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Preface

The fifth edition of the *Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2006*, assesses progress made in integrating Arab economies into the world economy and the extent to which regional integration has been achieved. The *Annual Review* was prepared by the Global and Regional Integration Division (GRID), the Sustainable Development and Productivity Division (SDPD), the Information and Communication Technology Division (ICTD) and the Conference Services Section of the Economic and Social Commission for Western Asia (ESCWA). It is hoped that the *Annual Review* will help readers to understand the opportunities and challenges of globalization, the need to expedite Arab regional integration and the means proposed for achieving such integration.

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CONTENTS

Page

Preface iii
Abbreviations and acronyms viii
Executive summary ix
Introduction 1

Chapter

I. THE ARAB WORLD AND ITS SHARE OF THE GLOBAL ECONOMY 2

A. Core indicators 2
B. Foreign direct investment 3

II. PRINCIPAL DEVELOPMENTS IN INTERNATIONAL TRADE NEGOTIATIONS AND ECONOMIC DEVELOPMENT 14

Developments in trade negotiations: from Cancún to Hong Kong 14

III. REGIONAL INTEGRATION 23

A. Arab intraregional trade 23
B. Arab intraregional investment 32
C. Arab intraregional tourism 35
D. Arab intraregional labour movement 36

IV. THE REGIONAL INTEGRATION INDEX AND THE GREATER ARAB FREE TRADE AREA (GAFTA) 38

A. The regional integration index for the Arab world 38
B. The Greater Arab Free Trade Area 42

V. THE SECTORAL APPROACH TO ARAB INTEGRATION 54

A. Developments in the maritime transport sector 54
B. Developments in international transport in the region 55
C. The energy sector 65
D. Information and communications technology 73

VI. SUMMARY AND RECOMMENDATIONS 83

A. Summary 83
B. Recommendations 84

Annex 85

LIST OF TABLES

1. Share of the ESCWA region and the Arab world in the global economy, 2004 and 2005: selected indicators 2
2. FDI flows to the Arab countries and selected regions, 2003-2005 4
3. Value of transnational mergers and acquisitions and number of transactions, 2003-2005 5

CONTENTS (*continued*)

Page

4. FDI flows to Arab countries as a percentage of global flows, and flows to developing countries, France and Hong Kong, 2003-2005 6
5. Ratio of FDI stock to GDP and ratio of FDI flows to gross fixed capital formation in the Arab countries and selected regions, 2003-2005 8
6. World ranking of the Arab countries in terms of indices of performance and potential for attracting FDI, 2002-2005 9
7. Variables in the business environment in the Arab countries and selected regions, 2005..... 12
8. Selected indicators of regional integration between the Arab countries, 2001-2005 23
9. Foreign and intraregional trade in the Arab world, including and excluding oil, 1998-2005.......... 24
10. Intraregional trade flows in some regional blocs, 2003 and 2005 25
11. Ratio of intraregional trade to foreign trade in the Arab countries, 1998-2005.......... 27
12. Ratio of intraregional trade to GDP in the Arab countries, 1998-2005 28
13. Main partners in Arab intraregional trade, 2003, 2004 and 2005.......... 29
14. Ranking of ESCWA member countries and some other Arab countries in terms of absolute and relative values of intraregional trade, 2003 and 2004 31
15. Share of Arab investment exporting countries in private and authorized intraregional investment, 2005 34
16. Arab intraregional tourism, 2001-2004 35
17. Intraregional workers' remittances, 2000-2005.......... 37
18. Variables used in the regional integration index 39
19. Ranking of Arab countries in terms of the regional integration index, 2003, 2004 and 2005 40
20. Total merchant fleet of ESCWA member countries of 1,000 gross tons or more, 2000 and 2005 55
21. Arab railways 60
22. The main Arab airline companies in 2005.......... 64
23. Selected ICT indicators, 2005 74
24. Value of ICT expenditure and ratio of ICT expenditure to GDP in selected ESCWA countries and in India, Ireland and Turkey, 2004 76
25. Exports of computer, information, communication and other commercial services and total commercial service exports in selected ESCWA countries and in India, Ireland and Turkey, 2004 76
26. High technology exports in selected ESCWA countries compared with other countries, the Middle East and North Africa and the world, 2004.......... 77

CONTENTS (*continued*)

Page

LIST OF BOXES

1. Project on Networking of Expertise on Foreign Direct Investment in the ESCWA Member Countries 7
2. Ranking of selected Arab countries in terms of the Global Competitiveness Index 13
3. Expert Group Meeting on the role of capital markets in the economic development of ESCWA member countries; Abu Dhabi, United Arab Emirates, 19-20 September 2006 13
4. Regional Seminar on Trade Facilitation for National Negotiators 21
5. Regional Workshop on Trade Facilitation for Small and Medium-sized Enterprises 22
6. Construction boom in the GCC countries 36
7. Entry into force of the Memorandum of Understanding on Maritime Transport Cooperation in the Arab Mashreq 55
8. Workshop on the Implementation of Good Practices for Road Traffic Safety 58
9. Environmental impact of the war on Lebanon 59
10. Agreement on International Railways in the Arab Mashreq 61
11. United Nations Road Safety Collaboration 62
12. Establishment of the Arab Countries Water Utilities Association 65
13. The Arab Integrated Water Resources Management Network: human resource capacity-building for integrated water resource management through support for the relevant institutions 73
14. Top ten telecommunications companies in the Arab countries, 2005 76
15. Preparations for implementation of and follow-up to the decisions of the World Summit on the Information Society 78
16. Main ESCWA contributions in the area of Arabic Internet domain names 80

LIST OF FIGURES

1. Top ten Arab countries in terms of FDI stock, 2000 and 2005 6
2. World ranking of the Arab countries in terms of performance in attracting FDI, 2003-2005 10
3. World ranking of the Arab countries in terms of potential for attracting FDI, 2003-2004 10
4. Ratio of intraregional trade to overall foreign trade, including and excluding oil, 1998-2005 24
5. Ratio of intraregional trade to overall international trade in some regional blocs, 2003 and 2005 25
6. Distribution of Arab intraregional trade in 2005 26
7. Top ten countries in terms of the ratio of intraregional trade to foreign trade in the Arab world, 2005 31
8. Total merchant fleet of ESCWA member countries, 2000 and 2005 54

ABBREVIATIONS AND ACRONYMS

ACWA	Arab Countries Water Utilities Association
ALECSO	Arab League Educational, Cultural and Scientific Organization
ASEAN	Association of Southeast Asian Nations
AWARNET	Arab Integrated Water Resources Management Network
CULTNAT	Centre for Documentation of Cultural and Natural Heritage
DESA	Department of Economic and Social Affairs
EU	European Union
GAFTA	Greater Arab Free Trade Area
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
IAIGC	Inter-Arab Investment Guarantee Corporation
ICTDAR	Information and Communication Technology for Development in the Arab Region
ICTSD	International Centre for Trade and Sustainable Development
IFS	International Finance Statistics
IMF	International Monetary Fund
ITU	International Telecommunication Union
LAS	League of Arab States
NAFTA	North American Free Trade Agreement
OAPEC	Organization of Arab Petroleum Exporting Countries
OECD	Organisation for Economic Co-operation and Development
UCTE	Union for the Co-ordination of Transmission of Electricity
UCPTE	Union for the Co-ordination of Production and Transmission of Electricity
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNWTO	United Nations World Tourism Organization
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

Executive summary

The aim of the fifth edition of the *Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2006*, is to analyse the extent to which Arab economies are integrated into the global economy and the degree of economic integration among Arab countries. This edition focuses on assessing the involvement of Arab economies in selected sectors of the global economy, namely, tourism, trade, investment, oil and gas. It also examines the progress made by Arab countries in 2005 in integrating into the global economy and in expediting Arab economic integration. The *Annual Review* is intended primarily for decision makers in the Arab countries, as well as for researchers, academics and other parties concerned with globalization and Arab regional integration.

In 2005, the Arab countries achieved speedier progress than in previous years in terms of some economic indicators, making further strides towards globalization. That progress was mainly reflected in two indicators: the share of Arab countries in global foreign direct investment (FDI) flows, and their share in world tourism. Their share in global FDI flows rose in 2005 to 4.1 per cent, compared with 3.1 per cent in 2004 and only 1.5 per cent in 2003. The increase was due to a rapid growth of more than 74 per cent in global FDI flows in 2005 compared with 2004. The share of Arab countries in world tourism revenues rose to 5.2 per cent in 2005, compared with 4.2 per cent in 2004 and only 2.7 per cent in 2003. The rise reflected an increase in the number of tourists travelling to the Arab countries from 39 million in 2004 to 54 million in 2005.

The continued rapid growth in those two indicators is expected to have a major positive impact on the participation of Arab countries in the global economy, together with their substantial share in oil and gas production. There are many encouraging signs, provided economic reforms aimed at removing obstacles to increased FDI and tourist flows to the Arab countries continue. Many Arab countries have natural resources that can attract foreign investment, while some are viewed as a relatively large market which encourages such investment. The abundance of comparatively cheap skilled labour may also enable the Arab countries to increase their share of FDI flows. Furthermore, many Arab countries have historical, climatic, recreational and therapeutic assets that assist them in securing a bigger share of world tourism.

Although the share of the Arab countries of international trade increased in 2005 as a result of the global rise in oil prices, it still remained well below their share in FDI flows and world tourism. That is due to the fact that overall economic growth in the region continues to depend on the trend in global oil prices, which exposes economies to the impact of fluctuations in global oil markets. Unless the countries concerned succeed in diversifying their sources of development finance, their economies, especially those of the major oil-exporting countries, will continue to rely heavily on oil production and exports, and economic growth rates will remain vulnerable to the adverse impact of trends on global oil markets.

The appointment in September 2005 of a new Director-General of the World Trade Organization (WTO) fuelled widespread hopes of a breakthrough in negotiations. Moreover, serious talks about reducing levels of agricultural subsidies took place among influential countries, especially during the mini-ministerial conference held in Zurich in mid-October 2005, the meeting of the Group of Twenty (G-20) and a series of meetings in Geneva. At those events, the countries concerned exchanged offers on cuts in agricultural subsidies and tariffs in a manner seldom seen before during agricultural negotiations, and embarked on negotiations concerning figures. However, differences soon re-emerged between influential member States, reflecting the real trend in the negotiations, especially on market access and the scale of tariff reductions. The differences became more pronounced in the wake of the European offer to reduce agricultural subsidies, which linked the proposed reduction to a set of concessions regarding market access for non-agricultural products and services, and which therefore were met with reservations on the part of the developing countries. That led to a lowering of expectations held by the member States in the run-up to the Sixth WTO Ministerial Conference in Hong Kong SAR from 13 to 18 December

2005, in spite of a modest achievement shortly before the Conference in the area of access to pharmaceutical products, namely, the consensus to amend the Agreement on Trade-Related Intellectual Property Rights (TRIPS) in order to authorize countries with insufficient pharmaceutical manufacturing capacity to import generic versions of patented medicines.

In such circumstances, there was a modest outcome of the Sixth WTO Ministerial Conference in Hong Kong SAR. Apart from the agreement to end cotton export subsidies in 2006 and to phase out all forms of export subsidies by the end of 2013, the member States were unable to achieve any real breakthrough. The Ministerial Declaration was thus simply a fresh attempt, similar to the so-called July 2004 Package, to salvage the Doha Round Negotiations by setting new timelines for reaching agreement on thorny issues, particularly market access and cuts in agricultural subsidies.[1]

Progress was made in the four components of the Arab regional integration index: intraregional trade, intraregional investment, intraregional tourism and intraregional workers' remittances. The index will be developed in the years ahead to include other variables.

In 2005, there was a sharp increase in intraregional trade among the Arab countries, which accounted for 11.24 per cent of their global foreign trade. That was due to the implementation of the Greater Arab Free Trade Area (GAFTA) agreement, which provides for the facilitation of intraregional trade and exemption from customs duties of goods of Arab origin. The value of intraregional trade in 2005 amounted to some $98 billion, compared with $75 billion in 2004. Even if oil exports are excluded from Arab foreign trade, the ratio of Arab intraregional trade to foreign trade still showed a substantial increase in 2005 to roughly 18 per cent, compared with 16.5 per cent in 2004.

Arab intraregional investment also increased in 2004 to $6 billion, which represents about 27 per cent of total FDI. That ratio is expected to increase in 2005 as a result of strenuous efforts by Arab countries to promote investment projects.

[1] See document WT/MIN/05/DEC on the WTO website: www.wto.org.

Arab intraregional tourism also became a major component of overall tourism in many Arab counties, including Jordan, Lebanon, the Syrian Arab Republic and Yemen, contributing to the implementation of a large number of projects aimed at promoting intraregional tourism, which thus became a key indicator of Arab regional integration. The ratio of Arab intraregional tourism to total tourism in Arab countries increased sharply, from 40.3 per cent in 2003 to 43.3 per cent in 2004. It is expected to increase further in 2005 and 2006, in line with the major expansion of that sector in Arab countries.

The ratio of Arab intraregional workers' remittances to GDP remained at broadly the same level in 2005 as in 2004, recording only a modest increase from 5.01 to 5.58 per cent.

With regard to Arab regional integration performance, as measured by the regional integration index introduced in this edition of the *Annual Review*, Lebanon ranked first in 2005, up from second place in 2004. Jordan ranked second, down from first place in 2003 and 2004, and Yemen ranked third, up from fifth place in 2004.

Average overall progress by Arab countries in implementing GAFTA in 2005 was estimated at 56 per cent. However, that figure masks diverse rates of implementation depending on the components considered. Thus, an implementation rate of more than 95 per cent was recorded for the annual phasing-out of tariffs, a rate of more than 86 per cent for exemptions approved by the Economic and Social Council of the League of Arab States, and a rate of more than 78 per cent for the Common Arab Agricultural Harvesting Calendar, which is no longer in use since 2005. Low implementation rates were recorded, inter alia, for such institutional components as use of the GAFTA institutional frameworks, including focal points and the dispute settlement mechanism; the rate for those components was just 38 per cent. A low rate of only 37 per cent was also recorded for periodic progress reporting on the implementation of the GAFTA agreement.

The Memorandum of Understanding on Maritime Transport Cooperation in the Arab Mashreq entered into force on 4 September 2006.[2] It has been signed by the following: Jordan,

[2] See document E/ESCWA/GRID/2005/11.

Lebanon, Palestine, Saudi Arabia and the Syrian Arab Republic. Moreover, air transport increased at such a rate in a number of Arab countries in 2005 that five of them ranked among the top world performers in that sector. Qatar ranked fourth in the world, with a growth rate of 9.2 per cent, and the United Arab Emirates ranked ninth, with a growth rate of 7.6 per cent. Arab countries also recorded high rates of growth in air shipment, with Qatar ranking second and Oman tenth worldwide.

In the energy sector, the Arab countries attached major importance to regional electricity grid interconnection in view of the role played by electric power in economic development. Key current projects in that area include: (a) the seven-country electricity grid interconnection project, which links Egypt, Iraq, Jordan, Lebanon, the Libyan Arab Jamahiriya and the Syrian Arab Republic, as well as Turkey; (b) the three-stage electricity grid interconnection project for the Gulf Cooperation Council (GCC) countries; the first stage links Bahrain, Kuwait, Qatar and Saudi Arabia; the second links Oman and the United Arab Emirates, and the third links up the first two stages; (c) the electricity grid interconnection project for the Arab Maghreb countries; and (d) a number of bilateral interconnection projects, including between Saudi Arabia and Yemen, Egypt and Saudi Arabia, and Egypt and the Sudan. There are also several Arab regional cooperation projects in the natural gas sector, including the natural gas pipeline in the northern ESCWA member countries and similar projects among the GCC countries.

In the communications sector, the Arab countries made significant progress in 2005 in terms of both landlines and mobile telephones. Five Arab countries, namely, Bahrain, Kuwait, Lebanon, Qatar and the United Arab Emirates, exceeded the 19.8 world average for landlines per 100 inhabitants. Six Arab countries, namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, exceeded the 33.9 world average for mobile telephones per 100 inhabitants. It may be noted that most of those countries are leading oil exporters. Five Arab countries, namely, Bahrain, Kuwait, Lebanon, Qatar and the United Arab Emirates, exceeded the world average for Internet users of 15.2 per 100 inhabitants.

The following recommendations to decision makers are made with a view to keeping pace with globalization, strengthening the position of Arab countries in the world economy and promoting regional integration:

(a) Coordination of trade and investment policies;

(b) Active participation in world trade negotiations;

(c) Drafting of an Arab integration agreement to promote cooperation in the service sector;

(d) Drafting of a regional agreement to facilitate Arab intraregional investment;

(e) Incorporation of the Monterrey recommendations into development programmes;

(f) Promotion of financial market integration by facilitating the establishment of links between markets;

(g) Continued implementation of the GAFTA agreement, especially in areas with low implementation rates, such as the institutional components;

(h) Establishment of free zones specializing in information and communications technology (ICT) in order to provide technological support to Arab countries;

(i) Ongoing development of the ICT sector, especially by liberalizing telecommunications and attracting Arab and international capital and investment with a view to enhancing growth potential and competitiveness and increasing service expansion rates;

(j) Ongoing development of the Arabic Internet Domain Names project and promotion of the project at the regional and international levels;

(k) Encouragement of regional integration of telecommunications networks and launching of and support for regional telecommunications projects.

Introduction

The fifth edition of the *Annual Review of Developments in Globalization and Regional Integration in the Arab Countries* deals with the most significant developments in the Arab countries in terms of globalization and regional integration in 2005. Unlike previous years, this edition is not limited to the Economic and Social Commission of Western Asia (ESCWA) member countries, but covers all Arab countries.[3]

In the area of globalization, the *Annual Review* contains an analysis of indicators of the share of Arab countries in global gross domestic product (GDP), international trade, foreign direct investment (FDI), and oil and natural gas production and reserves. Those key indicators reflect the scale of Arab involvement in the global economy and the degree to which they are linked to the integrated global production system. The *Annual Review* also assesses progress by the Arab countries towards regional integration, which has long been their main economic goal.

A regional index reflecting the degree of economic integration of the Arab countries has been added in this edition. It consists of a set of economic variables, including Arab intraregional trade, Arab intraregional investment, Arab intraregional tourism and intraregional workers' remittances. The 2007 edition will contain an analysis of the operation of financial markets in the Arab countries and the need for integration among them.

Chapter I analyses, as in previous years, Arab participation in the world economy by comparing such indicators as GDP, FDI flows, international trade, and oil and gas production and reserves, with indicators for the global economy. The chapter focuses on performance by Arab countries in attracting foreign direct investment.

Chapter II reviews progress in world trade negotiations, analysing the steps taken in the World Trade Organization (WTO) negotiations between the Doha and Hong Kong Ministerial Conferences, including progress achieved and obstacles that continue to impede successful convergence on Doha Development Agenda topics.

Chapter III examines regional economic integration in a number of areas, including Arab intraregional trade, intraregional investment, intraregional tourism and workers' remittances.

Chapter IV deals with the regional economic integration index. Arab countries are classified in terms of their contribution to regional economic integration, measured by four economic variables: intraregional trade, intraregional investment, intraregional tourism and workers' remittances. It also assesses progress by Arab countries towards implementing the Greater Arab Free Trade Area (GAFTA) agreement and the obstacles they face.

Chapter V reviews sectoral integration in the areas of energy, water, the environment and communications, as well as transport, particularly progress in implementing the Agreement on International Roads in the Arab Mashreq.

Chapter VI presents a summary of the main conclusions of this *Annual Review* regarding Arab economic integration into the world economy and progress in Arab regional economic integration. It also contains a set of recommendations aimed at assisting decision makers in Arab countries in formulating policies aimed at supporting Arab regional economic integration and integration of the Arab economy into the global economy.

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[3] ESCWA member countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and Yemen. Other Arab countries: Algeria, the Comoros, Djibouti, the Libyan Arab Jamahiriya, Mauritania, Morocco, Somalia, the Sudan and Tunisia.

