to all regional economies, and non-tariff barriers still create major obstacles to regional trade and investment flows. Some ME countries are still at the import substitution stage of economic growth. Therefore, the effort to dismantle trade barriers between the ME has proven futile. Organizational problems concerning harmonization of laws and regulations related to trade and commerce, competition and procurement, customs controls and regulations, as well as product standards

<sup>2</sup> ‘Arab Human Development Report’, UNDP. 2002, p.126

<sup>3</sup> Samiha Fawzy, op.cit p. 3

<sup>4</sup> Policy Viewpoint, ‘Arab Economic Integration Between Hope and Reality’, *ECES*, No. 12, Oct. 2002, p.1

create a set of non-tariff barriers before improving trade among neighbors. However, even if tariff and non-tariff barriers might further be lowered, regional trade might not increase because of the existing structural characteristics of the economies of the ME.<sup>5</sup>

**6. Service sector reforms incomplete**

Service sector reforms are incomplete, blocking regional integration which should perhaps be more easily conducted because of cultural and linguistic similarities. This also prevents one regional area cooperation possibility, namely the integration of regional labor markets. Trade and investment related labor movements, which can be a solution to regional unemployment problem, cannot be used as a policy option. On the contrary, nationalization of labor force policies are often implemented not to replace foreign non-national Arab workers with the domestic, but to replace them with cheaper non-Arab, non-national East Asian or African workers.

Other issues of concern when one looks at the general background of economic development within and relations between Middle Eastern countries include a lack of confidence in each other, the differing political ambitions of regional leaders, political conflicts or even wars between neighboring states that impede cooperation, and a lack of the qualified personnel necessary for improved economic cooperation among neighbors.

**AN INTERIM ASSESSMENT OF CURRENT CONDITIONS**

Most of the cooperative attempts in the ME seem to include Arab initiatives only. Therefore, they are inevitably exclusionary for Turkey, and Israel. However, for the reasons summarized above the following types of multilateral economic integration attempts among the Arab countries are the least likely ones to complete their missions, or become functional. The following table shows the type of economic integration (cooperation), with examples of organization(s) and the main reason (s) why it can or cannot be functional.

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<sup>5</sup> Policy Viewpoint ibid p: 2

**Table 4: Forms of economic integration which are not functional for the ME**

The Type of Economic Integration / Cooperation	Example	Participants	Main Reason of Success or Failure
Free Trade Area	AFTA or GAFTA 1997 (to be completed in 2008)	14 or 18 Arab States	<ol style="list-style-type: none"> <li>1. Lack of intra-regional trade among members.</li> <li>2. Agricultural products are excluded.</li> <li>3. Many exemptions are allowed.</li> <li>4. Tangible productivity improvement and specialization are not expected.</li> <li>5. Only 10% tariff reduction in customs tariffs have been realized****</li> </ol>
Customs Union	<p>Arab Maghreb Union (1989)</p> <p><i>GCC Customs Union to be realized in 03</i></p>	<p>Maghreb * Countries&amp;Maurit.</p> <p><i>Among the 6 Gulf Countries</i></p>	<p>Lack of incentives to harmonize customs regulations, difficulties to establish common customs, etc.</p> <p><i>Possibility for success. Still trying to develop schemes to share common tariff revenues</i></p>
Common Market	Arab Common Market of 1964		Insufficient movement of commodities, services, and factors of production
Monetary Union	- <i>GCC Monetary Union?</i>	- <i>6 GCC members**</i>	<p>Lack of an economic framework for macro economic convergence.</p> <p><i>Since they are quite active in trade and finance success is a likely possibility</i></p>
Economic Union	- GCC	- Planning to form one	Lack of common goals, and political will.
Councils	<b>1.</b> Gulf Cooperation	<b>1.</b> Founded by 6	<b>1.</b> All conditions in favor of



	Council (1981) <b>2.</b> Council of Arab Cooperation (1989)	countries from the Gulf. <b>2.</b> Founded by some Arab League States***	regional success. But failed to stimulate unified industrial targeting. <b>2.</b> Not enough incentive for cooperation. Activities were frozen in 1990
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- \* Algeria, Libya, Tunisia, Morocco
- \*\* Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, the UAE
- \*\*\* Egypt, Iraq, Jordan, Yemen
- \*\*\*\* With the exception of Bahrain, and Yemen

### **FUNCTIONAL ALTERNATIVES TO MULTILATERALISM**

There is no doubt that every economic integration attempt is initiated upon goodwill in the ME by regional governments. However, when conditions do not allow them they only prove to be dysfunctional. Yet, once established, they do generate the real fixed costs that come with running headquarters, maintaining a secretariat and paying for meetings and travel expenses. Banks allocate credits and funding for such activities. Substantial budget allocations are made by member states annually. However, when integration attempts do not reach their predetermined targets, expenses do not justify the existence of the institutions. Furthermore, when expectations from the attempts are not fulfilled, the real costs are also transformed into opportunity costs. In a region where every single petro and/or non-petro-dollar makes a great difference to the quality of lives of many people, functional rather than dysfunctional cooperative arrangements must be practiced. The idea of forming free trade areas or other types of economic unions with loose ties should not be given up completely. Nevertheless, it would be more beneficial, less costly, and more encouraging to try other alternatives until regional disadvantages are overcome.