I. THE ARAB WORLD AND ITS SHARE OF THE GLOBAL ECONOMY

A. CORE INDICATORS

Progress in tourism and FDI indicators in 2005

The Arab countries pursued their endeavours in 2005 to integrate into the global economy and to keep pace with globalization.[4] Their efforts met with a degree of success in the case of some economic variables. As table 1 shows, the Arab share of global FDI flows rose from 3.1 per cent in 2004 to 4.1 per cent in 2005, which is the highest rate ever achieved. Their share of world tourism revenue also rose from 4.2 per cent in 2004 to 5.2 in 2005 as a result of an increase in tourist numbers from 39.4 million in 2004 to 54 million in 2005. The Arab share of world trade grew to about 4.2 per cent in 2005, compared with 3.7 per cent in 2004, owing to the sharp increase in oil prices and revenue. Their share in global natural gas production rose to12.1 per cent in 2005, compared with11.4 per cent in 2004, as a result of efforts by some Arab countries, namely, Oman and Qatar, to increase their natural gas output.

TABLE 1. SHARE OF THE ESCWA REGION AND THE ARAB WORLD IN THE GLOBAL ECONOMY, 2004 AND 2005: SELECTED INDICATORS

	ESCWA region	Arab world	World	ESCWA region share of world total (percentage)		Arab world share of world total (percentage)	
				2004	2005	2004	2005
Area (millions of square miles)	1.8	5.3	51.8	3.50	3.50	10.20	10.20
Population (millions)	191	324	6 477	2.80	2.95	4.80	5.00
GDP (billions of dollars)[a/]	797	1 052	44 385	1.60	1.80	2.10	2.40
Total foreign currency reserves (billions of dollars)[b/]	109.2	228.2	4 183.4	2.70	2.60	5.20	5.50
Total trade (billions of dollars)[c/]	697.0	872.9	21 055.7	2.96	3.31	3.68	4.15
Total number of tourist arrivals (millions)[d/]	39.7	54.0	808	4.70	4.90	6.40	6.70
Revenue from tourism (billions of dollars)[e/]	28.6	35.5	682.0	4.00	5.00	4.20	5.20
FDI (millions of dollars)	30 126	37 651	916 277	2.60	3.30	3.10	4.10
Oil production (millions of barrels per day)	18.9	22.2	71.8	25.90	26.30	30.30	30.90
Known year-end oil reserves (billions of barrels)	610.3	667.4	1 131.6	54.04	53.93	58.61	58.98
Natural gas production (billions of cubic metres)	248.5	339.7	2 819	8.30	8.80	11.40	12.10
Year-end natural gas reserves (billions of cubic metres)	47 126	53 353	181 848	25.90	25.90	29.3	29.30
Current refining capacity (m/b/d)	6.4	7.7	84.4	7.20	7.60	8.60	9.10
Energy consumption (millions of barrels of oil equivalent per day)	6.1	8.1	208.9	3.0	2.90	3.70	3.90
Annual renewable water resources (cubic metres per year)[f/]	173.1	313.3	55 176	0.10	0.30	0.30	0.60

Source: ESCWA, based on regional and international sources.

a/ With the exception of the Comoros, Palestine and Somalia.
b/ With the exception of Bahrain, Iraq, Palestine, Mauritania, Somalia and the Syrian Arab Republic.
c/ With the exception of Palestine.
d/ The figures do not include all Arab countries because data are not available.
e/ The figures do not include all Arab countries because data are not available.
f/ The figures refer to 2003 and 2004, respectively.

[4] This *Annual Review* focuses on economic globalization, namely, the reduction and elimination of barriers to flows of goods, capital and services and to movements of labour across national frontiers.

The figures in table 1 show that the Arab countries made a small, albeit important, step towards keeping pace with globalization. Nevertheless, apart from the oil and natural gas sector, they are still far from the goal of integration into the global production system.

The figures show that the speediest progress towards keeping pace with globalization was made in the tourism and FDI sectors. The continued rapid growth of the tourism sector is due to the fact that most Arab countries have great potential in historical, recreational, therapeutic and educational terms, which, in the future, may lead to a substantial growth in tourist numbers and, hence, to an increase in the Arab share in world tourism. Moreover, the Arab countries have major comparative advantages that should enable them to achieve a sharp expansion in private FDI flows. Privatization is still in its infancy in most Arab countries, and there are key economic sectors that have not yet opened up to FDI. Moreover, many Arab countries have relatively large markets likely to attract FDI flows from investors seeking new ventures. In addition, abundant natural and human resources should enable the Arab countries to increase their share of global investment flows. It may therefore be concluded that their performance in integrating into the global economy has fallen short of their potential and that they bear considerable responsibility for narrowing the gap between potential and performance in order to accelerate integration into the global economy. It should be noted that per capita FDI in the Arab countries increased from about $40 in 2004 to $115 in 2005.

The Arab share of global GDP is still well below its potential level because GDP growth in the Arab countries as a whole continues to depend heavily on the performance of the major oil-exporting countries. Economic diversification will lead to diversified funding sources and, hence, to some measure of stability in GDP and export growth. The Arab countries have made valiant efforts to promote economic diversification and reduce undue reliance on oil, and many countries have been successful to varying degrees in that regard. However, the general picture has not greatly changed, since the main Arab oil-exporting countries are still heavily dependant on the oil sector, while the non-oil-exporting Arab countries are directly or indirectly affected by trends in the oil markets.

Successful economic diversification in the Arab countries as a whole will depend to a large extent on the success of the major oil-exporting countries in promoting economic diversification in the years ahead. The countries concerned have begun to enhance the role of non-oil sectors in their economies, but success in that regard will take time, given the considerable size of the oil sector.

It should be noted that decision makers in most Arab countries are now more determined to keep pace with globalization by providing the means and formulating policies conducive to increased involvement by the private sector, including the foreign private sector, in enhancing economic efficiency, local product quality and competitiveness in global markets, and thereby increasing the share in world trade and enabling the Arab countries to keep pace with globalization.

In Arab countries, political will is an essential prerequisite for the success in their efforts to achieve local growth and development, to speed up economic, financial and administrative reform, and to diversify funding sources with a view to integrating into a dynamic global economy. But even where political will exists, it cannot bring about the requisite economic reform unless it is translated into integrated policies and programmes. For instance, there continues to be a hiatus between the enactment of laws and regulations and their effective and speedy implementation. Most Arab countries are beset by administrative and financial bureaucracy, which adversely affects the implementation of laws and other measures or increases their cost. That, in turn, discourages private capital, including foreign capital, from becoming effectively involved in the implementation of development plans and programmes.

B. Foreign direct investment

Record figure achieved by Arab countries in 2005

1. *Arab share in global FDI flows*

Major oil-exporting countries are the main Arab recipients of FDI

FDI flows to Arab countries recorded an increase in 2005 compared with 2003 and 2004.

The figures in table 2 show that such flows amounted to about $37.7 million in 2005, compared with $21.6 million in 2004 and $15.7 million in 2003. That record figure was due to the increase in global FDI flows, which grew by 74.2 per cent between 2004 and 2005, compared with 37.8 per cent between 2003 and 2004. The sharp increase in FDI flows to the Arab countries was also attributable to efforts made in recent years by such countries as Egypt, Jordan, Saudi Arabia and the United Arab Emirates to increase their share in global FDI flows. The figures show that the growth rates recorded in 2005 were 149.2 in Egypt, 135.3 per cent in Jordan, more than 138 per cent in Saudi Arabia and 43.6 per cent in the United Arab Emirates. The increase is due to the privatization schemes implemented by many Arab countries in such important sectors as communications and infrastructure.

TABLE 2. FDI FLOWS TO THE ARAB COUNTRIES AND SELECTED REGIONS, 2003-2005
(*Millions of United States dollars*)

	2003	2004	2005	Growth rates (percentage) 2004	2005
Bahrain	517	865	1 049	67.3	21.3
Egypt	237	2 157	5 376	810.1	149.2
Iraq	0*	90*	300*	--	233.3
Jordan	436	651	1 532	49.3	135.3
Kuwait	(67)	24	250	(135.8)	941.7
Lebanon	2 860	1 899	2 573	(33.6)	35.5
Oman	489	200	715	(59.1)	257.5
Qatar	625*	1 199*	1 469*	91.8	22.5
Saudi Arabia[a/]	778	1 942	4 628	149.6	138.3
Syrian Arab Republic[b/]	180	692	736	284.4	6.4
United Arab Emirates	4 256	8 359	12 000*	96.4	43.6
West Bank and Gaza Strip	..*	(3)*	..*	--	(100.0)
All ESCWA member countries	10 317	17 802	30 126	72.6	69.2
Algeria	634	882	1 081	39.1	22.6
Comoros	1	0*	1*	(100.0)	--
Djibouti	14	39	23	178.6	(41.0)
Libyan Arab Jamahiriya	142	(354)	261	(349.3)	173.7
Mauritania	214	5	115	(97.7)	2 200.0
Morocco	2 429	1 070	2 933	(56.0)	(174.1)
Somalia	(1)*	21*	24*	(2 200.0)	14.3
Sudan	1 349	1 511	2 305	12.0	52.6
Tunisia	584	639	782	9.4	22.4
All Arab countries (non-ESCWA members)	5 366	3 813	7 525	(28.9)	97.4
Total Arab countries	15 683	21 615	37 651	37.8	74.2
World	557 869	710 755	916 277	27.4	28.9
Developing countries	175 138	275 032	334 285	57.0	21.5
Argentina	1 652	4 274	4 662	158.7	9.1
France	42 498	31 371	63 576	(26.2)	102.7
Hong Kong SAR	13 624	34 032	35 897	149.8	5.5

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2006*, annex table B.1.

Notes: Parentheses ( ) indicate a negative figure.
Two dots (..) indicate that data are not available.
An asterix (*) indicates that data are estimated.
Two dashes (--) indicate not applicable.

a/ Based on a comprehensive survey of companies with FDI participation, as part of a project entitled Networking of Expertise on Foreign Direct Investment in the ESCWA Member Countries, implemented by ESCWA in cooperation with the General Investment Authority of Saudi Arabia.

b/ Based on a comprehensive survey of companies with FDI participation, as part of a project entitled Networking of Expertise on Foreign Direct Investment in the ESCWA Member Countries, implemented by ESCWA in cooperation with the State Planning Commission and Central Bureau of Statistics of the Syrian Arab Republic and the United Nations Development Programme (UNDP) office in Damascus. Data for 2003 are based on the above-mentioned UNCTAD source.

However, growth rates in FDI flows varied from one Arab country to another. An analysis of the figures shows that the flows were not evenly distributed, and that the largest proportion was absorbed by a small group of countries. For example, the share of Egypt, Jordan, Saudi Arabia and the United Arab Emirates exceeded 62 per cent of total flows to the Arab region as a whole. However, some countries, among them the Libyan Arab Jamahiriya, which had recorded negative growth in previous years, recorded positive growth in 2005. Yemen was the only Arab country to record negative growth in 2005.

It may also be noted that major oil-exporting Arab countries made further advances in terms of FDI flows in 2005, with the share of Oman, Qatar, Saudi Arabia and the United Arab Emirates amounting to about 50 per cent of total FDI flows to the Arab countries. That trend is expected to continue in light of the steps taken by the countries concerned to implement economic reform programmes and to open up additional sectors to FDI flows. The opening-up of the oil and natural gas sector to foreign direct investment will have a positive impact on their share of global FDI flows. Saudi Arabia is also expected to increase its share of such flows following its accession to the WTO. In Egypt, FDI flows were associated with a number of factors, in particular the launching of a privatization programme in 2005 and the intention of the Government to permit privatization of the banking sector.

The low level of activity of transnational corporations in the economies of the Arab countries continues to delay their integration into the global economy in general and into the global production system in particular. Transnational corporations currently control the global production process in a number of sectors, as well as FDI. The figures in table 3 indicate that the Arab share of the value of transnational mergers and acquisitions amounted to only $3.7 billion in 2005, which is equivalent to 0.5 per cent, and far less than their share of global FDI flows. Thus, the share of the Arab countries was equivalent to only 11.6 per cent of the share of France alone in 2005.

TABLE 3. VALUE OF TRANSNATIONAL MERGERS AND ACQUISITIONS AND NUMBER OF TRANSACTIONS, 2003-2005
(*Millions of United States dollars*)

	Value of mergers and acquisitions (millions of dollars)			Number of transactions		
	2003	2004	2005	2003	2004	2005
Bahrain	9	-	85	2	1	3
Egypt	2 200	254	1 326	4	7	8
Iraq	-	9	-	-	1	4
Jordan	990	-	89	6	-	5
Kuwait	-	317	-	-	1	1
Lebanon	98	-	236	2	-	2
Oman	-	20	116	2	4	2
Qatar	-	-	-	2	3	-
Saudi Arabia	-	-	-	-	-	1
Syrian Arab Republic	-	7	-	-	1	1
United Arab Emirates	26	14	213	7	9	15
All ESCWA member countries	3 323	261	2 065	25	27	43
Algeria	3	25	-	1	4	1
Libyan Arab Jamahiriya	-	-	-	2	-	-
Mauritania	-	147	-	-	2	-
Morocco	1 624	25	1 579	2	4	5
Sudan	768	136	-	2	2	1
Tunisia	-	3	77	-	1	5
All Arab countries (excluding ESCWA countries)	2 395	336	1 656	7	13	12
All Arab countries	5 718	957	3 721	32	40	55
World	296 988	380 598	716 302	4 562	5 113	6 134
Developing countries	40 166	54 700	100 633	1 045	1 251	1 376
Argentina	2 467	285	2 696	40	29	23
France	17 495	20 132	32 178	213	267	312
Hong Kong SAR	6 098	3 936	9 472	108	143	182

Source: UNCTAD, *World Investment Report, 2006*, annex table B.4.

Notes: Two dots (..) indicate that statistics are not available.
A hyphen (-) indicates that figures are close to zero.

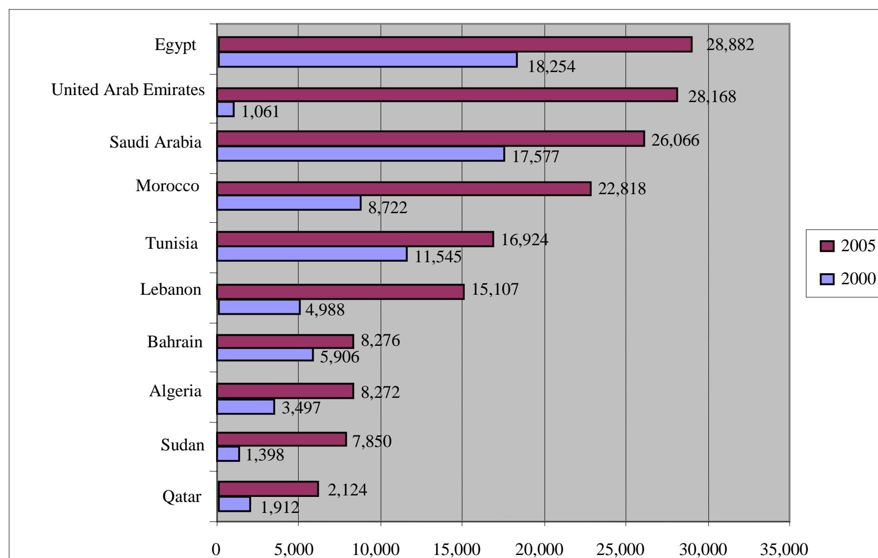
As shown in table 4, the increase in FDI flows recorded by the Arab countries led to a 4.1 per cent increase in their share of global flows in 2005, compared with 3.1 per cent in 2004, which is a twenty-year record for the Arab countries. It was also the first time that the Arab share of FDI flows exceeded that of the volume of world trade. The Arab countries' share of total flows to developing countries also increased from 8 per cent in 2004 to 11.3 per cent in 2005.

TABLE 4. FDI FLOWS TO ARAB COUNTRIES AS A PERCENTAGE OF GLOBAL FLOWS, AND FLOWS TO DEVELOPING COUNTRIES, FRANCE AND HONG KONG, 2003-2005
(*Percentages*)

	2003	2004	2005	Average (2003-2005)
ESCWA member countries				
World	1.85	2.56	3.31	2.70
Developing countries	5.89	6.62	9.08	7.51
France	24.28	58.08	47.76	42.85
Hong Kong SAR	75.73	53.53	84.58	70.49
Arab non-ESCWA member countries				
World	0.96	0.54	0.82	0.76
Developing countries	3.06	1.39	2.25	2.13
France	12.63	12.15	11.84	12.15
Hong Kong SAR	39.39	11.20	20.96	19.99
All Arab countries				
World	2.81	3.10	4.13	3.46
Developing countries	8.95	8.01	11.33	9.64
France	36.90	70.23	59.59	55.01
Hong Kong SAR	115.11	64.74	105.54	90.48

Source: UNCTAD, *World Investment Report, 2006*, annex table B.1.

Figure 1. Top ten Arab countries in terms of FDI stock, 2000 and 2005
(*Millions of United States dollars*)



Source: UNCTAD, *World Investment Report, 2006*, annex table B.2.

Note: According to a survey carried out by the Syrian Arab Republic, that country ranked thirteenth among Arab countries in terms of FDI stock in 2005, while it is ranked seventh according to the UNCTAD report.

Box 1. Project on Networking of Expertise on Foreign Direct Investment in the ESCWA Member Countries; training of more than 280 FDI data processors, and setting up of FDI databases by eight Arab countries

For the fourth consecutive year, ESCWA has continued to work with member countries on the creation of FDI databases in the following Arab countries: Bahrain, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic and the United Arab Emirates. Some 280 data processors in the countries concerned have been trained in procedures for collecting and calculating data relating to FDI flows and stocks.

In addition, Bahrain, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic and the United Arab Emirates conducted a comprehensive survey of companies with FDI participation. They stated their willingness to conduct such a survey annually in order to build a database of FDI flows and stocks, with data broken down by economic activity and investment source, and to assess the impact of such investment on the national economy. Jordan and Kuwait are expected to conduct a similar survey in 2007.

2. Ratio of FDI stock to GDP and ratio of FDI flows to gross fixed capital formation in the Arab countries

The significant increase in FDI flows to the Arab countries in 2005 was reflected in a larger share of those countries in FDI stock and, hence, a higher ratio of FDI flows to GDP. The ratio was 68.5 per cent in Lebanon, 64.1 per cent in Bahrain, 56 per cent in Tunisia and 44 per cent in Morocco, as shown in table 5. In spite of the sharp increase in FDI flows to the United Arab Emirates in 2005, the FDI stock to GDP ratio remained relatively low due to the size of the GDP of the country and the fact that the FDI increase occurred relatively recently, namely, during the past three years. The same is true of Saudi Arabia, where the FDI stock to GDP ratio was only 8.5 per cent in 2005, compared with 8.2 per cent in 2004 and 12.1 per cent in 2003. That is mainly attributable to the increase in the GDP growth rate in recent years owing to the sharp rise in oil prices and revenue and the very recent increase in FDI flows.

Nine Arab countries achieved a ratio that exceeded the average FDI stock to GDP ratio recorded in the developing countries of about 27 per cent in 2005, compared with 26.4 per cent in 2004. Ten countries achieved a better ratio than the global average of about 23 per cent in 2005 and 22 per cent in 2004.

The ratio of FDI stock to GDP reflects the importance of such investment flows for economic growth and, hence, their impact on the economy of the recipient country. The above figures show that the largest shares were recorded by Arab countries with relatively small economies, namely, Bahrain, Jordan, Lebanon, Morocco and Tunisia, which are mostly non-oil-exporting countries. On the other hand, countries with relatively large economies, namely, Kuwait, Saudi Arabia and the United Arab Emirates, still record FDI stock to GDP ratios that are lower than the average ratio for the developing countries. Yemen is a different case because of its status as a least developed country, and on account of its situation and economic structure that fails to attract FDI flows to the non-oil sectors. Moreover, its scant oil reserves have an impact on the volume of FDI flows into the natural resources sector. It should be noted, however, that the impact of FDI growth on local economies is neither assured nor automatic, but depends on the capacity of a State to forge links between investors and the local economy, as well as on the extent to which local companies succeed in forging links with foreign counterparts.

Table 5 shows that the ratio of FDI flows to gross fixed capital formation increased in 2005 in all Arab countries except Djibouti and Yemen. The highest increases of 50 per cent and over were recorded in Jordan, Lebanon, the Sudan and the United Arab Emirates. Further rises were recorded in Bahrain, 42 per cent; Egypt, 34 per cent; Mauritania, 33 per cent; Morocco, 22 per cent; and Qatar, 21.2 per cent. It should be noted that in most Arab countries, the ratio of FDI flows to gross fixed capital formation in 2005 was higher than the average ratio of 13 per cent for the developing countries and the global average of 9.4 per cent.