There are already functional cooperation attempts in the ME of narrower scope and aspirations. Most if not all are, again, either among Arab states and / or between Arab states and some extra-regional entity such as the European Union. The possibility and potential for cooperation with Israel is dim. Although attempts have proven to be more than just promising, relations with Turkey are either unborn or underutilized. The area of functional alternatives can be classified under the following headings:

## **1. Sub-regional attempts and opportunities**

As it is more difficult to form intra – ME multilateral integration and cooperation models between Arab states, and between Arab states, Turkey and Israel, it is highly recommended that sub-regional arrangements should be formed to create greater markets, harmonize economic rules, regulations and institutions and accomplish capacity building with partnership. The Gulf Cooperation Council (GCC) already sets an exceptionally successful example for such a choice. However, the Gulf Countries have not yet reached the stage of stimulating industrial targeting in general. Therefore, although the six members of the GCC are planning to move ahead with a customs union first, and monetary and economic unions eventually, the success of the latter two, especially, remains to be seen.<sup>6</sup>

Other than the GCC experience, since sub regional arrangements function better under geographical proximity, such arrangements with loose border trade, and/or free trade rules can be recommended for the Maghreb states and for some Mashreq states, Turkey, and Israel. An attempt is being made to form a free trade area between Jordan and Egypt by 2004,<sup>7</sup> while free trade between Jordan and Syria, and Jordan and Yemen are being promoted by newly signed free trade agreements.<sup>8</sup> In the process, customs have already been lowered by 55% on Jordanian-Egyptian trade. In order to support bilateral trade between the countries, measures that hinder investment are also being lifted to promote bilateral investment.

Nevertheless, efforts to establish free trade areas and/ or customs unions even at sub-regional levels cannot accomplish sustainable results unless sub-regional cooperation attempts are accompanied by sectoral cooperation traits so that the goal can go beyond merchandize trade to the fruits of joint ventures.

## **2. Sectoral cooperation attempts**

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<sup>6</sup> Mohammed Jaber, 'GCC Financial Markets and the Quest for Development', *Middle East Policy*, 2000, Vol.VII, No.2.

<sup>7</sup> Rana Awwad, ' Jordanian- Egyptian Free Trade Area to Come into Being Earlier than Scheduled', *Jordan Times*, June 5, 2001 p:1

<sup>8</sup> 'Efforts made to facilitate trade ties with Syria', and 'Efforts under way to promote trade ties with Yemen' *Jordan Times*, October 8, 2002

In the ME even free trade agreements between countries at bilateral levels often fail to fulfill their missions because of the fact that there is not much to trade. Thus sectoral cooperation seems to be a sensible option to create incentives for intra-firm trade in the region to promote economies of scale, along with intra- industry trade and investment. Sectoral cooperation may also function better at sub regional levels in the ME, since it offers limited industrial targeting. However, there are various joint establishments, manufacturing and/or service related regional examples of sectoral cooperation in the ME, some of which do offer functional alternatives to other conventional economic integration forms even at regional levels.

There are organizations, which are working under the Arab Unity Council in the Arab ME. The establishment of such organizations goes as far back as the early 1960s. The Arab Union for Cement and Building Materials (1977), and the Arab General Union of Insurance (1964) are two examples of early initiatives. Many manufacturing unions were established in the 1980s and 1990s. However, as of today, the activities of many of them are frozen. This is an indication of the fact that initiatives at regional level under Arab identity alone cannot guarantee sectoral integration either. The Arab Iron and Steel Union (AISU), founded by 43 companies of 12 Arab countries, the Arab Union of Railways (founded by 10 Arab states), the Arab Air Carriers Organization (AACO) and the Arab Textile Industries are examples of specialized sectoral organizations. Nevertheless, again, the activities of some of these organizations are either frozen or they do not serve their goal.<sup>9</sup>

On the other hand the Arab Monetary Fund, and the Islamic Development Bank are two organizations which have been quite functional since their foundation. The Arab Monetary Fund (AMF), which is the ME counterpart of the IMF, has also been acting as a well functioning regional authority for pooling and dispersing funds among its members, and extending credit facilities with low interest rates and extended repayment periods to both Arab and non-Arab oil importing countries of the region, as well as sub-Saharan Africa, for over 30 years now.<sup>10</sup> The activities of the Organisation of the Islamic Conference and the Islamic Development Bank (1975) do not automatically qualify them as sectoral cooperation institutions. They are international funds, mostly financed by Arab countries and mostly used for sector-specific purposes. The mission-specific financing facilities of these two

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<sup>9</sup> <http://Faculty.winthrop.edu.haynese>

<sup>10</sup> Arab Monetary Fund Annual Report 2000

establishments may be considered functional not only on an economic level, but also from the point of view that their exceeds the boundaries of the ME to embrace all Islamic countries.

Arab funds, banks, chambers, and programs are also institutionally designated for regional cooperation in the ME. These institutions do create finance for regional cooperation. They especially target the funding of inadequate infrastructure, the enhancement of energy, transportation, and water sanitation and communication fields. In addition to regional Arab Funds, there are national funds such as the Saudi Development Fund (1974), the Kuwait Fund for Arab Economic Development (1961), and the Abu Dhabi Fund for development (1971).<sup>11</sup> These national funds have been functioning as agents for financiers of regional projects. Arab funds both at regional and national levels have the ability to create and use their financial resources without the limitation of national budgetary procedures. Therefore, they are considered as more functional and adoptable institutions for regional development and cooperation.