TABLE 5. RATIO OF FDI STOCK TO GDP AND RATIO OF FDI FLOWS TO GROSS FIXED CAPITAL FORMATION IN THE ARAB COUNTRIES AND SELECTED REGIONS, 2003-2005
(*Percentages*)

	Ratio of FDI stock to GDP			Ratio of FDI flows to gross fixed capital formation		
	2003	2004	2005	2003	2004	2005
Algeria	9.6	9.1	8.1	4.0	4.2	4.9
Bahrain	72.4	70.5	64.1	27.8	36.4	42.0
Comoros	7.4	6.9	6.5	3.1	(0.3)	3.0
Djibouti	8.3	12.8	15.4	14.1	47.1	26.4
Egypt	26.2	27.1	31.0	2.0	16.8	33.6
Iraq	..*	1.8	1.3	..	..	..
Jordan	28.3	31.9	39.8	20.9	23.6	53.0
Kuwait	1.2	0.7	0.9	(1.0)	0.3	3.0
Lebanon	11.0	11.6	68.5	70.8	41.2	53.3
Libyan Arab Jamahiriya	..*	2.6	1.4	5.2	(12.2)	8.6
Mauritania	51.1	64.2	35.3	81.9	1.4	33.3
Morocco	26.0	36.1	43.9	23.1	8.7	22.1
Oman	12.6	14.0	13.3	14.4	4.3	14.7
Qatar	16.0	14.6	16.2	10.0	18.1	21.2
Saudi Arabia	12.1	8.2[a/]	8.5[a/]	2.0	4.5	9.4
Somalia	0.3	0.8		..	..	..
Sudan	23.1	26.1	28.3	41.8	35.8	52.2
Syrian Arab Republic	8.2[b/]	10.22[b/]	12.12[b/]	3.6	5.4	9.5
Tunisia	66.0	61.7	56.1	10.0	10.1	12.1
United Arab Emirates	4.4	8.5[c/]	21.1	21.4	37.8	51.8
West Bank and Gaza Strip	21.9	26.9	25.3	..	..	..
Yemen	11.0	7.7	6.5	0.3	6.8	(12.0)
World	22.9	21.7	22.7	7.3	7.7	9.4
Developing countries	31.4	26.4	27.0	8.8	10.7	12.8
Argentina	27.1	35.3	30.4	8.4	14.6	11.8
France	24.7	26.5	28.5	12.5	8.0	15.5
Hong Kong SAR	236.5	277.6	299.9	40.6	96.4	97.0

Source: UNCTAD, *World Investment Report, 2004*, annex table B.6; *2005*, annex table B.3; and *2006*, annex table B.3.

Note: Two dots (..) indicate that data are not available.
Parentheses ( ) indicate a negative figure.

a/ Based on a comprehensive survey of companies with FDI participation, as part of a project entitled Networking of Expertise on Foreign Direct Investment in the ESCWA Member Countries, implemented by ESCWA in cooperation with the General Investment Authority of Saudi Arabia.

b/ Based on a comprehensive survey of companies with FDI participation, as part of the project on Networking of Expertise on Foreign Direct Investment in the ESCWA Member Countries, implemented by ESCWA in cooperation with the State Planning Commission and Central Bureau of Statistics of the Syrian Arab Republic and the United Nations Development Programme (UNDP) office in Damascus.

c/ Based on a comprehensive survey of companies with FDI participation as part of the project on Networking of Expertise on Foreign Direct Investment in the ESCWA Member Countries, implemented by ESCWA in cooperation with the Ministry of Economy and Commerce of the United Arab Emirates.

It should also be noted that the ratio of FDI flows to gross fixed capital formation in the major oil-exporting countries, except for the United Arab Emirates, is still lower than in the other Arab countries and closer to the global average, namely, about 9.4 per cent in Saudi Arabia, 3 per cent in Kuwait, about 15 per cent in Oman, about 5 per cent in Algeria and about 9 per cent in the Libyan Arab Jamahiriya. That indicates that FDI flows had a stronger impact on economies of the region that are less dependent on oil and gas exports, namely, countries with diversified economies, including Bahrain, Egypt, Jordan and Lebanon.

3. *Arab country FDI performance and potential indices*

The sharp increase in FDI flows to a large number of Arab countries in 2005 enabled them to improve their position in the world ranking of countries in terms of performance and potential indices. Thus, the United Arab Emirates, which recorded the steepest upsurge in FDI flows in 2005, moved up to fifteenth in the performance index from twenty-fifth in 2004, as shown in table 6 and figure 2. Jordan also improved its world ranking in terms of performance from forty-sixth to nineteenth. Bahrain improved its ranking from thirty-second to twenty-second; and the Syrian Arab Republic, though it still lags behind, moved up from 113th in 2004 to 101st in 2005. Oman, Qatar and Kuwait achieved a relative improvement in their world ranking in terms of performance, while other countries fell back, for example Tunisia, which dropped from sixty-sixth place in 2004 to seventy-seventh in 2005, and Algeria, which dropped from ninety-fifth to 119th. It should be noted that, in general, the Arab countries now rank higher in terms of the performance index after an earlier period of stagnation at lower levels.

TABLE 6. WORLD RANKING OF THE ARAB COUNTRIES IN TERMS OF PERFORMANCE AND POTENTIAL FOR ATTRACTING FDI, 2002-2005

	Performance index ranking	Potential index ranking	Performance index ranking	Potential index ranking	Performance index ranking	Potential index ranking	Performance index ranking
	2002		2003		2004		2005
ESCWA member countries							
Bahrain	75	29	61	29	32	30	22
Egypt	116	74	126	82	98	81	66
Jordan	55	60	79	61	46	63	19
Saudi Arabia	130	30	129	31	123	35	110
Kuwait	137	35	138	40	138	42	132
Lebanon	20	57	7	59	8	60	7
Oman	126	52	112	54	99	57	91
Qatar	88	9	73	10	56	10	54
Syrian Arab Republic	118	84	122	85	113	95	101
United Arab Emirates	114	24	64	23	25	27	15
Yemen	117	88	114	88	117	93	139
Arab non-ESCWA member countries							
Algeria	98	75	93	73	95	65	109
Libyan Arab Jamahiriya	131	42	133	46	139	41	136
Morocco	56	93	35	89	67	89	43
Sudan	44	127	27	128	19	123	16
Tunisia	63	67	67	66	75	69	77

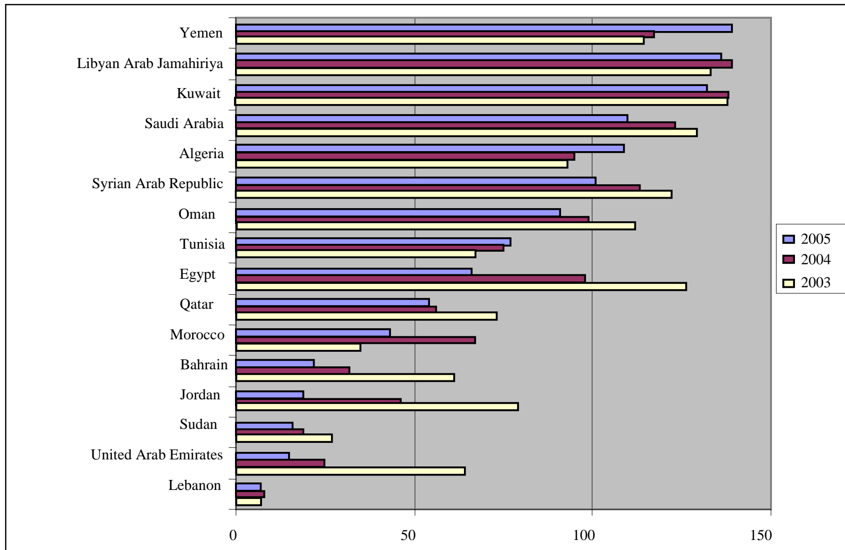
Source: UNCTAD, *World Investment Report, 2006*, annex table A.I.9.

Note: No data were available on the ranking of the Comoros, Djibouti, Iraq, Mauritania, Somalia and the West Bank and Gaza Strip.

With regard to the index that measures potential for attracting FDI, the performance of the Arab countries was uneven in terms of world ranking. While some made modest advances, others either receded or remained in a relatively stable position between 2003 and 2004, as indicated in table 6 and figure 3. Jordan, for example, dropped from sixty-third in 2004 to sixty-first place in 2003, and the United Arab Emirates dropped from twenty-seventh to twenty-third.

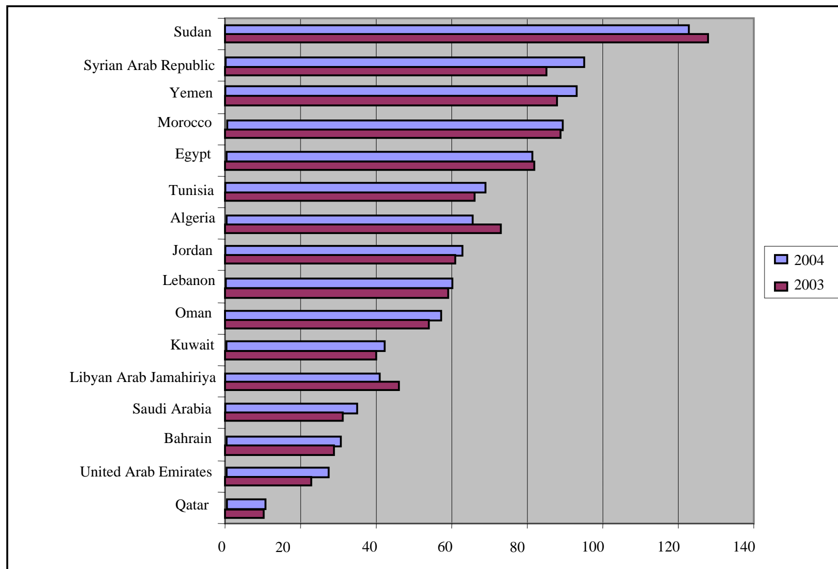
Most Arab countries, apart from Algeria, Egypt, the Libyan Arab Jamahiriya and the Sudan, moved downwards in the potential ranking index in 2004 compared with 2003. The potential of Bahrain, Qatar, Saudi Arabia and the United Arab Emirates is deemed to be high because of their wealth in terms of natural resources, particularly oil, thus they are ranked higher in the potential index than such other Arab countries as the Sudan and Yemen. A comparison of performance and potential in 2003 and 2004 shows that most Arab countries rated better in terms of performance than in terms of potential, except for Algeria and Kuwait, both major oil-exporting countries, and Morocco, Tunisia and Yemen, which are non-oil-exporting countries. The performance of oil-exporting countries also improved between 2004 and 2005 compared with non-oil-exporting countries, except for Egypt and Jordan.

Figure 2. World ranking of the Arab countries in terms of performance in attracting FDI, 2003-2005



Source: Based on table 6.

Figure 3. World ranking of the Arab countries in terms of potential for attracting FDI, 2003-2004



Source: Based on table 6.

4. *Investment climate in the Arab countries*

An analysis of the investment climate in the Arab countries necessarily involves two closely related issues. The first concerns the enactment in each country of legislation regulating FDI flows and facilitating inflow and investment procedures. The second concerns improvement of the business environment, which is closely related to efforts to improve the general investment climate in order to increase the share of global private investment flows.

With regard to the first issue, most Arab countries put considerable effort, with uneven success, into the enactment of legislation

regulating FDI flows. Some countries enacted laws and regulations to encourage both local and foreign private investment, to protect such investment, and to provide facilities and tax and tariff incentives aimed at increasing investment flows. A number of Arab countries enacted laws regulating the establishment and activities of private companies. Moreover, many countries now authorize foreign investors to establish companies with up to 100 per cent foreign ownership. Many also enacted laws to protect intellectual property, copyright and patents with a view to creating a favourable environment for expansion of the private sector, including the foreign private sector. A number of Arab countries established investment offices or authorities to assist investors and to provide them with the services they need to start up business, including what is known as one-stop-shop service. Some countries introduced measures to facilitate the entry and long-term residence of investors in order to encourage them to invest in the national economy. Some also attended regional and international investment and trade conferences and fairs as part of their investment promotion campaigns. Moreover, as part of their efforts to support investment inflows, most Arab countries have concluded agreements aimed at encouraging trade and investment in order to provide the necessary protection for foreign investors.

With regard to the second issue, it may be concluded from an analysis of data concerning changes in the business environment, an important indicator of the investment climate, that there was no great change in the business environment in the Arab countries in 2005 compared with the previous year. No tangible progress was made either in reducing the number of procedures required to set up a project, or in shortening the time required to complete those procedures, while the cost of setting up a project increased as a percentage of per capita income.

With regard to the world ranking of Arab countries in terms of the business facilitation index, Saudi Arabia ranks highest among the Arab countries at thirty-eighth internationally, followed by Kuwait at forty-seventh, Oman at fifty-first, and the United Arab Emirates at sixty-ninth, as listed in table 7. That group occupies the middle ground compared with, on the one hand, such countries as Algeria at 123rd, the Syrian Arab Republic at 125th and Egypt at 165th; and, on the other hand, such developed countries as the United States of America, which ranks second, Canada, which ranks fourth, and Australia, which ranks ninth internationally. It follows that the Arab countries, especially the lowest-ranking among them, need to make a greater effort to simplify project start-up measures and, in particular, to reduce bureaucracy. With regard to the number of procedures required to set up a project in the Arab countries, Morocco ranks first with just five procedures, followed by Lebanon, which requires six procedures, and Oman and Tunisia, which require nine procedures. Morocco has managed to reduce the number of procedures to a level equivalent to that prevailing in developed countries, for example the United States of America. The time required to complete the procedures is long in most Arab countries except for Morocco and Tunisia, which have succeeded in shortening it to some extent. In Lebanon, for example, 46 days are required to complete the six procedures involved in setting up a project; and in Yemen, more than two months are required to complete 12 procedures. These are the administrative complexities that still face investors planning to set up investment projects in the countries concerned.

With regard to the cost of setting up a project as a percentage of GDP, the figures show that a large number of Arab countries have made some progress in that regard. In Jordan, for example, the cost of establishing a project as a percentage of per capita income declined from about 52 per cent in 2004, to about 46 per cent in 2005. In Lebanon, it fell from about 132 per cent to 111 per cent, and declines were also recorded in Algeria, Morocco and Tunisia. However, the cost rose from 26.5 per cent to 44.2 per cent in the United Arab Emirates, and from 62 per cent to about 105 per cent in Egypt. It should be noted that project establishment costs are estimated at less than 1 per cent of per capita income in some developed countries. It may be concluded from those figures that a decline in income is associated with an increase in the ratio of business costs to per capita income, with the exception of Morocco and Tunisia, which made considerable progress towards business facilitation.

TABLE 7. VARIABLES IN THE BUSINESS ENVIRONMENT IN THE ARAB COUNTRIES AND SELECTED REGIONS, 2005

Country	Business facilitation index*		Challenges to project establishment			Contract enforcement		Project liquidation	
	World ranking	Arab ranking	Number of procedures	Time taken (days)	Cost (as percentage of per capita income)	Number of procedures	Time taken (days)	Time taken (years)	Return rate (cent/$)
ESCWA member countries									
Egypt	165	12	10	34	104.9	55	410	4	16.1
Jordan	73	5	11	36	45.9	43	342	4	27.9
Kuwait	40	2	13	35	2.2	51	390	4	38.3
Lebanon	87	7	6	46	110.6	39	721	4	18.6
Oman	52	3	9	34	4.8	41	455	7	24.9
Saudi Arabia	35	1	13	64	68.5	44	360	3	28.4
Syrian Arab Republic	135	11	12	47	34.5	47	672	4	28.5
United Arab Emirates	68	4	12	54	44.3	53	614	5	5.5
Yemen	101	8	12	63	240.2	37	360	3	28.2
Non-ESCWA member Arab countries									
Algeria	123	10	14	26	25.3	49	407	4	37.4
Morocco	117	9	5	11	12.0	17	240	2	35.1
Tunisia	77	6	9	14	10.0	14	27	1	51.5
Selected regions									
Australia	9		2	2	1.9	11	157	1	79.9
Canada	4		2	3	0.9	17	346	1	90.1
Denmark	7		3	5	0.0	15	83	3	63.0
United States of America	3		5	5	0.5	17	250	2	76.2

Source: World Bank (WB), International Finance Corporation, *Doing Business in 2006*, and *Doing Business in 2007*, www.ifc.org.

* Ranking in terms of the 2006 business facilitation index.

No tangible progress was made in the enforcement of contracts in 2005 compared with 2004, either in terms of the number of procedures, or in terms of the time required to complete them. Morocco and Tunisia still lead the Arab countries in reducing the number of procedures to a level equivalent to, or less than, that of such developed countries as Canada, Denmark and the United States of America. The figures show that some Arab countries still require the completion of complicated administrative and legal procedures for the enforcement of contracts concluded between investors and the parties dealing with them. The costs include the number of procedures that investors must complete, pursuant to the laws in force, in order to enforce their rights vis-à-vis their counterparts in the country concerned when a dispute arises regarding the enforcement of clauses of contracts, either through legal proceedings or through extrajudicial settlements. The costs also include the number of days, months or years required to complete legal and administrative procedures; from the date of filing of a legal action or complaint, until the date of enforcement of the rights of the investor, either by a court or by means of arbitration. The figures show that some Arab countries still impose complex administrative and judicial procedures and lack transparency in law enforcement, which prompt some investors to resort to extrajudicial means to solve their problems more speedily, even if the costs involved are higher. That has an adverse impact on the investment climate and, hence, undermines the efforts of a country to increase its share of global investment flows, which have become the most important development funding source for the developing countries. The lack of a system of commercial courts greatly delays the settlement of economic and commercial cases, increasing the cost of investment and, hence, hampering efforts to increase investment flows.

Box 2. Ranking of selected Arab countries in terms of the Global Competitiveness Index

Countries	Competitiveness index 2006	Competitiveness index 2005
Algeria	76	82
Bahrain	49	50
Egypt	63	52
Jordan	52	42
Kuwait	44	49
Qatar	38	46
Mauritania	114	-
Morocco	70	76
Tunisia	30	37
United Arab Emirates	32	32

Source: World Economic Forum, *Global Competitiveness Index, 2006*, www.weforum.org.

Box 3. Expert Group Meeting on the role of capital markets in the economic development of ESCWA member countries Abu Dhabi, United Arab Emirates, 19-20 September 2006

As part of the efforts by ESCWA to assist member countries in financing development, the Commission is monitoring implementation of the recommendations of the International Conference on Financing for Development, which was held in Monterrey, Mexico, from 18 to 22 March 2002, and which issued six recommendations on financing for development known as the Monterrey Consensus. In that context, ESCWA organized an Expert Group Meeting on the role of capital markets in the economic development of the ESCWA member countries on 19 and 20 September 2006 in Abu Dhabi, the United Arab Emirates. The Meeting was co-sponsored by the Arab Planning Institute of Kuwait, the Securities and Commodities Authority of the United Arab Emirates and the United Nations Department of Economic and Social Affairs (DESA). Its main objectives were as follows:

1. To find new ways to stimulate and develop local capital markets so that they can contribute to financing for development and economic growth in the ESCWA member countries, and to attainment of the Millennium Development Goals (MDGs) relating to poverty reduction.

2. To review capital market development in the Arab countries, as well as the laws and administrative authorities that regulate their activity.

3. To discuss the major challenges and obstacles that are impeding capital market development in the Arab countries and undermining their role in regional and international development.

4. To formulate a set of recommendations aimed at improving the operation of Arab capital markets and enabling them to play an effective role in regional development.

The participants discussed the role of Arab capital markets in economic development, focusing on Egypt, Jordan, Lebanon and the GCC countries. The experts reviewed the emergence and development of capital markets in the Arab countries and discussed the laws and administrative authorities that regulate their activities. They also reviewed the organizational structure of stock markets and studied the sectors participating in them. The experts focused on relations among capital markets and their interdependence. They also discussed capital market growth in the GCC countries following the rise in oil prices and its impact on all Arab countries in 2005, as well as the impact of the corrective decline in 2006. The participants further reviewed the major challenges and obstacles that are impeding capital market development in the Arab countries and undermining their role in regional and international development. Lastly, they presented a set of recommendations aimed at improving the operation of Arab capital markets and enabling them to play an effective role in regional development.