The Arab Fund for Economic and Social Development (AFESD), founded by the Arab League; the Gulf Organization for Industrial Consulting (GOIC); the Arab Bank for Economic Development in Africa (BADEA), founded by 18 Arab states); the Arab Authority for Agricultural Investment and Development (AAAID), founded by 16 Arab states); the Arab Trade Financing Program (with 44 institutional shareholders such as AMF and Arab Private Banks); the General Union of Chambers of Commerce, Industry, and Agriculture for Arab Countries (founded by 21 member national chambers of commerce) --- all represent other institutional establishments with dedication of capital, expertise, office, personnel, time and most importantly mission. There is also the OPEC Development Fund (1976), two thirds of whose financial means is obtained from seven Arab oil countries.

Other Arab organizations, on the other hand, could not achieve their intended goals. For instance they neither have made railways, iron and steel factories or air carriers more integrated, nor did they help enlarge the capacity of factories or increase the length of railways to connect ME destinations. Therefore, they could not become functional for the goal of increasing merchandize and service trade, passenger and haul transfers at regional level.

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<sup>11</sup> <http://www.imf.org/external/np/sec>

Since cooperation in the area of security, economic, social, judicial, environmental and cultural fields aims to promote progress in chosen sectoral spheres, specialized ministerial councils also serve as agents to initiate, organize, and perpetuate cooperation among Arab countries. However, when the domestic politics of national governments interfere with the activities of ministerial councils, their activities tend to be confined to annual, semi-annual, or occasional meetings, which turn out to be cost-creating than benefit-generating.

**3. Concentrating on existing areas of sectoral cooperation**

Most of the ideas for how to make the ME better integrated as a region are concentrated on regional governments involvement in regional projects. Although newer and less conventional alternatives favor private initiatives replacement of state interventions, it would still be sound to move along public driven approaches to avoid obstruction, and therefore disappointment of private parties in the process of the ME cooperative efforts. There is also room for the facilitation of a global or supranational agent such as the IBRD, AID and/ or ADB (Asian Development Bank). In fact, there are infrastructure projects in operation in the ME, which are supported and financed partially by such global partners.

There are 15 transport projects in the Middle East and North Africa (MENA) presently managing \$1.5 billion in funds. The World Bank provides \$630 million in funding for projects which include the upgrading of national highways, rural routes, and urban transport, seaports, airports and railways in Algeria, Bahrain, Djibouti, Lebanon, Morocco, Syria, Tunisia, and Yemen.<sup>12</sup> The following table gives examples of projects, which involve an international agent at one end and a national government at the other:

**Table 5: Infrastructure projects in the ME as of 2002**

<b>Project</b>	<b>International Agent</b>	<b>ME State</b>	<b>Status</b>	<b>Project Approval and Completion Dates</b>	<b>Amount \$Million</b>
Transport Technical	IBRD/IDA	Algeria	Active	2001-2005	8.72

<sup>12</sup> <http://www.worldbank.org>

Assistance					
Highway Projects	“	Algeria	“	1995-2002	130
*Int. Road Corridors rehabilitation Prj.	“	Djibouti	“	2000-2004	15
*Urban Transport Dev. Prj.	“	Lebanon	“	2002-2009	65
National Roads Prj.	“	Lebanon	“	1996-2004	42
Transport Sector Prj.	“	Tunisia	“	2001-2006	37.6
*Transport Sector Prj.	“	Tunisia	“	1998-2002	50.0
Dam prj.to phase out ozone depletion	Montreal protocol	Tunisia	“	1994-2003	0
Rural Access Prj.	IBRD/IDA	Yemen	“	2001-2004	45
Multimode Transport Prj.	“	Yemen	“	1998-NA	5.8

Source: [http:// www.worldbank.org](http://www.worldbank.org) \* Projects with the goal of regional integration.

Most of the internationally facilitated and partially financed projects in table five are infrastructure development projects. Nevertheless, since they support development in a broader sense, and provide infrastructure services for private sector development, they also change and/or create a favorable investment climate for domestic, regional and international investors. Therefore, they have spillover effects on regional cooperation and integration as well. However, only three of the above presented projects directly aimed at regional integration, the integration of regional markets, and the development of global partnerships for regional development. These projects do have other goals, such as the empowerment of security, promotion of decentralization, and increasing effective public governance. Such projects are also likely to create positive externalities for service and commodity sector co-operations at sub-regional levels.

There are treaties between countries of the ME, mostly at bilateral levels to initiate cooperation in various fields of infrastructure and/or economic activities. Most of these activities involve construction services, and construction materials trade, and engineering skills. However, some of the treaties have not yet been ratified by national governments, or if

they have been ratified they have not yet been enacted. Some treaties are ratified and then enacted, but after a while partners on either end of the treaty lose motivation. The involvement of an international agent such as the World Bank coordinates, motivates, finances and perpetuates attempts.

The World Bank MENA Transport Group has also been involved in the rehabilitation of existing infrastructure in airport terminals, runways and air traffic control systems to evolve aviation rapidly in the ME. Various current regional projects have also been initiated by FOEME (Friends of the Environment Middle East) whose projects are designed to promote sustainable tourism for the Gulf of Aqaba, implement a regional development plan for the Dead Sea basin, and establish a Mediterranean Free Trade Zone.<sup>13</sup>

#### **4. Importance of moving beyond Arab borders**

Agriculture, manufacturing and service industries such as tourism, banking and distributive trade are areas of potential for sub-regional cooperation. Currently, such opportunities are partially exploited at bilateral levels. When cooperation in agriculture, manufacturing and services get into the picture, Turkey and Israel appear in the limelight as well. In fact, in agriculture, the most important cooperation seems to be between Turkey and Israel, in the implementation of the Southeastern Anatolian (GAP) project since 1995. That cooperation covers animal husbandry, vegetable seed production, and the transfer of irrigation technologies from Israel to Turkey. The GAP project also necessitates cooperation in the area of transfer of training and education to be provided to the farm population in Turkey about how to use fertilizers and irrigation. A few Israeli firms are currently active in irrigation projects in Turkey. They are also involved in agricultural and medical equipment production and seed and fruit juice concentrate production.<sup>14</sup>