II. PRINCIPAL DEVELOPMENTS IN INTERNATIONAL TRADE NEGOTIATIONS AND ECONOMIC DEVELOPMENT

DEVELOPMENTS IN TRADE NEGOTIATIONS: FROM CANCÚN TO HONG KONG

1. *From the Cancún to Hong Kong Conference*

Negotiations remained completely stalled for some eight months after the failure of the Fifth WTO Ministerial Conference in Cancún, Mexico, from 10 to 14 September 2003. During that period, WTO member countries were unable to find any way of reinvigorating them. However, influential member countries from the developing and developed world managed in the second quarter of 2004, by dint of intensive meetings of such international entities as the group of member States of the Organisation for Economic Co-operation and Development (OECD), the G-20 and the G-90, and thanks to the efforts of the so-called five interested members, to arrive at an agreement on agricultural negotiations that greatly assisted in revitalizing the round of negotiations.[5] In July 2004, the member countries reached an agreement, known as the July 2004 Package and published by a decision of WHO General Council on 1 August 2004, regarding a framework agreement on issues on which the Doha Round had been brought to a successful and timely conclusion.

The July 2004 Package marked a turning point in the Doha Round of negotiations. Developing and least developed member countries were able to impose their will and have the so-called new issues, namely, investment, competition and transparency in government procurement, removed from the Doha Agenda, and agreement was reached on negotiation modalities for trade facilitation. The developing countries in general had agreed with some reluctance to include those issues on which negotiations were supposed to be launched at the Cancún Conference. However, trade facilitation was the only topic to remain on the Agenda, since the member countries, including the developing countries, were convinced of its obvious benefits for world trade development.

[5] The five interested members are: Australia, Brazil, India, the European Union and the United States of America.

Although the agreement on the July 2004 Package failed to have a decisive impact on negotiation modalities in the area of trade in agricultural and non-agricultural goods, one of the thorniest issues in the round, it helped to bring about a convergence of views on negotiation modalities relating to a number of issues, in particular agreement on a formula for domestic support reduction, market access, export subsidies, special treatment for sensitive products of special interest to developing countries, and clear-cut provisions exempting least developed countries from any commitment to market access for agricultural and non-agricultural products and services.[6] The most important element was the agreement on a realistic conclusion that alleviates pressure and dissipates the concerns of member countries, namely, the indefinite extension of the deadline for the Doha Round set in early 2005.

The July 2004 Package and the related decision by the WTO General Council contained a number of deadlines for completing important steps in the run-up to the Sixth Ministerial Conference held in Hong Kong SAR in December 2005. Many influential member countries made repeated appeals during the meetings of the negotiating committees for more vigorous efforts to achieve the required goals by the date of the Hong Kong Conference. In the meantime, a series of important meetings and mini-ministerial conferences were held, the first on the sidelines of the World Economic Forum meetings in Davos, Switzerland, in late January 2005, the second in Kenya in early March 2005, followed by two conferences in Paris in early May and late September 2005, as well as other meetings aimed at meeting the deadlines set in the July 2004 Package. However, the stumbling blocks were so numerous that only one agreement was reached, namely, on the conversion of non-*ad valorem* tariffs on agricultural imports into *ad valorem* equivalents. But that agreement, however important, constituted only marginal progress in the intractable negotiations.

[6] For more details on the July 2004 Package, see the WTO page in Arabic on the ESCWA website: www.escwa.org.lb/arabic/wto.

The member countries urgently sought to expedite the negotiations as the July 2005 deadlines approached. The pace of the talks accelerated with a view to achieving tangible progress on the various issues by July, thereby ensuring a successful Hong Kong Conference at the end of the year. But the situation remained unchanged notwithstanding the strong political support expressed by the member countries meeting for agricultural negotiations at the mini-ministerial conference held in mid-July 2005 in Dalian, China. Moreover, the failure of the General Council to reach a first approximation of the modalities in the agricultural negotiations at its meeting in late July hampered progress in the overall negotiations. Thus, delegates attended the Hong Kong Conference because it was a scheduled event and harboured no expectations of a successful outcome.

2. *Developments after the Hong Kong Conference*

After the Hong Kong Conference, the Doha Round proceeded with a series of meetings of influential member countries at the end of the first half of 2006. The discussions turned into a blame game, with member countries holding each other responsible for the lack of progress in the Doha Round. There was a meeting in Davos, Switzerland, on 27 and 28 January 2006, and a meeting of the so-called G-6 in Paris from 27 February to 1 March 2006.[7] The first real test of the seriousness about coming to an agreement on negotiation modalities for agricultural and non-agricultural products was the inability of the member countries to convene the ministerial meeting on the subject scheduled for 30 April 2006 in accordance with the Hong Kong Ministerial Declaration. It should be noted that it was not the first time member countries missed a scheduled event. There had been a series of missed deadlines since the adoption of the Doha Ministerial Declaration in November 2001, which launched the Doha Round and set a deadline for agreement on negotiation modalities for agricultural products by 31 March 2003. It became obvious that the remaining deadlines would be missed, leaving the fate of the Doha Round hanging in the balance.

Notwithstanding the efforts of WTO Director-General to meet the deadlines, especially those that expired in April and were postponed until the end of June, and the efforts of the chairs of the negotiating committees, especially the committee on agricultural and non-agricultural products, the high-level meeting held in Geneva, Switzerland, on 30 June 2006 ended on 1 July, one day earlier than scheduled, because there were no prospects of making any progress.[8] As a result, the member countries requested the Director-General to undertake intensive consultations among them and to act as facilitator of the negotiations.[9] For the first time since the Hong Kong Conference, the Director-General declared, in his capacity as chairman of the Trade Negotiations Committee which oversees the Doha Round, that the Organization was heading towards a real crisis. The last chance to surmount the crisis seemed to be the G-6 meeting held on 17 July 2006 in Geneva, Switzerland, immediately before the meeting of the Group of Eight Leading Industrialized Nations (G-8) in Saint Petersburg, the Russian Federation.[10] The leaders attending the G-8 meeting stressed the need for an agreement on negotiation modalities by mid-August. Moreover, the G-6 members agreed to convene intensive meetings with a view to achieving a breakthrough.

The G-6 meeting thus reconvened on 23 July 2006, but failed to achieve a convergence of views among the countries concerned on the agricultural negotiations and support reduction. It was followed by an informal meeting of representatives of WTO member countries, attended by the Director-General, who stated that it was impossible to conclude the Doha Round by the end of 2006, as implicitly required by the Hong Kong Ministerial Declaration. He also recommended suspending the negotiations

[7] The International Centre for Trade and Sustainable Development (ICTSD), *Bridges Weekly Trade News Digest*, Vol. 10, No. 2, 25 January 2006. Group of six members: Australia, Brazil, India, Japan, the European Union and the United States of America.

[8] ICTSD, *Bridges Weekly Trade News Digest*, Vol. 10, No. 19, 31 May 2006.

[9] ICTSD, *Bridges Weekly Trade News Digest*, Vol. 10, Special Issue, 3 July 2006.

[10] ICTSD, *Bridges Weekly Trade News Digest*, Vol. 10, No. 26, 19 July 2006.

indefinitely to give member countries an opportunity to assess the impasse in the negotiations, and to study and reconsider their positions.[11]

The curtain thus fell on another phase, raising concerns not only about the future of the Doha Round of negotiations, but also about the fate of the multilateral trading system as a whole. It is still unclear when there will be another partial or comprehensive agreement like the July 2004 Package that may save the Doha Round from imminent failure and reactivate the negotiations. An agreement of that kind has now become imperative in view of the limited time remaining before the expiry in July 2007 of the authority of the president of the United States of America, conferred by the United States Congress, to conclude trade agreements and make concessions, which are then submitted to Congress for immediate endorsement through the so-called fast-track authority procedure.[12] Without such authority, the United States will be unable to comply with any obligations or commitments relating to the Doha Round. Hence, failure to achieve a major breakthrough before the end of 2006 necessarily means that the Round will be delayed until after the presidential elections and the conferral of trade authority on the new president in 2009. That presupposes that member countries remain basically committed to the Round and convinced of its potential benefits.

The potential collapse of trade talks has refocused attention on regional blocs and bilateral agreements between developed and developing countries as a way of eliminating obstacles to progress in the multilateral trade negotiations. The question that now arises is whether the developed countries, particularly the European Union and the United States of America, which have concluded multiple trade agreements with many developing countries and regions since the beginning of the Doha Round in 2001, are truly committed to preserving the multilateral trading system. If so, a second question arises as to how to account for their failure to offer any real concessions in the agricultural negotiations while promoting the proliferation of regional agreements. They might have concluded that the gains to be made from those agreements are less costly and more profitable than those to be made from the multilateral trading system under the auspices of the WTO.

What is clear is that the message being sent to the developing countries since the failure of the Third WTO Ministerial Conference in Seattle, the United States of America, from 30 November to 3 December 1999, is that the trade agenda of the developed countries is undergoing a radical shift towards exploitation of the commercial advantages and opportunities that the transnational corporations of the countries concerned can derive from economic globalization. That approach was revealed by the protracted impasse in the negotiations on public health and pharmaceutical products. Moreover, it was also clear that when the developed countries requested the inclusion of employment and the environment on the agenda of the Seattle Conferenc, and subsequently promoted Singapore issues in Doha, their requests were merely a negotiating tool aimed at obtaining more concessions in terms of access to markets in the developing countries without being fully ready to offer similar market access concessions for exports of interest to the developing and least developed countries, namely, agricultural products. Then came the bilateral agreements that were concluded, or are still in the process of being concluded by the developed countries, especially the European Union and the United States of America, with developing countries on the basis of equivalent and reciprocal concessions, ignoring the wide gap in levels of general and industrial development and failing to address subsidies or any such development-related issues as debt and technology transfer.

3. *Achievements of the Doha Round*

Instead of attempting to predict the fate of the Doha Round or the multilateral trading system as a whole and to assess whether the near future would bring good news on the long-awaited breakthrough, this *Annual Review* will focus on what was achieved on the different tracks of the Doha Round during the period prior to 24 July 2006, the date on which the Round was suspended.

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[11] ICTSD, *Bridges Weekly Trade News Digest*, Vol. 10, No. 27, 26 July 2006.

[12] Jagdish Bhagwati, "From Seattle to The Hong Kong", *Foreign Affairs*, WTO special edition, December 2005.

The goals set by member countries for the Doha Round must first be clarified. The Ministerial Declaration adopted by the Fourth WTO Ministerial Conference held in Doha from 9 to 14 November 2001, which laid the basis for the round of negotiations, contained what is known as the Doha Development Agenda.[13] The Agenda divides the issues for negotiation into 19 tracks, foremost among them being implementation-related issues, agriculture, services, market access for non-agricultural and manufactured products, and intellectual property rights; followed by the four Singapore issues, namely, investment, competition policy, transparency in government procurement and trade facilitation. Other tracks include the WTO rules, particularly with regard to clarification and improvement of the Anti-Dumping and Support Agreements, the provisions of regional trade agreements, improvement of the dispute settlement regime, trade and the environment, and electronic commerce.

In addition to the above-mentioned negotiating topics, the Doha Development Agenda provided for the consideration of a number of issues of importance to the developing countries, particularly the situation of small economies, debt and finance, transfer of technology, improvement of the framework for technical assistance, capacity-building in developing countries, addressing the concerns of the least developed countries and enforcement of the provisions concerning special and differential treatment for developing countries in WTO agreements. If those developmental issues of importance to developing and least developed countries are viewed in conjunction with greater market access for agricultural and non-agricultural products from developing countries, and with implementation-related issues, the Doha Round deserves to be called the development round, in contrast to the eight previous rounds of negotiations which focussed largely on enhancing market access for non-agricultural products.

After almost five years of difficult and intensive negotiations among member countries, what has been achieved to date may be described as modest. All sensitive negotiating issues, except for trade facilitation as will be seen below, remain pending with no sign of agreement. However, the *Annual Review* will focus on the most important developments and the core tracks, since tangible progress has not been made in the other tracks of the Doha Development Agenda.[14]

(a) *Agriculture*

It seems that the agricultural negotiations, which were largely responsible for the failure of the Cancún Conference, were also one of the main reasons for the lack of any real progress in the Doha Round and its suspension. Agricultural negotiations are the core of the negotiation process and the most important issue for the developing countries in this Round. Many are convinced that progress on this track will inevitably entail progress on the various other tracks, and that slow progress in agricultural negotiations has impeded progress on the other tracks, paralysing the whole negotiating process.

The agricultural negotiations preceded the launching of the Doha Round. They began in 2000 pursuant to article 20 of the WTO Agreement on Agriculture with a view to continuing the process of reform of agricultural policies in member countries that had begun during the 1986 to 1994 Uruguay Round on three levels: market access, domestic agricultural support and agricultural export subsidies. When the comprehensive negotiations were launched in Doha, the agricultural negotiations were incorporated in the process and became a major component of the Doha Round integrated package. The Doha Ministerial Declaration set clear goals for the negotiations involving a fundamental improvement in market access for agricultural products, cuts in various kinds of export subsidies with a view to phasing them out, and the elimination of trade-distorting domestic support.[15]

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[13] An informal translation by ESCWA into Arabic of the Doha Ministerial Declaration has been posted on the Arabic page dealing with WTO issues on the ESCWA website: www.escwa.org.lb/arabic/wto.

[14] For more information on the Doha Round and related recent developments, see the papers prepared by ESCWA for the WTO Ministerial Conferences in Cancún and Hong Kong on the Arabic page dealing with WTO issues on the ESCWA website: www.escwa.org.lb/arabic/wto.

[15] The Doha Ministerial Declaration, Fourth WTO Ministerial Conference, 14 November 2001, WT/MIN(01)/DEC/1, para. 13.

Those goals are in line with the demands of the developing countries, whose agricultural exports to the markets of the developed countries are impeded by protectionist policies involving high tariffs, ceilings on import prices and quantities, and substantial financial support for farmers, estimated by some sources at more than $300 billion annually.[16] The problems are compounded by the situation on markets within the developing countries where the prices of agricultural products are kept down by export subsidies in the developed countries, as was clearly demonstrated when the cotton issue was raised at the Cancún Conference.

With regard to market access, the only achievement, as already noted, was an agreement among member countries on 4 May 2005 on the calculation of non-*ad valorem* equivalents applied to agricultural imports in order to achieve tariff reductions at a later stage.[17] The Hong Kong Ministerial Declaration contained an agreement on a tiered formula with four bands for structuring tariff cuts in line with the July 2004 Package, which also recognizes the right of developing countries to identify a number of products for special treatment. Other achievements included the recognition of the right of developing countries to use safeguard mechanisms, as set out in the July 2004 Package and subsequently in the Hong Kong Ministerial Declaration. However, the most difficult task was reaching agreement on band limits, the scale and manner of reduction of each band for the developing countries, the treatment of sensitive and special products, the amount of flexibility required, the criteria applicable to the use of the special safeguard mechanisms, and other difficult details to be covered by the agricultural negotiation modalities which in that case represent content rather than mere form.

Modest formal achievements were recorded in the reduction of domestic agricultural support. The July 2004 Package provided for a sharp reduction in the level of trade-distorting support, thresholds and new criteria for so-called Blue Box payments tied to programmes that limit production, and agreement on a tiered reduction formula pursuant to which countries with higher levels of support are required to make more substantial reductions. The Hong Kong Ministerial Declaration reflected modest progress when it identified three reduction bands.

The reduction of agricultural export subsidies has been the only achievement recorded during the past five years. The Hong Kong Ministerial Declaration contained a decision regarding parallel elimination of all forms of export subsidies and other measures with an equivalent impact by 2013. That goal was to be achieved progressively in a manner to be specified in the modalities. It was also agreed to eliminate cotton export subsidies by the end of 2006.[18] However, a great deal remains to be done, for example regulating export credits and guarantees, insurance programmes with repayment periods of 180 days or less, the activities of State trading enterprises and food aid. Clearly, therefore, progress has been very modest indeed, reflecting deep divergences that prevented the kind of meaningful and tangible progress that could have had a positive impact on the other tracks.

(b) *Market access for non-agricultural /industrial products*

The trade negotiators recognize that due weight has not been given to market access for non-agricultural/industrial products in the negotiations owing to slow progress on the agricultural track. According to the Doha Ministerial Declaration, the aim of the negotiations is “to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries”.[19] However, tariffs in developing countries are known to be higher on average than in developed countries, so that developing countries will bear most of the burden of elimination and reduction, even if their efforts are linked to grants of special and differential treatment. In contrast to agriculture, the July 2004

[16] Arvid Panagariya, “Liberalizing Agriculture”, *Foreign Affairs*, WTO special edition, December 2005.

[17] ICTSD, *Bridges Weekly Trade News Digest*, Vol. 9, No. 16, 11 May 2005.

[18] The Hong Kong Ministerial Declaration, Sixth WTO Ministerial Conference, 18 December 2005, WT/MIN(05)/DEC, para. 6.

[19] The Doha Ministerial Declaration, para. 16.

Package contained nothing new, simply adopting a framework for identifying negotiation modalities that had previously been submitted to the Cancún Ministerial Conference in the so-called Derbez text.[20] That framework did not attract a consensus in Cancún and so, like the agricultural framework, it is still an agreement on form, with substantive issues to be negotiated later.

During the negotiations, especially following agreement on the July 2004 Package, some progress was made in notification and discussion of non-tariff barriers. It was proposed that member countries should discuss a number of such related topics as the reduction formula, sectoral initiatives, linkage of tariff plans, environmental goods, special and differential treatment for developing countries, conversion of non-*ad valorem* tariffs and other issues. The Hong Kong Ministerial Declaration contained a formal agreement on a tariff reduction formula and on non-reciprocal commitments to reductions, non-compulsory sectoral reduction initiatives and reductions of basic, rather than fixed, tariffs. To date, negotiations on basic issues, figures, reduction levels and negotiation modalities have been deferred. That means that progress has been very modest and dependent on developments in the agricultural negotiations, which further complicates matters for the developing countries.

(c) *Service negotiations*

The service negotiations, like the agricultural negotiations, began in 2000 prior to the Doha Round and as a follow-up to the Uruguay Round, as required by article 19 of the General Agreement on Trade in Services (GATS). The negotiations were integrated into the Doha Round, since the Ministerial Declaration endorsed the guidelines established by the member countries in March 2001 for further negotiations, namely, the bilateral request-offer negotiation process. The Declaration set a deadline of March 2003 for submission by member countries of bilateral requests and initial offers.[21] However, the deadline expired and a new deadline set in the July 2004 Package was also missed. As a result, service liberalization requests and offers remained below the required level. Moreover, efforts to improve some GATS provisions, particularly those concerning support, protection and government procurement, failed to make headway until the Hong Kong Conference.

The Hong Kong Ministerial Declaration stated that all member countries should become more actively involved in the promotion of trade liberalization in services and should step up negotiations based on the methods and timelines set out in an annex to the Declaration. To that end, the Declaration introduced a new plurilateral negotiating method, in addition to the bilateral method adopted in 2001. Although the developed countries used that method and began to submit plurilateral requests, the deadlines fixed for February and July 2006 expired and by the date of preparation of this *Annual Review* service negotiations had failed to make any significant progress.

(d) *Trade-related aspects of intellectual property rights*

Prior to the Cancún Conference, progress in the negotiations on this track had fuelled hopes that it would contribute to the success of the proceedings, but the effective extent of progress remained questionable. The Doha Ministerial Conference adopted a separate Declaration on the Agreement on Trade-Related Intellectual Property Rights (TRIPS) and Public Health which gave member countries some flexibility in granting compulsory licences and in determining what constitutes a national emergency, such as AIDS. The Declaration also emphasized the need to find a speedy solution for countries with insufficient manufacturing capacities in the pharmaceutical sector, which could face difficulties in making effective use of compulsory licensing under the TRIPS Agreement. The early solution took the form of a decision adopted by the WTO General Council on 30 August 2003 to waive the provisions of article 31(f) of the TRIPS Agreement and to assist poor countries in importing generic drugs that are patented under compulsory licences.[22] There was no further

[20] ESCWA, E/ESCWA/GRID/2005/WG.3/10 (Arabic only).

[21] The Doha Ministerial Declaration, para. 15.

[22] ESCWA, E/ESCWA/GRID/2005/WG.3/7 (Arabic only).

movement until member countries agreed at a meeting of the WTO General Council held just a few days before the Hong Kong Conference to set up a permanent mechanism to implement the previous decision of the Council by making the necessary amendments to the TRIPS Agreement. No progress worth mentioning has been made on other issues under that heading in the Doha Declaration, namely, the multilateral system for registration of geographical indicators for wines and its extension to other products, the relationship between the TRIPS Agreement and the Convention on Biological Diversity, and the protection of traditional knowledge and folklore.