Jordan is another country in the region which cooperates with both Turkey and Israel when agriculture and irrigation are subjects for cooperation. Turkey seems to have been investing in Jordanian agro-industries in recent years. Most recently a Turkish firm started the construction of a \$3 million project in sunflower oil production, and another in a \$1.7 million starch production plant in Jordan.<sup>15</sup> Jordan also seems to be

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<sup>13</sup> <http://www.foeme.org>

<sup>14</sup> DEİK 'İsrail Ekonomisi ve Türkiye-İsrail Ekonomik İlişkileri', Kasım 1999

<sup>15</sup> DEİK, 'Ürdün Ekonomisi ve Ürdün-Türkiye Ekonomik İlişkileri', Kasım 2000, pp.18-19

<sup>16</sup> Sema Kalaycioglu 'Turkey's Economic Prospects in the Middle East, MESA (Middle Eastern Studies Association) conference, San Fransisco, 2001, p.9

continuing its cooperative efforts with Israel in the Dead-Sea development project, as well as water management. In the agricultural sector Turkish firms are also heavily investing in the agro sectors of Algeria. Nine Turkish companies produce a wide variety of food products from flour to yeast, from cooking fat to semolina in Algeria. The same companies also produce items such as sanitary and cleaning products, and textiles which they also import from Turkey.

Transportation is another area which promotes cooperation across the region. As a country which can be regarded as the western gate of the region to the Balkans, Turkey is deeply involved in this sector. It has been signing and ratifying treaties of cooperation with ME neighbors to the south to consolidate its national air and land routes to the region. For this purpose, Turkish companies have been engaged in cooperation attempts with their MENA counterparts. Beginning with Israel, since 1951 arrangements have been put in place to accommodate reciprocal airline transportation between the two countries. Furthermore, in recent years, 5000 long vehicles have been operating to transport goods between Izmir, Mersin, and Haifa with connecting sea liners. Ro-Ro transportation has also been under consideration between Turkish ports and Ashdod.<sup>16</sup> However, to make the project more feasible the participation of Jordan is also expected and encouraged.

Located close to the heart of the Arabian Peninsula, Jordan is in a unique position insofar as transport across the region is involved. Therefore, Turkey and Jordan must cooperate to modernize and coordinate road, rail and air transportation. In fact, since 1998 considerable effort has been made by Jordan and Turkey to improve land transport conditions to facilitate regional trade initiating from Turkey. To lower transportation costs of a long trail from Turkey to Aqaba and the Gulf, Turkey expects Jordan to reduce the tolls, and ease customs bureaucracies. Jordan also cooperates with Israel in the transport sectors. The Haifa-Irbid-Dead Sea-Red Sea railway line is a freight transport facility, which connects the Mediterranean to the Red Sea.<sup>17</sup>

Turkish - Syrian transportation facilities need to be improved as well. The 1982 transportation treaty and its protocols regulate land transportation between Syria and Turkey. Transportation between Turkey and Syria does not only concern passenger and vehicle traffic, but also live animal trade necessitates the regulation of transportation according to the specific needs of this trade.

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<sup>17</sup> 'Regional Cooperation, Infrastructuring the Future', Ministry of National Infrastructure of Israel, 2001,p.4



There is also air and railroad transportation between Turkey and Syria, which needs to be made more operational with the help of more peaceful relations. Turkey-Iraq-Syria-Lebanon can be easily connected with a railroad system, which would naturally promote trade among these four countries and most likely another four to six countries in the vicinity. Despite their thorny relationship, land and railroad traffic between Turkey and Syria has increased since 1997. Furthermore, as of summer of 2001, the Turkish Airlines has started to make twice weekly and Syrian Airlines once-a-week flights between Istanbul and Damascus.<sup>18</sup>

There is still much to be done to improve cooperation in the area of transportation between Turkey and North Africa. Beyond the existing rare airline connections, there is not even a direct sea cargo line between Turkey and Morocco. However, cooperation in transport services with Algeria seems to display a better outlook than what Turkey has with Morocco and Tunisia. In the area of sea cargo, there is a joint venture between a Turkish and Algerian company, operating since 1995 to transport Turkish exportable goods to Algeria. There are regular cargo and container services, which run two to three times a month, and carry 65% of total Turkish shipments of goods to Algeria. Airline services, which ceased in 1992, have recently been restarted.<sup>19</sup>

Another project at sub-regional level in the area of transportation is the MED-TRANS, which involves Syria, Palestine, Jordan and Egypt. The MED-TRANS has many objectives among which transport data collection, upgrading of road, railway and port systems and developing a common transport language seem to be the most important.<sup>20</sup> Individual countries have been providing transport data for information sharing and cooperation since 1997. However, the reliability of private sector transport data seems to be a problem. Yet another example of a joint venture in the area of transportation between Syria and Jordan is the Jordan-Syria Land Transport Company whose losses in the past two years have not discouraged the foundation of a Jordan-Syria maritime company, which is planning the rapid modernization of its trucks and fleet.<sup>21</sup> The transport ministries of Syria,

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<sup>18</sup> DEİK, 'Suriye Ekonomisi ve Türkiye-Suriye Ekonomik İlişkileri', Haziran 2001, p.12

<sup>19</sup> DEİK 'Cezayir Ekonomisi ve Türkiye-Cezayir Ekonomik ve Ticari İlişkileri', Mayıs 2000, pp.12-19

<sup>20</sup> MESTAD Program, MED-TRANS Project on Transport Statistics, Sub-Regional Monitoring Meeting, June 2000, p.,2

<sup>21</sup> 'Improved Prospects for Syrian- Jordanian Transport Company', *The Syria Report*: 2002, p. 1.