(e) *Implementation-related issues*

Most of those issues, which were raised prior to the Doha Round, are of special interest to the developing countries. Moreover, great importance was attached to them in the Doha Ministerial Declaration. They are widely dispersed among the WTO Agreements and the different negotiating authorities and committees. As no progress had been made in those negotiations, emphasis was placed on the importance of finding appropriate solutions in the July 2004 Package framework agreement. Yet no real progress was made until the Hong Kong Conference. In an attempt to find a solution, the Hong Kong Declaration requested the WTO Director-General to engage in intensive consultations with member countries on outstanding implementation issues and recommended that the WTO General Council should review progress at the end of July 2006. However, no progress has been made.

(f) *Negotiations on WTO rules*

The Doha Ministerial Declaration provided for negotiations among member countries with a view to clarifying and improving disciplines under the Agreements on Implementation of article 6 of the 1994 General Agreement on Tariffs and Trade (GATT), which apply for the most part to anti-dumping issues, as well as disciplines applying to regional trade agreements.[23] The Hong Kong Declaration acknowledged that some progress had been made in negotiations among member countries on amendments to a number or provisions of the Anti-Dumping Agreement and the Agreement on Subsidies and Countervailing Measures, as well as on regional trade agreements. However, the Declaration implied that there had been no tangible progress that could lead to an agreement, when it urged the Negotiating Group to intensify and complete the negotiating process with a view to producing modified texts as soon as possible.

(g) *Trade facilitation*

As already noted, special importance was attached to the negotiations on trade facilitation compared with those on other Singapore issues. The July 2004 Package kept that topic on the Doha Agenda, while dropping three other topics. The Doha Ministerial Declaration stipulated that negotiations on trade facilitation should be conducted on the basis of a decision to be adopted by consensus at the Fifth Ministerial Conference in Cancún on negotiation modalities. It further stipulated that the Council for Trade in Goods should review and, as appropriate, clarify and improve relevant aspects of articles 5, 8 and 10 of GATT 1994 and identify the trade facilitation needs and priorities of members, in particular developing and least developed countries.[24] Owing to the failure of the Cancún Conference, the July 2004 Package framework agreement contains an agreement on negotiation modalities as a special annex. Thus, the negotiations on trade facilitation have exceptionally resulted in an agreement among member countries during that round.

Member countries took steps in early 2005 to submit negotiating proposals and, by the end of July 2005, more than 50 had been submitted. They dealt with various ways of improving and clarifying the above-mentioned GATT 1994 articles, and a number of papers on national experiences were also submitted.[25] The discussions were characterized by a considerable measure of consensus among member countries. Even groups of developing and developed countries that have divergent views on other tracks submitted joint proposals, for example

[23] The Doha Ministerial Declaration, paras. 28 and 29.

[24] The Doha Ministerial Declaration, para. 27.

[25] E/ESCWA/GRID/2005/WG.3/4 (Arabic only).

India and the United States of America.[26] As a result of that consensus, the progress report was submitted unanimously by the members of the Negotiating Group to the Hong Kong Conference, rather than by the chair of the Group, as in the case of the negotiations on agriculture, market access for non-agricultural products and services.

During the preparations for the Hong Kong Conference, the member countries continued to submit and discuss proposals on identifying potential components of a new agreement on trade facilitation. The report of the Negotiating Group to the Conference reflected the significant progress made in the negotiations. Attached as annex E to the Ministerial Declaration, the report contained a number of recommendations that were endorsed by the Hong Kong Conference. The most important concerned the need to start work on drafting an agreement based on proposals from member countries; to continue and broaden the process of identifying trade facilitation needs and priorities and their cost implications, to increase support for technical assistance and capacity-building in order to enable the developing and least developed countries to participate effectively in the negotiations, and to deepen and intensify negotiations on special and differential treatment for developing countries.

In the post-Hong Kong phase, member countries made intensive efforts to draft a new agreement on trade facilitation. They submitted expanded proposals based on the previous ones, so-called third-generation proposals, containing proposed clauses for insertion in the agreement. By the time the round of negotiations was suspended in July 2006, member countries had submitted more than 70 negotiating proposals, 28 in July 2006 alone.[27] In view of the major progress made on that track, all countries concerned agreed to suspend negotiations pending submission by the chairman of the Negotiating Group of a draft agreement for discussion; hence, negotiations should be resumed within the near future.

Box 4. Regional Seminar on Trade Facilitation for National Negotiators

ESCWA held a Regional Seminar on Trade Facilitation for National Negotiators in Arab countries at United Nations House, Beirut, on 19 and 20 June 2006 in support of Arab efforts to keep abreast of issues relating to multilateral trading negotiations at WTO. It was organized under the joint project of the five United Nations regional commissions entitled Interregional Partnership for Promoting Trade as an Engine for Growth through Knowledge Management and Taking Advantage of Information and Communication Technology. The aim of the Seminar was to enhance the capacity of government negotiators in Arab countries so that they can participate more effectively in the ongoing round of negotiations under the auspices of WTO, where consensus has been reached on drafting a new trade facilitation agreement.

The Seminar discussed in detail issues pertaining to the WTO multilateral negotiations on trade facilitation, examining the negotiating proposals; the positions of member countries belonging to the different international groups; ways of addressing the needs and priorities of developing countries and Arab countries, particularly in respect of trade facilitation, technical assistance and capacity building; the technical requirements for trade facilitation, especially for the implementation of international standards and cooperation between customs authorities; cross-border data exchange; and the establishment of a WTO committee to monitor implementation of the new agreement, and mechanisms for monitoring, control and reporting on implementation. A number of appropriate recommendations were drawn up on most of the topics discussed. The Seminar was attended by representatives of customs authorities and ministries dealing with trade facilitation from 13 Arab countries and by experts from relevant regional and international organizations.

[26] WTO, Proposal by India and the United States of America on the establishment of a multilateral mechanism for the exchange and handling of information between members, 22 July 2005, TN/TF/W/57.

[27] WTO, Members' proposals on trade facilitation negotiations, 11 August 2006, TN/TF/W/43/Rev.10.

Box 5. Regional Workshop on Trade Facilitation for Small and Medium-sized Enterprises

ESCWA held a Regional Workshop on Trade Facilitation for Small and Medium-sized Enterprises (SMEs) at United Nations House, Beirut, on 6 and 7 November 2006, which was targeted at the private sector and sought to identify its most pressing needs.

The discussions focused on the importance of trade facilitation and its impact on business, particularly that of SMEs, which often refrain from importing and exporting goods because of such obstacles as the high costs involved. The participants called for the establishment of an Arab common market modelled on that of Europe. They took the view that trade facilitation would have a positive impact on SMEs, which account for some 90 per cent of all enterprises. The participants also took note of the numerous challenges currently impeding trade and called for simplified procedures, facilitation of information flows and coordination among Arab countries with a view to surmounting obstacles to trade, transport and transit. It was noted, moreover, that trade facilitation has a positive impact on economic performance and income in general, and on the performance of SMEs in particular.

The Workshop was attended by representatives of the private sector and company owners, as well as by representatives of government ministries and other public authorities of ESCWA member countries. The discussions focused on current developments in trade facilitation and their impact on SMEs. The participants sought to identify the needs of SMEs and the role that could be played by the private sector in general, and SMEs in particular, in simplifying trade procedures, increasing trade and making it more transparent and more responsive to needs, and identifying opportunities arising from trade facilitation.

The Arabic version of an educational compact disc (CD) on Trade Facilitation for the International Supply Chain was launched. The CD was produced by ESCWA as part of its joint project with the other United Nations regional commissions. Its aim is to promote trade as an engine for growth through knowledge management and information and communications technologies. The CD contains information and educational material for those involved in the public and private export and import sectors. It also contains data and sample forms that can be used by countries designing forms for customs and other data relating to commercial procedures.

III. REGIONAL INTEGRATION

Small economies achieve highest rates in terms of indicators of regional integration

While progress was recorded in some indicators of regional integration in 2005, others remained unchanged from 2003 and 2004. Table 8 summarizes core indicators of Arab regional integration. It may be noted that the ratio of intraregional trade to Arab total foreign trade stood at the same level in 2005 as in 2004, after recording an increase in 2004 compared with 2003. On the other hand, the ratio of Arab intraregional investment to overall FDI increased from about 24 per cent in 2003 to about 27 per cent in 2004, and the ratio of Arab intraregional tourism to overall tourism also increased between 2003 and 2004. Lastly, it may be noted that the ratio of workers' remittances to GDP stood at the same level in 2005 as in 2004, namely, at about 5 per cent.

TABLE 8. SELECTED INDICATORS OF REGIONAL INTEGRATION BETWEEN THE ARAB COUNTRIES, 2001-2005

Indicator	2001	2002	2003	2004	2005
Ratio of intraregional trade to foreign trade	9.27	9.71	9.17	11.02	11.24
Ratio of intraregional investment to overall FDI	34.3	36.0	23.74	26.77	..
Ratio of intraregional tourism to overall tourism	44.59	45.34	40.33	43.42	..
Ratio of intraregional workers' remittances to GDP	5.9	6.2	4.64	5.01	5.57

Sources: Inter-Arab Investment Guarantee Corporation, *Report on Investment Climate in the Arab Countries 2005*, Kuwait, 2006; ESCWA, based on International Monetary Fund (IMF), *Direction of Trade Statistics, Yearbook 2005*, and IMF, *Direction of Trade Statistics*, *Quarterly*, September 2006; World Tourism Organization, *Tourism Market Trends, Middle East*, 2004 edition; WB, *World Development Indicators*.

Note: Two dots (..) indicate that no data are available.

A. ARAB INTRAREGIONAL TRADE

Highest growth rate recorded by the indicator of Arab intraregional trade excluding oil in 2005

Saudi Arabia ranks highest in terms of the absolute value of intraregional trade and the Syrian Arab Republic in percentage terms

Table 9 shows a continuous upward trend in Arab trade for the second consecutive year. Foreign trade rose from $684 billion in 2004 to about $873 billion in 2005, an increase of 28 per cent. Arab intraregional trade continued to rise in 2005, recording its highest ever rate. It increased by 63 per cent between 2003 and 2004, and by almost 30 per cent between 2004 and 2005, when the value of Arab intraregional trade reached a total of $98 billion.

The sharp increase in Arab trade in 2004 and 2005 is attributable, on the one hand, to the global rise in oil prices and increased global demand for oil, which had a major impact on Arab exports, of which oil is a key component, especially in the major oil-exporting countries; and, on the other hand, to an increase in the value of Arab imports in 2004 and 2005 and a decline in the United States dollar vis-à-vis other major currencies.

The increase in foreign trade is also attributable to the benefits accruing from trade agreements signed between Arab and other countries, namely, the Free Trade Agreement between Lebanon and the European Union, the bilateral or trade agreements signed by Bahrain, Kuwait, Morocco, Oman, Qatar, the United Arab Emirates and Yemen with the United States of America, agreements between Arab countries and other regional groups, and a number of such bilateral treaties as the agreement to set up a free trade zone between Egypt and Turkey and the economic agreements between the United Arab Emirates and Germany.

With the entry into effect of the Greater Arab Free Trade Area (GAFTA) in early 2005, the exemption of goods of Arab origin from customs duties led to a marked increase in Arab

intraregional trade, from $75 billion in 2004 to $98 billion in 2005, which is equivalent to a 30-per cent increase. The rise in Arab intraregional trade is also attributable to the outcome of agreements among Arab countries, above all the Agadir Agreement. The Arab countries also signed a number of bilateral agreements, for example the trade agreement between Egypt and Jordan and the export development agreement between the Syrian Arab Republic and Yemen.

TABLE 9. FOREIGN AND INTRAREGIONAL TRADE IN THE ARAB WORLD, INCLUDING AND EXCLUDING OIL,* 1998-2005
(*Millions of dollars and percentages*)

	1998	1999	2000	2001	2002	2003	2004	2005
Overall foreign trade	279 890	322 760	400 988	400 577	418 934	505 163	684 463	872 891
Intraregional trade**	27 526	29 129	33 266	37 145	40 671	46 322	75 437	98 081
Ratio of intraregional trade to overall foreign trade	9.83	9.03	8.30	9.27	9.71	9.17	11.02	11.24
Ratio of intraregional trade to overall foreign trade excluding oil	13.55	13.67	14.87	14.74	14.69	13.50	16.53	17.98

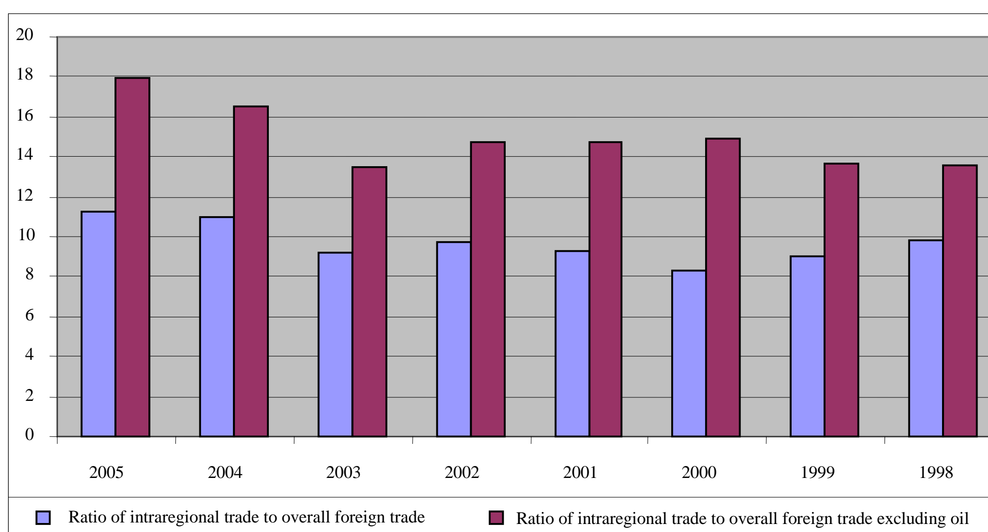
Sources: ESCWA, based on IMF, *Direction of Trade Statistics, Yearbook 2005*; IMF, *Direction of Trade Statistics, Quarterly*, September 2006; OAPEC, *32nd Annual Statistical Report*.

Notes: * Excluding the West Bank and Gaza Strip for lack of reliable data.
** Figures include re-exportation.

All the above-mentioned factors led to an increase in the ratio of intraregional trade to overall foreign trade for the second consecutive year to 11.2 per cent in 2005, the highest ever rate recorded by the Arab countries, as indicated in table 9 and figure 4.

If oil exports are excluded from foreign trade, the ratio of Arab intraregional trade to foreign trade shows a marked increase for the second consecutive year, reaching almost 18 per cent in 2005, a rate higher than the average rate of 14.9 per cent recorded over the period 1998-2005. The average ratio of intraregional trade to foreign trade, including oil, was only 9.7 per cent during the same period because of the increase in foreign trade resulting from the global rise in oil prices. That ratio bears out the fact mentioned above, namely, that the oil sector plays a major role in Arab trade.

Figure 4. Ratio of intraregional trade to overall foreign trade, including and excluding oil, 1998-2005



Source: Based on table 10.

It may be concluded from a comparison with the value of intraregional trade and its ratio to foreign trade recorded by some regional blocs that the Arab countries must intensify their efforts to increase intraregional trade and enhance regional economic integration. Table 11 shows that, compared with some other regional blocs, the Arab countries recorded the highest growth rate in the value of intraregional trade between 2003 and 2005. Intraregional trade rose from only $46 billion in 2003 to about $98 billion in 2005, which is equivalent to a 112-per-cent increase. Intraregional trade in the European Union (EU) recorded a 48-per-cent increase between 2003 and 2005 as a direct result of its enlargement on 1 May 2004 from 15 to 25 members. The enlargement had a positive impact on EU intraregional trade, which rose from $3,470 billion in 2003 to about $5,137 billion in 2005, a 48-per-cent increase. A similar increase was recorded in intraregional trade among the member countries of the Association of Southeast Asian Nations (ASEAN), which rose from $211 billion in 2003 to $305 billion in 2005, a 44-per-cent increase. Intraregional trade between the signatories of the North American Free Trade Agreement (NAFTA), namely, Canada, Mexico and the United States of America, recorded a lower growth rate than the other regional blocs, rising from $1,308 billion in 2003 to $1,634 billion in 2005, an increase of only 25 per cent.

TABLE 10. INTRAREGIONAL TRADE FLOWS IN SOME REGIONAL BLOCS, 2003 AND 2005

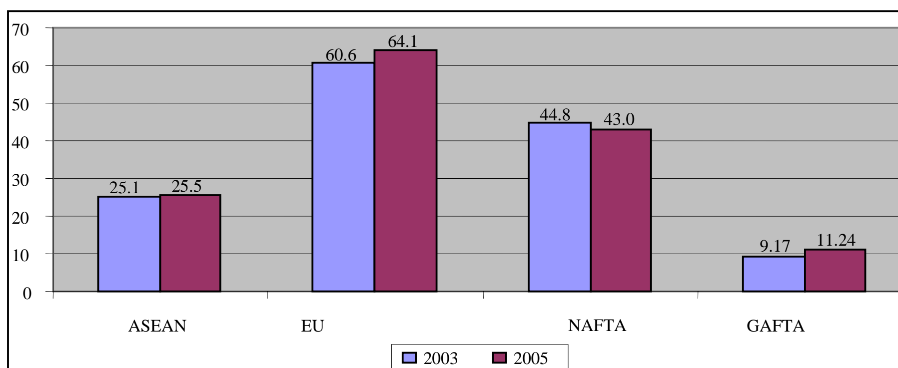
Regional bloc	Value of intraregional trade (billions of dollars)		Ratio of intraregional trade to foreign trade (percentage)	
	2003	2005	2003	2005
ASEAN	211.1	304.60	25.10	25.50
EU*	3 470	5 137	60.60	64.10
NAFTA	1 308	1 634	44.80	43.10
Arab countries**	46.30	98.10	9.17	11.24

Sources: ESCWA, based on IMF, *Direction of Trade Statistics, Yearbook 2005*; and IMF, *Direction of Trade Statistics, Quarterly*, September 2006.

Notes: * As the number of EU member States grew from 15 to 25 on 1 May 2004, the 2003 data cover 15 member States and the 2005 data 25 member States.

** Excluding the West Bank and Gaza Strip for lack of reliable data.

Figure 5. Ratio of intraregional trade to overall international trade in some regional blocs, 2003 and 2005

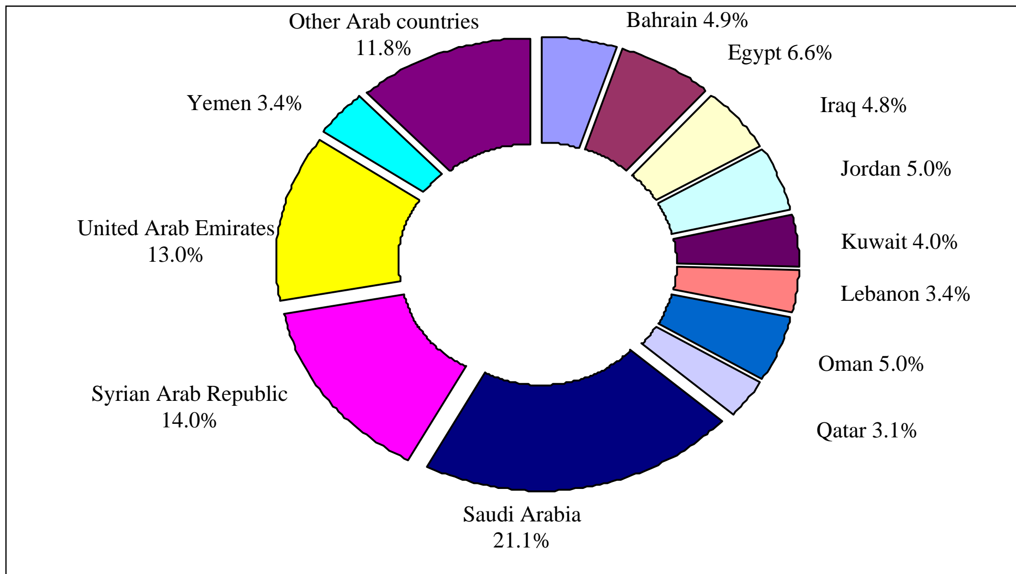


Source: Based on table 11.