Lebanon and Jordan have also been discussing transport cooperation projects, include modernization of the old Hijaz Railway Line. Regional funds such as the Arab Fund for Economic and Social Development (funding of the Arab Highway between Mdeirej and Chtoura), and national funds such as the Kuwait Fund (funding of Beirut eastern entrances) are providing financial support to railroad and road projects at country levels.<sup>22</sup> Algeria, Libya, Mauritania, Morocco and Tunisia have joint investment programs relating to Trans-Maghreb since 2000, under the Maghreban Railway Transport Committee, which was first established in 1965.<sup>23</sup>

Cooperation in the area of physical capacity building in infrastructure in sub-regional energy and electrification is likely to create beneficial outcomes in the medium and the long run. There is an enormous need for strengthening the ME infrastructure, and over \$370.000 million worth of investment is needed to do so, according to World Bank estimates.<sup>24</sup> Since public initiatives in the ME and the North Africa, with the exception of the Gulf States, lack both quality and quantity of infrastructure services, private sector involvement in infrastructure construction, and cross-border cooperation of regional private sectors are highly recommended. However, first of all, there are obstacles to private infrastructure investments in almost every country in the MENA region. These obstacles must be eliminated as much as possible. Furthermore, respective governments of countries must establish the basic policy framework and facilitate initiatives of private sectors, which form regional joint ventures. Governments must also provide safeguard measures to initiate and perpetuate such actions by signing treaties. Nevertheless there is already cooperation at sub-regional infrastructure projects in the MENA region between various countries and their private sectors.

## **5. Cooperation in the energy sector**

Cooperation in the energy sector may and does take place in the transfer of natural gas, oil and transmission of electrical energy. The production and transfer of energy

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<sup>22</sup> Council for Development and Reconstruction (CDR) "Rehabilitation of roads and services in the southern suburb", March 2000, p.20

<sup>23</sup> "Maghreban Railway Transport Committee Meets" ArabicNews.Com, 2000

<sup>24</sup> Edmund O'Sullivan, 'The Debate over Sequencing Private Sector Participation in Infrastructure', in Fawzy Samiha and Ahmad Galal eds., *Partners for Development: New Roles for Government and Private Sector in the Middle East and North Africa*. Mediterranean Development Forum. (The World Bank, Washington D.C.,1999) p. 150

through joint projects are areas of sub-regional cooperation that have involved Turkey, Syria, Jordan, Israel, Lebanon, and Egypt. A notable development so far has is the project to transfer natural gas from Egypt to Turkey via pipeline. The protocol signed between the two countries in 1999 considers the possibility of three alternative routes for natural gas transfer: by land via Egypt- Jordan-Syria- Turkey; by sea via Alexandria Egypt – Turkey (Ceyhan); by sea and by land via Egypt - Lebanon – Syria- Turkey (Ceyhan). The compatibility of these alternatives has been under research from the perspectives of cost efficiency, technical applicability, and security since 1999.

The ME already has competency in cooperation in oil trade since eight out of 11 OPEC members are in the ME and they produce 75% of the OPEC output<sup>25</sup>. Furthermore, oil is still the most important source of energy in the world despite the trends to curb fossil fuel consumption. The ME as a region accounts for six percent of total world consumption. Oil is an important source of sectoral cooperation at the regional level, from search to production and from processing to distribution and consumption. This is especially meaningful when some of ME countries have the tendency to outmarket western companies from their oil sectors and inevitably deprive themselves of the new technology implementations in oil production. In most recent years there are examples of sub regional sectoral cooperation in this area as well. For instance, Turkey's importation of oil from Egypt further enhanced its relationship with that country. The currently privatized Turkish State Oil Company's (TPAO) international venture, known as TPIC, which is fully owned by the TPAO, has been involved in the new oil field development in Egypt since 1990. The three search certificates granted to TPIC by the Egyptian government enables the TPIC to search for oil in West Qarun, West Gebel El Zeit, and the West Bahariyya regions, which jointly cover an area of 35,000 square miles. The TPIC has made \$44 million worth of investment in these areas since 1995 to extract 1500 barrel per day of crude oil at the beginning and 866,000 barrels per day as of 1999. The Egyptian-Turkish Petroleum Company, established in 1994, has been producing petroleum and gas from wells in West Gebel El Zeid ever since. The large petroleum companies that own gas reserves in the Nile Delta have been in contact with their Turkish counterparts for cooperation and trade.<sup>26</sup> Turkey imports oil from Algeria, Saudi Arabia, and Syria, but does not have cooperative ventures in oil production

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<sup>25</sup> Paul Rivlin, 'The Oil Market', Jaffe Center for Strategic Studies, *Strategic Assessment*, vol.3, no.3, November 2000, p.39

<sup>26</sup> DEİK, 'Mısır Ekonomisi ve Türkiye-Mısır Ekonomik ve Ticari İlişkileri', Kasım, pp: 32-40

and marketing with any of these countries. This is an area where sectoral cooperation can be enhanced if regional politics does not stand in the way.

The ME has been relatively fortunate so far as regional electrification rates are concerned. Statistics indicate that, as of 2000, 91% of the region had access to electricity. However, there is still a wide gap between urban and rural areas. While 98.5 % of the urban areas enjoyed access to electricity in 2000, the figure for rural areas was only 77.6%.<sup>27</sup> The following table shows the electrification rates in the countries of the ME in detail:

**Table 6: Electricity Access in the Middle East 2000**

Country	Electrification Rate %	Population without Electricity million	Population with Electricity Million	Country	Electrification Rate %	Population without Electricity million	Population with Electricity Million
Bahrain	99.4	0.0	0.6	Oman	94.0	0.1	2.3
Iraq	95.0	1.2	22.1	Qatar	95.0	0.0	0.7
Israel	100.0	0.0	6.2	S.Arabia	97.7	0.5	20.2
Jordan	95.0	0.2	4.7	Syria	85.9	2.3	13.9
Kuwait	100.0	0.0	2.0	UAE	96.0	0.1	2.8
Lebanon	95.0	0.2	4.1	Yemen	50.0	8.8	8.8

Source: World Energy Outlook, 2002: 42

Nevertheless, the region has been experiencing a dramatic growth in electricity demand, and infrastructures for the last 20 years. The per capita electricity consumption varies from 15.800 kWh per year in Kuwait to 10.215 kWh in Qatar, 845 kWh in Egypt, and 1.561 kWh in Turkey and 99 kWh in Yemen.<sup>28</sup> However, having similar challenges to increase production, privatization of utility companies and marketing of electricity, the ME

<sup>27</sup> 'Energy and Poverty', *World Energy Outlook*, International Energy Agency, 2002, p.17

<sup>28</sup> F.T. Sparrow, D.Engi, M. Al Salamah, B.H.Bowen, and et.al. "The Economic Benefits of A Regionally Integrated Electricity Market in the Middle East" (Draft) **Joint Research of partners from Purdue University in Indiana; King Fahd University of Petroleum and Minerals in Dhahran, Saudi Arabia; American University in Beirut, Beirut, Lebanon; Isfahan Science and Technology Town in Isfahan, Iran, and Goteburg University, Goteburg, Sweden, November 2, 2001, p.3**

has lots to benefit from cooperation, coordination of policies, and creation of a sustainable collective capacity to share among regional and or sub-regional partners.

Technology allows opportunities for a ME power pool at minimum costs. Scale economies in production are the natural source of cost minimization. Therefore, ME electricity production and trade through interconnected wires has been very important for the region from this perspective. The connection of the northern utility systems of Egypt, Jordan, Syria, Palestine, Lebanon, Turkey, Iraq and Iran with the UAE, Saudi Arabia, Bahrain, Kuwait, Qatar Yemen and Oman is expected to provide significant gains towards meeting regional needs.<sup>28</sup> The largest electricity generating countries in the ME are Turkey, Egypt and Saudi Arabia. Most of the existing generation of the ME uses fossil fuels. However, other countries like Turkey and Egypt use hydropower, thermal energy and natural gas. There is a proposed Ghazlan Power plant for Saudi Arabia, which will operate on fossil fuels.

The benefits of joint production and/or trade in electricity have long been recognized in the region. In fact, there are already interconnected lines between Egypt and Libya, Egypt and Jordan, Syria and Lebanon, and Syria and Turkey. Furthermore, the GCC has been planning since 1999 to start a \$1 billion regional power grid. There is also a five-country interconnection between Egypt, Syria, Iraq, Turkey and Jordan. The \$239 million interconnection between Egypt and Jordan was completed in 1998.<sup>29</sup> A Turkish firm undertook the construction of the Egyptian – Jordanian projects. Lebanon is already connected to Syria. The Jordanian-Syrian project is still under construction. The Syrian part of the project was completed at the end of 1999. The Syrian-Iraqi and the Turkish- Iraqi interconnected wiring was completed as of 2000 with the Turkish, Jordanian, Egyptian, Syrian and Iraqi parts to be completed some two years later. Saudi Arabia-Kuwait, Saudi Arabia- Bahrain, Bahrain-Qatar, Qatar-UAE, and UAE-Oman lines look promising among the proposed options.<sup>30</sup>

The electricity trade offers further market externalities which may go beyond the ME region. In fact there is an ambitious electricity project, which targets the entire

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<sup>29</sup> F.T. Sparrow et.al. *ibid* p. 12

<sup>30</sup> DEIK Mısır Ekonomisi *op.cit*

Mediterranean from the Maghreb to the Mashreq. The project also seeks the participation of the Southern European and Balkan countries. This expansion is desired to conserve energy, to prevent power failures, and to distribute energy efficiently to avoid shortages.<sup>31</sup> However, considerations of the ME regional electrification projects do not pay enough attention to clean energy production. As it has been mentioned earlier fossil fuels are still consumed to produce electricity since the region is well endowed with oil.

## **BRIDGES OVER TROUBLED WATERS**

Water is one of the most important and vital issues in the ME, and an actual or potential source of conflict from the Euphrates-Tigris basin, to the Levant rivers and the Nile basins. However, conflict resolution can be accomplished by treating the water issue not solely from the water-sharing perspective, but also from the perspective of environmental sustainability, agricultural and climatic necessity.

The reason for water being a major source of conflict in the region is obviously its scarcity in both ground and underground resources, in comparison to other regions of the world. Desalination is being used to increase the water supply to many countries of the region. Additionally the sale of water through tankers and pipelines is another channel to increase the supply of water to countries where the scarcity is felt most dramatically. The Gulf States cooperate in desalination through GCC arrangements. However, since desalination requires the use of high technology, there is a growing tendency for foreign investment in the Gulf area. Japan's Sumitomo has been in the process of establishing a 720,000 cubic meter-desalination plant in the costal industrial city of Jubail in Saudi Arabia.<sup>32</sup> The plant is going to operate on construct- run- transfer basis.