As shown in table 10 and figure 5, a comparison of the ratio of intraregional trade to foreign trade in each of the above regional blocs indicates that between 2003 and 2005 the ratio rose from 60.6 to 64.1 per cent in EU, and from 9.2 to 11.2 per cent in the Arab countries. A limited rise from 25.1 to 25.5 per cent was recorded in the ASEAN member countries, while in the NAFTA member countries the ratio declined from 44.8 to 43 per cent, which indicates that foreign trade was higher than intraregional trade.

Figure 6 shows the distribution of intraregional trade among Arab countries in 2005. It indicates that 12 Arab countries control almost 88 per cent of overall Arab intraregional trade. Saudi Arabia heads the list with a ratio of more than 21 per cent, followed by the Syrian Arab Republic with a ratio of 14 per cent. The United Arab Emirates ranks third with almost 13 per cent, followed by Egypt with 6.6 per cent. Next in line are Jordan, Oman, Bahrain, Iraq, Kuwait, Lebanon and, finally, Qatar, with a ratio of 3.1 per cent.

Figure 6. Distribution of Arab intraregional trade in 2005



Sources: ESCWA, based on IMF, *Direction of Trade Statistics, Yearbook 2005*; and IMF, *Direction of Trade Statistics, Quarterly*, September 2006.

Although the share of Saudi Arabia and the United Arab Emirates in Arab intraregional trade reached 34 per cent in 2005, their ratio of intraregional trade to foreign trade amounted to only 9.5 and 6.6 per cent, respectively, in the same year, as shown in table 11. The ratio fluctuated in the GCC countries, for example in the United Arab Emirates it declined gradually between 1998 and 2005 from 8.5 to 6.6 per cent. In Saudi Arabia, the ratio dropped from 9.9 per cent in 1998 to 6.7 per cent in 2001, and then rose gradually to reach 9.5 per cent in 2005. Oman and Qatar recorded a decline in the ratio of intraregional trade to foreign trade during the period 1998-2005, from 25.3 to 18.1 per cent in Oman and from 10 to 8.4 per cent in Qatar. In Kuwait, the ratio stood at around 7 per cent during the same period. The decline in the ratio of intraregional trade to foreign trade in the GCC countries is attributable, on the one hand, to their heavy reliance on oil exports to countries outside the Arab world and, on the other, to the similarity of their production infrastructure and their lack of economic diversity. It should be noted that there was a marked increase in the ratio of intraregional trade to overall foreign trade in Bahrain, from 15.4 per cent in 1998 to about 21 per cent in 2005.

The Syrian Arab Republic recorded the most pronounced growth in the ratio of intraregional trade to overall foreign trade in 2004 and 2005. The ratio rose from 12.6 per cent in 2003 to 23 per cent in 2004, reaching a high point of 46.2 per cent in 2005 owing to increased exports of agricultural goods, especially grains, to Arab countries. In Lebanon, the ratio rose sharply from 12.1 per cent in 1998 to 24.9 per cent in 2004 and reached a high point of 28.2 per cent in 2005. Iraq recorded a marked growth rate from 9.7 per cent in 2003 to 14.6 per cent in 2004 and 15.3 per cent in 2005, reflecting the economic boom due to the lifting of economic sanctions and the reconstruction process. In Egypt, the growth rate increased gradually from 7.4 per cent in 1998

to 13.4 per cent in 2005. In Yemen, the rate of increase fluctuated between 21.9 per cent in 1998, 17 per cent in 2000 and 24.6 per cent in 2005.

In the Arab Maghreb countries, the ratio of intraregional trade to foreign trade increased in Algeria, Morocco and Tunisia in the period 1998-2005, particularly in 2004 and 2005, but it is still generally low compared to the average ratio recorded by the Arab countries. Geography is a major factor in the Arab Maghreb countries, as most of their trade is with EU, while trade with other Arab countries is limited to agricultural goods such as oils and citrus fruits. The ratio of intraregional trade to foreign trade rose from 2.5 to 2.8 per cent in Algeria, from 6.8 to 8.8 per cent in Morocco and from 6.6 to 7.8 per cent in Tunisia between 2004 and 2005. The situation is different in the Libyan Arab Jamahiriya, where the ratio declined from 7.6 per cent in 2004 to 5.7 per cent in 2005.

TABLE 11. RATIO OF INTRAREGIONAL TRADE TO FOREIGN TRADE IN THE ARAB COUNTRIES,* 1998-2005
(*Percentages*)

	1998	1999	2000	2001	2002	2003	2004	2005
Algeria	2.24	2.09	1.69	2.97	3.27	3.85	2.51	2.78
Bahrain	15.37	14.97	15.57	16.04	16.92	17.66	18.47	21.04
Comoros	7.90	5.09	7.58	5.49	5.66	5.36	7.01	2.28
Djibouti	31.36	27.74	32.90	33.29	34.01	35.01	37.79	37.68
Egypt	7.36	7.52	7.23	10.30	9.32	9.55	12.70	13.38
Iraq	8.90	5.90	7.91	11.55	13.02	9.69	14.64	15.28
Jordan	27.16	27.76	28.19	31.14	31.85	31.79	33.63	32.79
Kuwait	7.16	6.97	6.66	7.30	7.40	6.95	7.54	7.64
Lebanon	12.11	12.38	15.65	15.97	17.53	17.35	24.94	28.23
Libyan Arab Jamahiriya	8.15	7.15	5.82	5.84	6.61	6.28	7.55	5.67
Mauritania	4.09	2.80	3.36	4.09	4.26	4.47	4.72	4.65
Morocco	5.03	4.15	8.91	8.71	8.49	6.86	6.77	8.78
Oman	25.25	22.56	19.43	20.56	20.89	19.24	17.93	18.10
Qatar	9.99	8.63	8.53	6.84	11.48	8.49	9.45	8.42
Saudi Arabia	9.94	9.55	6.77	6.74	7.02	7.43	9.81	9.46
Somalia	53.23	52.59	46.85	45.41	46.45	53.14	49.30	54.97
Sudan	17.08	17.85	13.51	11.90	11.11	25.70	15.95	15.50
Syrian Arab Republic	16.38	14.31	11.21	15.31	13.58	12.60	22.95	46.19
Tunisia	5.79	5.40	7.87	7.47	7.49	7.32	6.64	7.81
United Arab Emirates	8.45	8.06	7.01	8.37	8.34	7.49	6.75	6.63
Yemen	21.93	20.73	16.98	19.79	25.70	22.66	25.14	24.55

Sources: ESCWA, based on IMF, *Direction of Trade Statistics*, *Yearbook 2005*; and IMF, *Direction of Trade Statistics*, *Quarterly*, September 2006.

Note: * Excluding the West Bank and Gaza Strip for lack of reliable data.

As shown in table 12, the ratio of Arab intraregional trade to GDP increased gradually in the period 1998-2005 from 5 per cent to about 9.3 per cent. Increases were recorded in most of the Arab countries between 2004 and 2005 with the exception of Kuwait, the Libyan Arab Jamahiriya and Mauritania. Djibouti and the Syrian Arab Republic recorded the highest growth rates between 2004 and 2005, from 70.6 to 82.6 per cent in Djibouti and from 48.8 to 54.7 per cent in the Syrian Arab Republic. Kuwait recorded a decline in the ratio of intraregional trade to GDP, from 5.2 per cent in 2004 to 4.8 per cent in 2005. The decline was attributable to the global rise of oil prices, which led to a sharp rise in GDP.

TABLE 12. RATIO OF INTRAREGIONAL TRADE TO GDP IN THE ARAB COUNTRIES,* 1998-2005
(*Percentages*)

	1998	1999	2000	2001	2002	2003	2004	2005
Algeria	0.90	0.94	0.92	1.51	1.74	1.69	1.56	1.81
Bahrain	24.66	22.56	21.95	24.08	24.89	27.77	32.39	35.25
Djibouti	42.11	39.76	44.83	48.76	47.75	56.98	70.63	82.55
Egypt	1.71	1.62	2.10	1.92	2.92	3.49	6.48	7.21
Iraq	3.10	2.94	4.31	6.57	7.39	6.13	11.45	14.84
Jordan	17.26	16.70	19.60	24.85	26.13	27.71	34.16	37.94
Kuwait	5.20	4.71	4.72	5.13	4.72	4.53	5.21	4.81
Lebanon	5.82	5.17	6.64	7.02	7.34	8.44	14.06	15.12
Libyan Arab Jamahiriya	2.98	2.86	2.89	3.26	5.46	5.64	5.28	5.10
Mauritania	4.52	3.24	4.23	5.35	6.15	6.11	6.68	6.63
Morocco	1.83	2.37	5.06	4.81	4.63	3.60	3.70	5.23
Oman	19.82	16.90	15.36	16.98	17.63	15.01	14.84	16.47
Qatar	8.06	6.08	7.13	5.64	8.75	6.55	8.17	8.98
Saudi Arabia	4.68	4.56	3.78	4.12	4.27	4.87	6.16	6.74
Sudan	3.96	3.80	3.20	2.97	2.75	7.17	5.69	6.26
Syrian Arab Republic	6.93	6.23	6.01	9.49	8.96	8.42	48.75	54.73
Tunisia	4.09	4.74	5.91	6.03	5.29	5.16	5.08	6.64
United Arab Emirates	8.81	9.32	6.57	8.34	7.64	7.50	9.19	9.53
Yemen	12.85	12.15	11.42	11.96	15.10	16.30	19.46	20.19
All Arab countries	5.00	4.90	4.85	5.57	5.99	6.13	7.28	9.27

Sources: *The Consolidated Arab Economic Report*, 2006, first edition; ESCWA, based on IMF, *Direction of Trade Statistics, Yearbook 2005*; and IMF, *Direction of Trade Statistics*, *Quarterly*, September 2006.

Note: * Excluding the Comoros, Somalia and the West Bank and Gaza Strip for lack of reliable data.

Table 13 shows the three main Arab trading partners of each Arab country for the years 2003 to 2005 and the share of each country in intraregional trade. It should be noted that geographical location plays a major role in intraregional trade, and that a considerable proportion of intraregional trade occurs between neighbouring Arab countries because of the cost advantages flowing from ease and rapidity of transport. For most Arab countries, one main partner is a neighbouring country, as is the case of Jordan and Iraq, which were main partners for the period 2003-2005, Lebanon and the Syrian Arab Republic, and the Sudan and Egypt.

In the GCC countries, the main two or three partners of each GCC member country are other member countries. In 2005, some 54 per cent of the intraregional trade of the United Arab Emirates was with Saudi Arabia, Oman and Qatar, with ratios of 27, 16 and 11 per cent, respectively; 83 per cent of Bahraini intraregional trade was with Saudi Arabia, the United Arab Emirates and Oman, with ratios of 64, 14 and 5 per cent respectively; 37 per cent of Saudi Arabian intraregional trade was with Bahrain and the United Arab Emirates, with ratios of 20 and 17 per cent, respectively; 86 per cent of Omani intraregional trade was with the United Arab Emirates, Saudi Arabia and Bahrain, with ratios of 70, 11 and 5 per cent respectively; 81 per cent of Qatari intraregional trade was with the United Arab Emirates, Saudi Arabia and Bahrain, with ratios of 43, 33 and 5 per cent, respectively; and 50 per cent of Kuwaiti intraregional trade was with Saudi Arabia and the United Arab Emirates, with ratios of 31 and 19 per cent, respectively. The same is true of the Arab Maghreb countries, where one major partner is an Arab Maghreb country, for example Tunisia and the Libyan Arab Jamahiriya, Tunisia and Algeria, and Algeria and Morocco.

Saudi Arabia was one of the three major partners for 12 countries during the period 2003-2005. In some Arab countries, trade with Saudi Arabia accounts for more than half of intraregional trade. Examples include Bahrain, where 64 per cent of trade was with Saudi Arabia; and Jordan, where 52 per cent was with Saudi Arabia. In other countries, trade with Saudi Arabia accounts for a high proportion of intraregional trade, as is the case in the Sudan with 43 per cent, Qatar with 33 per cent, Egypt with 30 per cent, Yemen with 28 per cent and the Syrian Arab Republic with 27 per cent. Saudi Arabia is followed by the United Arab Emirates,

which was one of the three main partners of 11 Arab countries during the period 2003-2005.

No changes occurred in the last three years in the main partners of Bahrain, Lebanon, the Libyan Arab Jamahiriya, Oman, Qatar, the Sudan, Somalia, Tunisia and Yemen, and their ratios remained broadly the same. Egypt, Kuwait, Morocco, Saudi Arabia and the United Arab Emirates experienced minor changes, in most instances in the third main partner. A more pronounced change occurred in Jordan, where the order of the three main partners changed during the period 2003-2005 with the exit of the United Arab Emirates and the entry of the Syrian Arab Republic. Changes occurred also in the three main partners of the Syrian Arab Republic, as Lebanon dropped from first place in 2003 to third place in 2005 and Iraq joined the list in 2004.

TABLE 13. MAIN PARTNERS IN ARAB INTRAREGIONAL TRADE,* 2003, 2004 AND 2005

Country	Main trading partners 2003	Percentage	Main trading partners 2004	Percentage	Main trading partners 2005	Percentage
Algeria	Egypt	22.04	Egypt	25.38	Egypt	24.09
	Tunisia	20.30	Syrian Arab Republic	15.44	Morocco	20.01
	Morocco	16.11	Morocco	14.38	Syrian Arab Republic	14.09
Bahrain	Saudi Arabia	61.30	Saudi Arabia	64.58	Saudi Arabia	64.15
	United Arab Emirates	14.48	United Arab Emirates	14.11	United Arab Emirates	13.66
	Oman	5.41	Oman	5.25	Oman	4.99
Egypt	Saudi Arabia	36.72	Saudi Arabia	32.10	Saudi Arabia	30.31
	United Arab Emirates	10.38	Syrian Arab Republic	22.29	Syrian Arab Republic	24.66
	Algeria	9.36	United Arab Emirates	9.36	United Arab Emirates	7.60
Iraq	Jordan	76.89	Syrian Arab Republic	70.31	Syrian Arab Republic	74.07
	Egypt	9.51	Jordan	19.22	Jordan	15.29
	Algeria	5.00	Egypt	3.91	Egypt	4.07
Jordan	Iraq	32.70	Saudi Arabia	46.17	Saudi Arabia	51.78
	Saudi Arabia	28.86	Iraq	17.44	Iraq	13.62
	United Arab Emirates	9.31	Syrian Arab Republic	8.79	Egypt	7.65
Kuwait	Saudi Arabia	34.48	Saudi Arabia	31.16	Saudi Arabia	30.88
	United Arab Emirates	22.87	United Arab Emirates	19.03	United Arab Emirates	18.84
	Yemen	14.04	Syrian Arab Republic	13.86	Syrian Arab Republic	13.49
Lebanon	Syrian Arab Republic	30.52	Syrian Arab Republic	49.82	Syrian Arab Republic	47.43
	Saudi Arabia	20.81	Saudi Arabia	14.58	Saudi Arabia	16.26
	United Arab Emirates	14.08	United Arab Emirates	10.14	United Arab Emirates	10.99
Libyan Arab Jamahiriya	Tunisia	51.82	Tunisia	45.90	Tunisia	47.51
	Syrian Arab Republic	14.41	Syrian Arab Republic	21.67	Syrian Arab Republic	19.56
	United Arab Emirates	8.81	United Arab Emirates	8.32	United Arab Emirates	8.69
Mauritania	Morocco	37.28	Algeria	27.75	Algeria	31.40
	Algeria	26.67	Morocco	27.25	Morocco	23.25
	Lebanon	7.65	Tunisia	9.69	Tunisia	9.38
Morocco	Sudan	49.30	Sudan	54.18	Sudan	53.70
	Algeria	12.63	Algeria	10.85	Algeria	14.59
	Egypt	9.33	United Arab Emirates	7.88	Egypt	6.73
Oman	United Arab Emirates	68.31	United Arab Emirates	69.54	United Arab Emirates	69.58
	Saudi Arabia	12.95	Saudi Arabia	10.99	Saudi Arabia	10.99
	Bahrain	4.73	Bahrain	5.46	Bahrain	5.29

TABLE 13 (*continued*)

Country	Main trading partners 2003	Percentage	Main trading partners 2004	Percentage	Main trading partners 2005	Percentage
Qatar	United Arab Emirates	44.78	United Arab Emirates	42.81	United Arab Emirates	43.03
	Saudi Arabia	31.44	Saudi Arabia	32.92	Saudi Arabia	33.07
	Bahrain	6.44	Bahrain	4.99	Bahrain	4.93
Saudi Arabia	Bahrain	21.24	Bahrain	20.10	Bahrain	20.19
	United Arab Emirates	17.57	United Arab Emirates	16.91	United Arab Emirates	16.73
	Egypt	9.39	Jordan	10.80	Jordan	11.22
Somalia	Djibouti	43.73	Djibouti	43.23	Djibouti	40.87
	United Arab Emirates	30.01	United Arab Emirates	29.48	United Arab Emirates	31.88
	Yemen	11.57	Yemen	11.44	Yemen	10.77
Sudan	Saudi Arabia	64.61	Saudi Arabia	50.69	Saudi Arabia	42.89
	United Arab Emirates	16.58	United Arab Emirates	25.90	United Arab Emirates	27.22
	Egypt	4.55	Egypt	8.65	Bahrain	10.28
Syrian Arab Republic	Lebanon	23.73	Saudi Arabia	24.70	Saudi Arabia	27.10
	Saudi Arabia	21.00	Iraq	22.15	Iraq	23.78
	Jordan	13.48	Lebanon	11.78	Lebanon	11.23
Tunisia	Libyan Arab Jamahiriya	51.09	Libyan Arab Jamahiriya	51.82	Libyan Arab Jamahiriya	53.20
	Algeria	16.87	Algeria	12.37	Algeria	12.58
	Saudi Arabia	9.25	Saudi Arabia	9.22	Saudi Arabia	9.64
United Arab Emirates	Saudi Arabia	28.66	Saudi Arabia	27.69	Saudi Arabia	27.56
	Oman	19.77	Oman	15.85	Oman	15.78
	Yemen	8.95	Qatar	10.72	Qatar	10.67
Yemen	United Arab Emirates	34.56	United Arab Emirates	33.35	United Arab Emirates	34.26
	Saudi Arabia	28.91	Saudi Arabia	27.55	Saudi Arabia	28.25
	Kuwait	16.35	Kuwait	15.71	Kuwait	15.90

Sources: ESCWA, based on IMF, *Direction of Trade Statistics*, *Yearbook 2005*; *and* IMF, *Direction of Trade Statistics*, *Quarterly*, September 2006.

Note: * Ranked according to percentage.

Table 14 and figure 7 show the ranking of some Arab countries in terms of absolute and relative values of Arab intraregional trade for 2003, 2004 and 2005. Saudi Arabia continued to rank first in terms of absolute value of Arab intraregional trade from 2003 to 2005, while the Syrian Arab Republic and the United Arab Emirates continued to rank second and third, respectively, in 2004 and 2005. Egypt remained in fourth place for three consecutive years, while the countries ranking fifth and sixth changed during the same period. In 2005, Jordan dropped from fifth to sixth place, Oman moved up from seventh to fifth place, and Bahrain dropped from eighth to seventh place. Iraq, which ranked sixteenth in 2003, moved up to sixth place in 2004, due to the major positive impact of the lifting of economic sanctions on foreign trade in general, and intraregional trade in particular. The Sudan ranked last in 2005 for the second year, while Algeria moved up one place after ranking last in 2003.

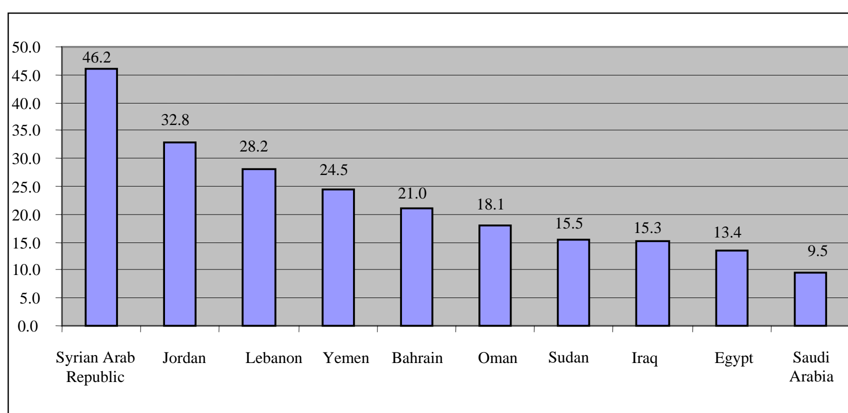
The list of countries in terms of relative value, namely, the ratio of Arab intraregional trade to overall foreign trade for each country, shows that Jordan, which ranked first in 2003 and 2004, dropped to second place, ceding the top position to the Syrian Arab Republic. It should be noted that the Sudan, which ranks last in terms of absolute value, ranked second in 2003 and seventh in 2004 and 2005 in terms of relative value. Lebanon ranked third in both 2004 and 2005. Saudi Arabia dropped from fifteenth place in 2003 to twelfth and tenth place in 2004 and 2005, respectively, because of the size of its economy and its heavy reliance on oil exports. The United Arab Emirates ranked fifteenth in 2004 and 2005, and Algeria ranked last during the period 2003-2005.

TABLE 14. RANKING OF ESCWA MEMBER COUNTRIES AND SOME OTHER ARAB COUNTRIES IN TERMS OF ABSOLUTE AND RELATIVE VALUES OF INTRAREGIONAL TRADE, 2003 AND 2004

Ranking in terms of absolute value						Ranking in terms of relative value					
2003		2004		2005		2003		2004		2005	
1	Saudi Arabia	1	Saudi Arabia	1	Saudi Arabia	1	Jordan	1	Jordan	1	Syrian Arab Republic
2	United Arab Emirates	2	Syrian Arab Republic	2	Syrian Arab Republic	2	Sudan	2	Yemen	2	Jordan
3	Oman	3	United Arab Emirates	3	United Arab Emirates	3	Yemen	3	Lebanon	3	Lebanon
4	Egypt	4	Egypt	4	Egypt	4	Oman	4	Syrian Arab Republic	4	Yemen
5	Jordan	5	Jordan	5	Oman	5	Bahrain	5	Bahrain	5	Bahrain
6	Bahrain	6	Iraq	6	Jordan	6	Lebanon	6	Oman	6	Oman
7	Kuwait	7	Oman	7	Bahrain	7	Syrian Arab Republic	7	Sudan	7	Sudan
8	Yemen	8	Bahrain	8	Iraq	8	Iraq	8	Iraq	8	Iraq
9	Syrian Arab Republic	9	Kuwait	9	Kuwait	9	Egypt	9	Egypt	9	Egypt
10	Morocco	10	Lebanon	10	Lebanon	10	Qatar	10	Qatar	10	Saudi Arabia
11	Qatar	11	Yemen	11	Yemen	11	United Arab Emirates	11	Saudi Arabia	11	Morocco
12	Lebanon	12	Qatar	12	Qatar	12	Tunisia	12	Libyan Arab Jamahiriya	12	Qatar
13	Tunisia	13	Morocco	13	Morocco	13	Kuwait	13	Kuwait	13	Tunisia
14	Libyan Arab Jamahiriya	14	Tunisia	14	Libyan Arab Jamahiriya	14	Morocco	14	Morocco	14	Kuwait
15	Sudan	15	Libyan Arab Jamahiriya	15	Tunisia	15	Saudi Arabia	15	United Arab Emirates	15	United Arab Emirates
16	Iraq	16	Algeria	16	Algeria	16	Libyan Arab Jamahiriya	16	Tunisia	16	Libyan Arab Jamahiriya
17	Algeria	17	Sudan	17	Sudan	17	Algeria	17	Algeria	17	Algeria

Sources: ESCWA, based on IMF, *Direction of Trade Statistics*, *Yearbook 2005*; and IMF, *Direction of Trade Statistics*, *Quarterly*, September 2006.

Figure 7. Top ten countries in terms of the ratio of intraregional trade to foreign trade in the Arab world, 2005



Source: Based on tables 11 and 13.

In conclusion, it may be noted that with the entry into force of GAFTA entailing customs duty exemptions in 2005 and with the global rise in oil prices, Arab foreign trade increased by 28 per cent and Arab intraregional trade rose by 30 per cent. Moreover, the ratio of intraregional trade to foreign trade increased to 11.2 per cent in 2005.

B. ARAB INTRAREGIONAL INVESTMENT

The United Arab Emirates ranks first among Arab intraregional investment exporting countries and Saudi Arabia ranks first among receiving countries

Arab intraregional investment grew robustly in 2004, climbing to about $6 billion from $3.8 billion in 2003 and accounting for 26.8 per cent of FDI in 2004, compared with 23.7 per cent in 2003. The United Arab Emirates headed the list of countries exporting Arab intraregional investment in 2004, followed by Saudi Arabia and Kuwait. Saudi Arabia topped the list of receiving countries, followed by Egypt and Lebanon.

The service sector continued to account for the bulk of Arab intraregional investment in 2005, absorbing roughly 85 per cent of total authorized investment. The industrial sector ranked second with 6 per cent, while investment in the agricultural sector was very low.[28] The leading exporter of Arab intraregional investment was the United Arab Emirates, which exported 79 per cent of overall authorized investment during 2005, a major increase from 34 per cent recorded in 2004, followed by Saudi Arabia with 6 per cent, and Kuwait with 4 per cent.[29]

The sharp growth in Arab intraregional investment in 2005 was due to the efforts of Governments to improve the investment climate and attract Arab investment by reviewing administrative procedures with a view to simplifying them and reducing the bureaucracy that undermines projects, enhancing transparency and supporting marketing drives. In addition, the global rise in oil prices and the economic boom enjoyed by oil-exporting Arab countries contributed to the increase in Arab intraregional investment authorized in 2005. Arab commitment to the implementation of privatization programmes also played a positive role in generating investment opportunities, in addition to the concerted efforts by Arab Governments.

Table 16 shows private and authorized Arab intraregional investment by exporting and receiving countries as a percentage of overall investment in 2005.

Efforts to stimulate Arab intraregional investment

The sharp increase in Arab intraregional investment in 2005 is attributable to the vigorous efforts by Arab Governments to improve the investment climate and attract Arab capital at both the national and regional levels.

(a) *At the national level*

The Arab countries enacted laws and regulations in 2005 aimed at supporting investment flows and creating a favourable investment climate. Mention may be made, in particular, of the following measures:

(i) Amendment and enactment of some 59 new laws in 2005 aimed at facilitating investment, reducing bureaucracy and administrative procedures, preventing double taxation, protecting investment, regulating property ownership by foreigners, eliminating obstacles and opening up new sectors;

(ii) Enactment of laws regulating the operation of free zones and institutional investment groups, and establishment of new free zones and industrial zones;

(iii) Continuation of government computerization programmes in a number of Arab countries and development of websites to facilitate work and contacts with the public; promotion of computer-based learning in schools; improvement of company governance; and introduction of electronic forms to expedite and facilitate administrative procedures;

(iv) Improvement of the basic infra-structure of the telecommunications sector in a number of Arab countries

[28] Inter-Arab Investment Guarantee Corporation, *Report on Investment Climate in the Arab Countries 2006*, Kuwait.

[29] Ibid.

because of its vital role in encouraging investment;

(v) Organization of marketing activities for investment. Some 130 marketing events were organized by 14 Arab countries, including conferences, seminars, congresses, workshops, forums, exhibitions, festivals and lectures. Moreover, Arab countries participated in 247 marketing events organized by European, Asian, American and other countries. A number of countries organized promotional visits and offered at least 964 investment opportunities in the Arab world;[30]

(vi) Improvement of the business environment by enhancing expertise and developing the institutional framework for investment operations, and adoption of the one-stop-shop approach to the investment process;

(vii) Amendment of the investment promotion law in Palestine with a view to offering additional incentives to investors, and continuation of the drafting of a new investment law in the Syrian Arab Republic;

(viii) Continuation of work in a number of Arab countries on improving the performance of financial markets; granting of permission to non-citizens in some countries to conduct business in the markets.

(b) *At the regional level*

The following are some of the main agreements signed by Arab countries with a view to supporting intraregional investment in particular, and international investment in general:

(i) Signing of a memorandum of understanding to promote maritime tourism cooperation between the United Arab Emirates and Oman;

(ii) Conclusion by Tunisia of three agreements to prevent double taxation with Burkina Faso, the Islamic Republic of Iran and the Sudan, as well as an investment promotion agreement with the Congo;

(iii) Conclusion by Saudi Arabia of 11 agreements to encourage and protect investment and to promote bilateral economic, trade and investment relations with China, India, Malaysia, the Philippines and Pakistan;

(iv) Implementation by the Sudan of 13 agreements with Arab countries to encourage and protect investment, including agreements with Egypt, Jordan, Kuwait, Lebanon, the Libyan Arab Jamahiriya, Qatar, the Syrian Arab Republic, Tunisia and Yemen;

(v) Ratification by the Syrian Arab Republic of five agreements to encourage and protect investment;

(vi) Signing of bilateral agreements between Egypt, EU, the United States of America and some Arab countries;

(vii) Implementation of bilateral agreements between Germany, Jordan, the Republic of Korea, the Syrian Arab Republic, Tunisia, Turkey and Yemen;

(viii) Entry into force of the free trade agreement between Morocco and the United States of America.

Negotiations are under way between the GCC countries and the EU and between the United States of America and the United Arab Emirates and Oman.

[30] Ibid.

TABLE 15. SHARE OF ARAB INVESTMENT EXPORTING COUNTRIES IN PRIVATE AND AUTHORIZED INTRAREGIONAL INVESTMENT, 2005
(*Percentages*)

Exporting countries	To												Total 2005	Total 2004
	Algeria	Egypt	Jordan	Lebanon	Libyan Arab Jamahiriya	Morocco	Palestine	Saudi Arabia	Sudan	Syrian Arab Republic	Tunisia	Yemen	38 007	5 898.4
Algeria		..	0.15	..	97.19	0.05	..	..	..	..	2.62	..	206.1	4.9
Bahrain	0.46	22.58	..	..	0.99	0.02	..	72.35	..	..	3.63	.	606.8	21.2
Egypt	16.24		24.91		0.56	1.01		27.24	25.39	0.80	3.78	0.08	646.0	222.4
Iraq	..	6.37	52.59	..	..	9.16	..	1.59	28.69	0.88	0.24	0.40	125.5	35.3
Jordan	4.19	6.28		18.63	2.51	..	0.17	33.15	26.17	8.44	..	0.49	286.6	500.1
Kuwait	7.00	17.47	1.29	37.98	..	2.87	..	1.67	5.20	22.88	3.59	0.04	1 499.3	838.3
Lebanon	0.59	7.56	1.12			0.22		23.92	66.23	..	..	0.35	489.2	73.8
Libyan Arab Jamahiriya	2.83	14.60	..	..		81.66	..	..	..	..	0.91	..	109.6	28.3
Morocco	..	1.92	..	..	..		..	3.85	..	..	94.23	..	52.0	2.2
Oman	..	27.78	..	..	..	..	..	..	72.22	..	..	..	18.0	53.0
Palestine	..	9.93	28.45	..	2.56	..		32.26	24.81	1.08	..	0.83	120.9	47.1
Qatar	1.18	3.33	0.02	67.41	..	25.63	..	0.15	2.27	..	..	..	660.1	67.1
Saudi Arabia	0.52	8.99	0.48	15.91	..	8.62	..		27.59	28.32	1.54	8.04	2 457.8	1 654.5
Sudan	..	..	0.71	..	..	..	..	99.29		..	..	..	14.1	8.6
Syrian Arab Republic	0.05	4.52	0.65	9.77	..	0.51	..	17.01	67.32		0.05	0.13	552.6	275.3
Tunisia	4.42	5.35	0.13	..	76.31	4.42	..	1.34	8.03	..		..	74.7	4.7
United Arab Emirates	0.02	0.16	..	0.89	0.75	1.95	..	92.66	1.54	2.01	0.02	..	29 940.7	1 977.9
Yemen	..	6.80	..	..	..	..	..	33.33	59.86	..	..		147.0	83.6

Source: Inter-Arab Investment Guarantee Corporation, *Report on Investment Climate in the Arab Countries, 2005*, Kuwait, June 2006.

Note: Two dots (..) indicate that no data are available.

C. ARAB INTRAREGIONAL TOURISM

Increase in the ratio of Arab intraregional tourism to overall foreign tourism in 2004

The tourism sector remains an important pillar of Arab regional integration. A number of factors played a pivotal role in increasing intraregional tourism in some Arab countries, namely, Government support for the tourism sector, ongoing infrastructure development, active investment in the sector, relatively cheap travel tickets, geographical factors and border facilities for tourists.

Table 16 shows the number of Arab tourists visiting Arab countries and their proportion of the overall number of tourists. Arab intraregional tourism remained virtually unchanged between 2001 and 2004, rising slightly from 19.2 million tourists in 2002 to about 19.7 million in 2003. As a percentage of overall tourism, Arab intraregional tourism declined from 45.4 per cent in 2002 to 40.3 per cent in 2003. In 2004, despite a decline to 17.4 million tourists, Arab intraregional tourism rose in terms of overall tourism from 40.3 per cent in 2003 to 43.4 per cent in 2004.

Increases in intraregional tourism were recorded in nine Arab countries: Bahrain, Egypt, Jordan, Lebanon, Morocco, Qatar, Saudi Arabia, Tunisia and Yemen. Declines were recorded in Algeria and the Syrian Arab Republic. The Arab countries organized a number of activities aimed at stimulating tourism, including hosting the African Games in Egypt and the Asian Games in Qatar in 2005. Arab intraregional tourism figures are expected to rise in 2005.

Saudi Arabia continued to rank first in terms of the number of Arab tourists in 2004 with 5.2 million, followed by Bahrain with 2.7 million, and Tunisia with 2.3 million.

TABLE 16. ARAB INTRAREGIONAL TOURISM, 2001-2004
(*Number of Arab tourists and Arab tourists as a percentage of all tourists*)

Host country	2001	2002	2003	2004
Algeria	46 290 5.14	61 815 6.26	101 198 8.68	82 596 6.69
Bahrain	3 468 556 79.05	3 664 928 75.86	2 288 795 77.46	2 698 401 76.79
Egypt	922 458 19.84	1 068 200 20.58	1 259 015 20.83	1 591 479 20.42
Jordan	963 051 65.17	1 131 287 69.75	1 044 499 66.42	1 914 743 67.11
Lebanon	329 945 39.42	403 000 42.13	421 148 41.46	524 023 41.00
Morocco	120 004 2.76	116 091 2.70	117 702 2.59	146 966 2.68
Oman	156 765 27.89	168 007 27.90	207 225 32.89	.. ..
Qatar	231 456 61.56	312 063 53.19	282 538 50.73	403 771 55.16
Saudi Arabia	4 186 139 62.23	4 593 547 61.16	4 235 324 57.76	5 180 890 60.38
Syrian Arab Republic	2 496 502 73.66	3 164 945 74.07	3 398 977 77.46	2 275 920 75.06
Tunisia	1 681 223 31.21	2 054 305 40.57	2 179 088 42.61	2 287 037 38.13
United Arab Emirates	1 242 478 30.06	1 587 744 29.16	1 618 605 27.57	.. ..
Yemen	36 713 48.58	64 887 66.20	105 284 68.07	167 003 60.95
Total Arab intraregional tourism	18 069 769 44.59	19 196 560 45.35	19 656 240 40.33	17 436 540 43.42

Source: World Tourism Organization, *Tourism Market Trends, Middle East*, 2004 edition.

Notes: 2004 data are based on ESCWA estimates.
Two dots (..) indicate that no data are available.

Box 6. Construction boom in the GCC countries

The rise in oil prices in 2004 generated an economic boom in the major oil-exporting countries, particularly among GCC members. The countries concerned decided to invest their financial surplus in large construction and expansion projects. The United Arab Emirates is a prime example that other countries aspire to emulate.

The real-estate boom in the United Arab Emirates is possibly the biggest ever with one fifth of the world's construction cranes located in Dubai and Abu Dhabi. The projects in the two Emirates employ Asian workers from India and Pakistan. The most prominent current projects in Dubai include: Burj Dubai, the highest tower in the world; Jabal Ali airport with a capacity of 146 million travellers per year; an extension of the capacity of Dubai airport to 60 million travellers per year; and the Atlantis/Palm project, set to be the largest centre for tourism and entertainment in Dubai. Saadiyat Island is the most ambitious project in Abu Dhabi with 29 luxury hotels and a financial district.

In Saudi Arabia, work has begun on King Abdullah Economic City, which may equal Paris in size, with a port and a financial centre. Kuwait, for its part, plans to build Madinat al-Hareer, the City of Silk, for up to 700,000 inhabitants and construct a tower taller than Burj Dubai. Qatar is experiencing a similar boom and plans to build an industrial city in the vicinity of Doha to compete with Jabal Ali City in Dubai.

Sources: "Quadrupling of Gulf real-estate projects, collectively valued at $535 billion", *Al-Sharq al-Awsat* newspaper, 20 May 2006; "$1.2 billion to build Atlantis/the Palm", *Business Week* (Arabic version), October 2005.

The United Arab Emirates is regarded as one of the most successful Arab countries, if not the most successful, in terms of international tourism and Arab intraregional tourism in particular. Some 28.5 per cent of total investment in Dubai in 2005 was channelled into the tourism sector. That, together with the building boom and the major expansion of Dubai International Airport, will have a significant impact on Arab tourism in particular, and international tourism in general.[31]

D. Arab intraregional labour movement

Lebanon ranks first in terms of intraregional workers' remittances

Intraregional workers' remittances remained unchanged in 2005 and continued to flow from Arab countries with a labour surplus to those with a labour shortage. Most remittances flowed from GCC countries to such non-oil-exporting countries as Egypt, Jordan, Lebanon, the Sudan, the Syrian Arab Republic and Yemen.

Table 17 shows intraregional workers' remittances during the period 2000-2005 in some Arab countries and their percentage of GDP, FDI, official development assistance (ODA) and the imports of the countries concerned. Total intraregional workers' remittances increased by 82 per cent during the period, from $8.4 billion in 2000 to roughly $15.3 billion in 2005. However, the ratio of remittances to GDP rose by only about 5 per cent.

The ratio of workers' remittances to FDI declined from 141.6 per cent in 2004 to 95.8 per cent in 2005 because of the unprecedented rise in FDI in 2005. Similarly, the ratio of workers' remittances to imports during the period 2000-2005 dropped from 19.9 to 12.8 per cent because of the sharp rise in imports by Arab countries in 2005.

The Sudan, Yemen and Lebanon recorded marked increases of 34.8, 32.3 and 32 per cent, respectively, in their share of workers' remittances in 2005 compared with the previous year. Moreover, it should be noted that during the period 2000-2005, intraregional workers' remittances rose sharply; 277 per cent in the Syrian Arab Republic, 268 per cent in Lebanon, and 151 per cent in the Sudan.

The ratio of intraregional workers' remittances to GDP remained virtually unchanged except in Lebanon and Yemen. In Lebanon, the ratio rose from 9.6 per cent in 2000 to 26.4 per cent in 2005, a very pronounced increase which reflects the importance of such remittances to the Lebanese economy and increased Lebanese labour migration to Arab countries. In Yemen, the ratio declined from 13.6 per cent in 2000 to about 8.8 per cent in 2005, as GDP grew at a faster pace than workers' remittances.

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[31] United Nations World Tourism Organization (UNWTO), *World Tourism Barometer*, Volume 4, No. 1, January 2006.