It is a pity that because of the continuous political and military confrontation between Israel and her Arab neighbors, the potential of this country in establishing water supply systems, expanding the use of desalination and reclaiming sewage water cannot be used for the entire region. Since there are companies in Israel which also utilize measures to control water quality, the inclusion of Israel in water projects might have helped peace to flourish in the region as well. In fact Israel itself presented a report at the Economic Summit

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<sup>31</sup> Ibid.

<sup>32</sup> [www.medrc.org.om/new\\_content\\_/industry](http://www.medrc.org.om/new_content_/industry)

for the ME and NA in 1994, which offered development options for regional cooperation. This report mainly included a seawater conveyance route from the Mediterranean to the Jordan valley, to be desalinated in Jordan and to irrigate the West Bank, as well as the Gaza strip, and therefore serving to Israel, Jordan and Palestine.<sup>33</sup> This proposal also included a power-generating project. The need to find options for joint projects between Syria and Israel for solving water shortage is also emphasized in many documents.<sup>34</sup> Nevertheless, disputes over water, where national borders pass, obstruct possible progress in sectoral cooperation between Israel and Syria.

So far as cooperation is concerned, it is harder to solve problems concerning trans-boundary river waters. It is not impossible, and in time riparian states may be able to cooperate more easily, and to benefit from establishing joint water authorities for water treatment and - at times of need - for just water rationing. Some authorities may function as agents for the building of reservoirs, hydro- electric power plants, waste-water treatment and recycling systems. Sub- regional arrangements for cooperation in the water sector are bound eventually to include Syria-Turkey and Iraq; Syria, Lebanon, Israel, Jordan and Palestine; Maghreb countries among themselves and their African neighbors; Egypt, and her Nile water partners.

In addition to the Euphrates-Tigris basin water conflicts, Israeli occupation of the Golan Heights and the West Bank in 1967 and South Lebanon after 1982 created new sources of conflicts along the Litani, Jordan, Banyas, Yarmouk, Dan rivers, and the Wazzani springs of the Hasbani river.<sup>35</sup> While plans, which favor Israeli control of headwaters only help deepen existing sub-regional conflicts, there have been attempts for cooperation as well, especially between Jordan, Israel and Palestine. In 1994 the Palestinian National Authority alone promulgated 200 projects. These projects were followed by the Israeli project of "Development Options for Regional Cooperation" the same year and the Jordanian project of 1994 on increasing water supply and transportation. The Sudanese proposal of 1993 had the

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<sup>33</sup> Marcia Merry Baker, 'Generating Water and Power in the Desert: Beautiful and Necessary', <http://www.schillerinstitute.org>. 2001 p:2

<sup>34</sup> Muriel-Mirak Weissbach, 'Solving the Water Shortage is the Key to Middle East Peace', <http://www.schillerinstitute.org>, 2000, p:1

<sup>35</sup> Jad Isaac, Leonardo Hosh,, 'Roots of the Water Conflict in the Middle East', *The Middle East Water Crisis Creative Perspectives and Solutions* (University of Waterloo, Canada, 1992) p.4

intention of completing the half-finished Jonglei Canal on the upper White Nile to benefit both Egypt, and the Sudan.<sup>36</sup>

Another channel for cooperation in the ME lies in the area of water trade. A treaty was signed between Turkey and Israel in 1999 to sell water from the Manavgat fall of Turkey's Mediterranean coast to Israel.<sup>37</sup> The sales of water from Turkey to Israel had been considered as a rational source of trade, and a good channel for sub-regional cooperation for peace until it disappointed both parties last year. Although Turkey made the necessary infrastructure investment in the south of the country, Israel failed to purchase water from Turkey, with the argument that the import cost of water from Turkey exceeded desalination costs of water in Israel. Therefore, currently, even if there are some sales to Israel it is not sufficient to recover the cost of the Turkish investment.<sup>38</sup> Another water-related issue is the upgrading of the Suez Canal from the Mediterranean to the Red Sea. Since new waterway corridors need to be opened from Gaza to Beersheba, and from the Gulf of Aqaba, to the Dead Sea, cooperation between Israel, Jordan and Egypt are needed.<sup>39</sup>

## CONCLUSIONS

Catching up with global trends, restructuring the inert, outdated, mismanaged and malfunctioning public and private institutions, increasing the level of openness through further liberalization in the region with harmony, increasing the weight of private initiatives in intra-regional relationships are necessary but not sufficient steps to be taken in the ME before starting or promoting regional cooperation. Additional problems standing in the way include the following:

1. Regional tariffs may still be too high with respect to all regional economies, and non-tariff barriers still create major obstacles to the regional trade and investment flows. However even if the tariff and non-tariff barriers may further be lowered, regional trade may not increase because of existing structural characteristics of the economies of the ME.

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<sup>36</sup> Lyndon LaRauche, Mary Marsha, 'Creating a Mideast Oasis', The Oasis Plan for Middle East Peace, *The American Almanac*, 1993, <http://members.tripod.com>.

<sup>37</sup> Lale Saribrahimoglu, 'Barak Advocates Water Purchases from Turkey', *Turkish Daily News*, Ankara February 13, 2000.

<sup>38</sup> Erdem Denk, 'Su Satmak Kolay Değil', *Yorum, Radikal Gazetesi*, 18 Mart 2000.

<sup>39</sup> Lyndon LaRauche et.al op.cit.



2. The production and trade policies with subsidies today still favor production for the domestic markets and extra-regional trade, rather than the regional relationship. Some of the ME countries are still at the import substitution stage of economic growth. Therefore the effort to dismantle trade barriers between the ME has proven futile. Free and preferential trade arrangements are also ineffective due to the above-mentioned causes and additionally due to political reluctance, and lack of confidence in regional neighbors.

3. The service sectors of the ME economies are not registered, not yet standardized, and modernized. The service sector reforms to change their face are incomplete, and therefore they prevent any regional integration in an area, which could be more easily conducted because of cultural and linguistic similarities. Trade and investment related labor movements are also not desired. Nationalization of labor markets is a policy option, which is often employed in Arab countries to replace non-national Arab workers with cheap East Asian or African labor, not necessarily with local labor. This also prevents one regional area cooperation possibility, namely the integration of regional labor markets.

4. There is a lack of political will and willingness among the ruling elites, and a deep unawareness of people about the benefits of cooperation in the region. These two are the most important disincentives for action towards cooperation.

5. Infrastructure deficiencies must be overcome to facilitate region's physical, and geographic integration.

The economic, social, political, and cultural environment for the nurturing of economic unions in the ME is not yet sufficiently developed. Administrative willingness is also immature for a regional customs union. Although it seems to be a more sensible option, the insufficiency of intra-regional trade tends to work as a major impediment for free trade area formation in the region as well. However, since overall regional integration in the sense of free trade areas, customs union, and monetary and economic unions cannot be functional, and therefore tends to create cost rather than concrete benefits, the only sensible options still seem to be sub regional and sectoral levels.

Sub regional arrangements between the gulf countries already set good role models for the rest of the ME, even though they have so far failed to extend their cooperation to

include industrial targeting. It is my contention that there are undeniable benefits for the inclusion of the non-Arab ME in any sub regional arrangement as much as possible. Country groups along with economic and institutional similarities among countries and common needs should be taken into consideration ahead of political alliances. Egypt –Syria-Turkey; Jordan-Iraq–Syria–Lebanon; Jordan-Turkey–Syria–Lebanon; Tunisia–Algeria–Morocco; Tunisia-Egypt-Morocco-Algeria; Jordan-Israel-Turkey and Egypt hold great potential for sub regional cooperation in different areas.

With these country groupings in mind, it is logical to assume that a rudimentary sectoral cooperation option, which once facilitated \*\*successful European integration, may indeed work in favor of ME economic integration as well. For one thing, sectoral cooperation inevitably leads to common sectoral policies. It provides opportunities for such practices as harmonization of domestic regulations, and acting jointly with respect to the rest of the world. Sectoral cooperation and integration in the region seem to be more beneficial for almost every sector as examples prove it.

Agriculture offers cooperation opportunities between high-tech and low-tech countries with complementarities. Relatively resource rich countries may cooperate with limited resource countries upon trade agreements over specialized product exchange (inter – industry trade) to prevent food shortages. There are other opportunities for different countries and in different areas. Some of them are as follows:

1. Cooperation between Israel and Jordan in water issues, as well as transportation, medicine, electrification and light industries;
2. Between Israel and Turkey in agricultural production and irrigation as well as water trade, medicine, transportation and electrification;
3. Between Israel and Egypt in electrification, transportation, medicine, light industries;
4. Between Turkey and Egypt in oil, textile, consumer electronics and automotive industries, as well as agriculture, transportation, and tourism;
5. Between Turkey and Jordan, almost every area, especially in infrastructure, agriculture, distributive trade, and tourism;
6. Between Turkey and Syria in areas from services to agriculture, from energy to environment;
7. Between Tunisia and Turkey in distributive trade, merchant marine, tourism, and light industries, construction and military;

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\*\* European Coal and Steel and Euratom

8. Between Tunisia and Syria, cooperation in sea and air cargo, textiles, agriculture and oil is likely to result in fruitful outcomes.
9. Gulf countries are also potential partners for Israel, Turkey and Egypt, importing manufactured goods in return for provision of services.

Cooperation in transportation, communication, electrification and irrigation projects would have a beneficial effect on regional infrastructures while at the same time promoting regional trade and investment. Possibilities for regional cooperation centring on industry include product standardization, packaging and labeling, along with the creation of economies of scale at the horizontal sphere that would facilitate the regional penetration of world markets. This is especially relevant for countries whose overall intra-industry trade display relatively high or increasing indices.

Environmental protection and sustainable development prepares opportunities for cooperation with partnership in the ME. The prevention of regional air, water and soil pollution and investment in clean energy sectors, such as solar energy and hydropower, are genuine sources for regional cooperation in the ME. As explained earlier, the production of clean energy and joint venture energy conservation are two sources of cooperation for the ME states. Water sanitation, treatment and conservation must be on the immediate agenda of riparian states. Control of air and soil pollution in the ME requires close technical cooperation. Sea pollution control in the Mediterranean also deserves joint technical projects at both regional and sub regional levels, since the Mediterranean is getting more and more polluted every day. Such projects can be implemented without the intervention of national politics, even though every country may have a national pollution control program. The prevention of desertification is yet another source of cooperation for the countries of the Maghreb and the Arabian Peninsula. It is my contention that even areas of greatest friction among close neighbors hold opportunities for peace. Among many issues, water-sharing can be treated as a major area for cooperation, since it has to be evaluated from the point of view of environmental sustainability.