TABLE 17. INTRAREGIONAL WORKERS' REMITTANCES, 2000-2005
(Millions of dollars and percentages)

		2000	2001	2002	2003	2004	2005
Egypt	Value of remittances	2 850	2 910	2 890	2 517	2 840	3 110
	As percentage of GDP	2.9	3.2	3.4	3.09	3.62	3.49
	As percentage of FDI	230.8	570.6	446.7	1 061.93	131.65	57.85
	As percentage of ODA	214.3	231.0	233.1	254.73	194.49	..
	As percentage of imports	12.9	22.9	14.5	11.75	10.15	9.43
Jordan	Value of remittances	1 850	2 010	2 140	1 684	1 750	2 052
	As percentage of GDP	21.9	22.4	22.4	16.57	15.20	15.95
	As percentage of FDI	235.1	2 010.0	3 343.8	386.20	268.80	133.93
	As percentage of ODA	335.1	464.2	411.5	136.90	301.18	..
	As percentage of imports	40.2	41.3	42.2	29.32	21.43	18.70
Lebanon	Value of remittances	1 580	2 310	2 540	3 369	4 405	5 816
	As percentage of GDP	9.6	13.8	14.6	18.59	22.30	26.38
	As percentage of FDI	530.2	927.7	988.3	117.80	231.97	226.03
	As percentage of ODA	790.0	950.6	560.7	1 490.77	1 662.31	..
	As percentage of imports	25.2	36.2	40.6	44.15	47.84	60.33
Sudan	Value of remittances	641	740	978	1 036	1 191	1 606
	As percentage of GDP	4.9	5.1	5.9	5.42	5.41	5.64
	As percentage of FDI	163.5	128.9	137.2	76.77	78.82	69.69
	As percentage of ODA	284.9	400.0	278.6	167.85	135.04	..
	As percentage of imports	43.3	39.1	44.5	38.03	29.15	24.08
Syrian Arab Republic	Value of remittances	180	170	135	632	587	679
	As percentage of GDP	1.0	0.8	0.7	2.91	2.50	2.70
	As percentage of FDI	66.7	154.6	13.1	350.86	84.75	92.20
	As percentage of ODA	113.9	109.7	166.9	412.78	533.18	..
	As percentage of imports	3.3	2.7	1.9	7.35	2.23	3.87
Yemen	Value of remittances	1 290	1 300	1 290	1 079	1 090	1 442
	As percentage of GDP	13.6	13.5	12.5	9.58	8.45	8.84
	As percentage of FDI	21 500.0	955.9	1 264.7	17 990.3	757.09	(542.0)
	As percentage of ODA	486.8	282.0	220.9	461.29	432.62	..
	As percentage of imports	55.5	52.7	46.5	24.73	18.66	21.71
Total	Value of remittances	8 391	9 440	9 973	10 787	12 408	15 303
	As percentage of GDP	5.1	5.9	6.2	4.64	5.01	5.57
	As percentage of FDI	280.8	562.2	354.5	133.48	141.60	95.82
	As percentage of ODA	307.4	344.9	308.9	251.79	270.69	..
	As percentage of imports	19.9	27.2	23.0	14.26	11.08	12.83

Sources: WB, *World Development Indicators*; and ESCWA estimates.

Note: Two dots (..) indicate that no data are available.

IV. THE REGIONAL INTEGRATION INDEX AND THE GREATER ARAB FREE TRADE AREA (GAFTA)

A. The regional integration index for the Arab world

1. *Introduction*

Arab integration is recognized as a fundamental goal in hundreds of bilateral agreements and in a large number of regional initiatives, the aim being to build up communication networks throughout the Arab world involving movements of people, capital, information, ideas and commodities, thereby greatly expanding the scope of the concept of integration to include an array of economic, social, political and technological dimensions, although some elements are difficult to express in quantitative terms. In the light of the continuous evolution of the concept of regionalism, it is appropriate to rank Arab countries in terms of their individual participation in order to devise a comprehensive measuring tool to monitor progress in building regional integration.[32] Moreover, such an index provides an analytical classification of the characteristic trends of the opening-up of the Arab region. Furthermore, the index may shed general light on the anticipated benefits to be reaped from the diverse goals of the opening-up process in order to establish policy priorities.

Most analysts believe that greater integration among Arab countries is likely to prove extremely beneficial. For example, intraregional trade may be expected to produce tangible economic benefits, and diversification of the goods traded is likely to stimulate intraregional trade. Increased trade in the Arab region, which is relatively non-industrialized, may be perceived as a prerequisite for success in an increasingly globalized world. Experience in many different parts of the world has shown that it is possible in the context of regional openness to promote interregional convergence between fiscal policies and production standards, and that it is also easier to succeed in addressing such general problems as shipping services in the interest of promoting tourism and trade.

The regional integration index covers most Arab countries, namely, Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, the Libyan Arab Jamahiriya, Morocco, Oman, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates and Yemen. The Comoros, Djibouti, Iraq, Mauritania, the occupied Palestinian territories and Somalia were omitted because of the lack of reliable data.

2. *Creation of the regional integration index for the Arab countries*

In developing the regional integration index, it was decided to focus on variables that can be used to rank Arab countries in terms of their degree of openness to each other. It should be noted that selecting which variables to include in the index posed no problem. Given the paucity of available data, the index comprises only four variables for the years 2003, 2004 and 2005, namely, openness to trade, investment, workers' remittances and tourism. Although the inclusion of ODA might seem an important factor in the ranking process, it had to be omitted because the data on ODA flows among Arab countries are unsystematic and, hence, unreliable. The same applies to other data. As a result, one of the goals to be pursued in the years ahead is to expand the index to cover more reliable ODA data relating to the Arab countries, for example the number of intraregional tourism exchanges, regional cooperation in the banking sector, and industrial mergers. Table 18 presents the variables that are included in the regional integration index.

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[32] A. Galal, "Incentives for Economic Integration in the Middle East", in B. Hoekman and H. Kheir-El-Din (eds.), *Trade Policy Developments in the Middle East and North Africa*, WB, Washington, D.C., pp. 51-68.

TABLE 18. VARIABLES USED IN THE REGIONAL INTEGRATION INDEX

Variable	Description	Source
Openness to Arab intraregional trade	Total exports to and imports from all Arab countries as a ratio of GDP	ESCWA, based on IMF, *Direction of Trade Statistics*; miscellaneous annual and quarterly publications
Arab intraregional investment	Total investment flows from Arab sources and flows from foreign sources to all Arab countries as a ratio of GDP	Inter-Arab Investment Guarantee Corporation, *Report on Investment Climate in the Arab Countries, 2005*, Kuwait, June 2006
Arab intraregional workers' remittances	Total inflow and outflow of workers' remittances to and from Arab countries as a ratio of GDP	(1) International Financial Statistics (IFS) balance-of-payments statistics; (2) United Nations Expert Group Meeting on International Migration and Development in the Arab Region (Lebanon, 15-17 May 2006)
Arab intraregional tourism	Number of Arab tourists as a ratio of the total number of inhabitants of Arab countries	UNWTO, *Tourism Market Trends, 2004*, Middle East, and ESCWA assessments

Those variables are statistically converted prior to compilation on the basis of a differential weighting table so as to achieve quantitative results for each country on an annual basis. Each country is then assigned a rank in the light of the outcome. With the passage of time, the ranking process helps to keep track of relative progress in attaining the end goal, namely, a more integrated Arab world.

(a) *Relationship with the Kearney Globalization Index*

Although the regional integration indicator strongly resembles the *Kearney Globalization Index*, the two indicators differ markedly on a number of counts.[33] The Kearney indicator is more widely used, especially in globalization, and comprises four main elements, namely, political engagement, technological connectivity, personal contact and economic integration. The indicator measures the integration of 62 countries into the global economy and the extent to which they keep pace with globalization. It is similar to the Human Development Index (HDI) of the United Nations Development Programme (UNDP). The two main differences between the proposed index and the *Kearney Globalization Index* are described below, with a brief account of why the proposed variables are considered preferable for ranking purposes.

Firstly, the *Kearney Globalization Index* uses a method of normalization of the data based on panel normalization, which may result in a single change in one of the index data for one year bringing about a change, depending on the indicator, in the ranking of a country from one year to the next. That characteristic is highly undesirable if a ranking of countries is to be established each year. An alternative normalization process, known as annual normalization, solves the problem by processing different annual data separately.[34] The index presented in the *Annual Review* is therefore based on annual normalization of the variables of regional integration, which makes them comparable despite major differences in the units involved.

Secondly, the *Kearney Globalization Index* assigns arbitrary weights to the variables constituting the index on the assumption that the weightings obey some principle of order. The regional integration index used in the *Annual Review*, on the other hand, is based on statistically optimal weights derived from the data with a view to increasing their informativeness, as reflected in the variance of the data across the 16 countries in 2003. By way of further clarification, below

[33] A.T. Kearney, Global Policy Group and Foreign Policy Magazine, "Measuring Globalization", *Foreign Policy*, 2001, 122, 56-65.

[34] B. Lockwood, *How Robust is the Foreign Policy/Kearney Index of Globalization?* Centre for the Study of Globalization and Regionalization, Working Paper No. 79/91, United Kingdom, August 2001.

follows a description of the weighting process known as the principal component technique.[35]

(b) *The principal component technique*

The principal component analysis is a technique used to reduce data with the aim of combining the four regional integration variables into a single variable without losing vital information from the original database. The different variables are weighted according to a statistical method instead of on the basis of an a priori decision. An important aspect of the principal component technique is the assignment of the greatest weight to explanatory variables that vary most widely among the 16 Arab countries. That is useful because of the major disparity between the selected countries and makes it easier to examine the differences between them.

The principal component technique is based on a reduction of the data from four variables to a single linear combination by means of an eigenvector equivalent to the highest eigenvalues of the variance/covariance matrix of the variables in 2003, following the annual normalization of the variables, as noted above. The elements of the eigenvector that are normalized to achieve a sum of weights equal to one constitute the four optimum weights for the regional variables. According to available data, they are equivalent to 14.89 per cent for the tourism variable, 38.22 per cent for the trade variable, 12.82 per cent for the investment variable and 24.07 per cent for the remittances variable. The same weightings are being used to prepare the index for 2004 and 2005. It should be noted that those weightings jointly constitute a reasonable to relatively high ratio of 46.91 per cent of the overall change in 2003 in the 16 countries combined.

3. *Ranking of countries in terms of the regional integration index*

Table 19 shows the ranking of the 16 Arab countries in 2003, 2004 and 2005. It may be noted that a rise in rank reflects increased openness.

TABLE 19. RANKING OF ARAB COUNTRIES IN TERMS OF THE REGIONAL INTEGRATION INDEX, 2003, 2004 AND 2005

	2005*		2004		2003	
	Rank	Index	Rank	Index	Rank	Index
Lebanon	1	5.3524	2	5.7334	3	5.1284
Yemen	2	5.1627	5	2.9530	4	4.0285
Jordan	3	4.8190	1	6.0676	1	7.4116
Bahrain	4	3.8627	3	4.7314	2	5.9261
Syrian Arab Republic	5	3.7489	4	4.5415	7	1.5900
Sudan	6	1.7505	6	1.8204	6	2.0494
United Arab Emirates	7	1.2187	7	1.3591	8	1.2873
Egypt	8	1.0301	8	1.3038	13	0.8535
Oman	9	0.9066	9	1.2212	5	2.0626
Kuwait	10	0.8252	10	0.9381	12	0.9887
Saudi Arabia	11	0.7987	12	0.5441	11	1.0389
Qatar	12	0.6307	11	0.8842	10	1.0925
Morocco	13	0.4711	14	0.4182	16	0.6051
Tunisia	14	0.4051	13	0.4668	14	0.6925
Libyan Arab Jamahiriya	15	0.2270	15	0.3571	15	0.6245
Algeria	16	0.0445	16	0.0232	9	1.2826

Source: Compiled by ESCWA on the basis of the sources for table 19.

Note: * Data for 2005 based for the most part on estimates.

[35] K.V. Mardia, J.T. Kent and J.M. Bibby, *Multivariate Analysis*, Academic Press Inc., London, 1979.

The following conclusions may be drawn from an analysis of table 19:

(a) The relative ranking of countries changes only gradually, which ties in with the view that globalization is a gradual process and not a regime change that occurs overnight;

(b) The list is headed by small countries with diverse economies that are not major oil exporters but major exporters of labour, namely, Jordan, Lebanon and Bahrain, as well as Yemen, the least developed of the countries. That is because Lebanon is best placed in terms of the workers' remittances variable, while Jordan ranks high in terms of workers' remittances, investment and trade. Bahrain is highly placed in terms of the tourism variable and Yemen in terms of its trade openness to other Arab countries. It should be noted that those countries record high rates of regional openness to trade, not just because of the scale of the flows between them and other Arab countries, but also because of the small size of their economies in general, which is reflected in a small GDP and an increase in data;

(c) Some of the most significant changes included a rise in the rank of the Syrian Arab Republic as a result of its increased openness to trade with other Arab countries. Oman moved downward, not because of reduced openness, but rather on account of Egypt experiencing a relatively marked increase in openness to intraregional trade, and of the United Arab Emirates experiencing an increase in intraregional investment;

(d) The relative similarity of such natural resources and products as oil, natural gas, cotton and citrus fruits, which boost overall foreign trade but do not promote intra-Arab trade because they are exported primarily to non-Arab countries, accounts for the low ranking of the countries concerned in terms of regional trade openness. Moreover, the lack of integration of such products is clearly visible at the subregional level, at which most intra-Arab trade occurs, since a number of countries, namely, the oil-rich GCC members, compete in the export markets for those products, promoting trade with non-Arab countries at the expense of domestic markets.[36] Furthermore, the existence of an undiversified export base, especially in terms of industrial goods, in those import-intensive countries limits the opportunities for trade in diversified products among Arab countries;

(e) Although the index does not take into account geographical proximity, high transport costs, long distances and complicated procedures at inter-State borders are factors which, together with economy size, may play a role in relative ranking, especially in the countries of the Arab Maghreb on account of their geographical proximity to Europe, so that most of their trade is with EU countries rather than with other Arab countries in Asia.[37] That is clearly demonstrated by the trade variable in Algeria, Morocco and Tunisia, as a result of which the ranking of those countries is relatively low;

(f) Workers' remittances between the Arab countries are also low in the Arab Maghreb countries. They are non-existent in the case of Algeria and the Libyan Arab Jamahiriya, and low in Tunisia and Morocco, reflecting the strong trend among migrants from those countries to seek employment in EU. Since flows of workers' remittances tend to remain broadly stable over time, the opening-up of the region in terms of migration may be expected to remain limited, especially in the Arab Maghreb countries.[38] It follows that until such time as other variables are added to the index, the ranking of the countries concerned will remain low in terms of Arab regional integration.

4. *Concluding observations*

The regional integration index should be regarded as a first step in the right direction.

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[36] R. S. Miniesy, J.B. Nugent and T.M. Yousef, "Intra-regional trade integration in the Middle East: past performance and future potential", in H. Hakimian and J. B. Nugent (eds.), *Trade Policy and Economic Integration in the Middle East and North Africa*: Economic Boundaries in Flux, Routledge Curzon, London, 2004.

[37] I. Limam and A. Abdallah, *Inter-Arab Trade and the Potential Success of AFTA,* Arab Planning Institute, Kuwait, 1998.

[38] D. Ratha, "Workers' Remittances: An Important and Stable Source of External Development Finance", *Global Development Finance*, WB, 2003, pp. 157-175.

Future improvements may include, in addition to ODA, travel and banking sector flows, such variables as measures restricting trade and capital flows, namely, hidden import barriers, tariff and tax rates on international trade, and capital regulations. Other improvements may include personal contact authorizations and cultural proximity.

The revitalization and expansion of regional integration may also call for more vigorous action to promote economic reform, which may in turn require effective monitoring by means of comparative data on progress achieved, similar to those in this section.

B. THE GREATER ARAB FREE TRADE AREA

Despite an improvement in the implementation of tariff exemptions, progress on basic issues continues to be slow

1. *Definition*

GAFTA is defined as a multilateral contractual commitment among Arab countries to achieve full liberalization of trade in Arab goods, namely, goods of Arab origin, among Arab member countries over a ten-year period by means of a gradual lowering of duties and taxes with a similar effect by an average of 10 per cent a year, and elimination of all non-tariff customs and other barriers that impede free trade in Arab goods among the States parties in the region.[39] The resulting advantages, in the context of GAFTA, are regarded as minimum mutual advantages and exemptions. The Arab member countries may, individually or multilaterally, offer advantages and exemptions exceeding the level of those granted under GAFTA.

(a) *Membership*

Pursuant to the Implementation Programme for the establishment of GAFTA, which sets out the goals, rules, principles, time frame and implementation and monitoring programme, membership of GAFTA is open to Arab States parties to the 1982 Agreement to Facilitate and Develop Trade among Arab States whose council of ministers adopts a decision endorsing membership.[40] As at September 2006, 17 Arab States were members of GAFTA.[41] The Arab countries that are GAFTA members constitute a large consumer market of more than 257 million inhabitants, 84 per cent of all inhabitants of the Arab world in 2005, and are a major economic power with a total GDP of $783 billion, which corresponds to about 90 per cent of overall Arab GDP.[42]

(b) *Accession, implementation and monitoring mechanism*

Arab countries wishing to accede to the GAFTA Agreement must deposit their ratification documents with the General Secretariat of the League of Arab States. The Agreement enters into force six months after the date of deposit, in accordance with the provisions of article 22 of the Agreement. The Arab countries on whom implementation is binding are the States parties to the Agreement to Facilitate and Develop Trade among Arab States, who accede to GAFTA through adoption by their council of ministers of a resolution to that effect or by virtue of a presidential, royal or official decree, so that all parties involved in the process of implementation

[39] Pursuant to resolution 212 adopted by the Council of the League of Arab States at its thirteenth regular session on 28 March 2001 concerning the shortening of the transitional period leading to the creation of the Greater Arab Free Trade Area to eight years ending in 2005, the Economic and Social Council of the League of Arab States adopted resolution 1431 of February 2002 amending the rates of reduction after the fifth year of implementation as follows: 10 per cent in January 2003, 20 per cent in January 2004 and 20 per cent in January 2005.

[40] League of Arab States, resolution 1317 of the Economic and Social Council of 19 February 1997.

[41] The 14 Arab member States that completed the GAFTA implementation stage in 2005 are: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, the Libyan Arab Jamahiriya, Morocco, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, Tunisia and the United Arab Emirates; the three less developed Arab member countries that will complete the implementation stage in 2010 are: Palestine, the Sudan and Yemen.

[42] *Joint Arab Economic Report*, September 2005, published by the Arab Monetary Fund, the General Secretariat of the League of Arab States, the Arab Fund for Economic and Social Development and the Organization of Arab Petroleum Exporting Countries (OAPEC), statistical table No. 1.

are aware of the obligations that accession entails and its negative and positive consequences, with a view to promoting mutual transparency among Arab countries.[43]

(c) *Rules and regulations governing the establishment of GAFTA*

The GAFTA Implementation Programme established a number of rules and regulations drawn from the Agreement to Facilitate and Develop Trade among Arab States and the resolutions adopted by Arab summits and the Economic and Social Council of the League of Arab States, as well as from international treaties regulating international trade. The rules and regulations include the following:

(i) The obligation to complete implementation of the GAFTA Agreement within a ten-year period beginning on 1 January 1998. That time frame was chosen in the light of the situation and economic circumstances of the Arab countries and the rules of WTO. The period for the establishment of GAFTA may not exceed ten years, although a two-year extension is permissible where the requisite justifications are provided. However, the Council decided to shorten the period to eight years ending in 2005 for Arab member countries, and to set the deadline at 2010 for the less developed Arab countries;

(ii) Gradual liberalization, at equal annual rates, of trade in all Arab commodities of Arab origin; the Council may require immediate liberalization of trade in certain commodities;

(iii) Calculation of the gradual lowering of customs duties and taxes with a similar effect that were in force and effectively applied at the end of December 1997, and not the bound tariff based on the lists of tariffs pursuant to the treaty of accession to WTO, which is many times greater than the effectively applied tariff; the member State must also deposit its tariff structure with the General Secretariat of the League of Arab States; no tariff amendments introduced after 1 January 1998 may be applied to Arab member States unless their purpose is to lower average tariff rates;

(iv) Mutual exemptions under GAFTA are treated as minimum mutual exemptions in the case of Arab countries. The Implementation Programme allows member States to introduce mutual exemptions prior to the deadline, in accordance with the following provision of the Agreement: “A party-state may grant any additional advantages to another Arab state or states under bilateral or multilateral agreements, whether or not it is party to this Agreement”.[44] That provision permits Arab States to speed up the application of GAFTA by means of bilateral or multilateral agreements, unless such agreements contain exceptions that exceed the terms agreed upon by the Economic and Social Council;

(v) Treatment of Arab goods of Arab origin on a par with domestic goods in terms of rules of origin, specification, measurement, conditions of preservation, and domestic levies and taxes; the rules should not be applied arbitrarily so that they become artificial restrictions on mutual trade between Arab countries. There are similar rules in GATT 1948 and the WTO Agreements on Rules of Origin and on the Application of Sanitary and Phytosanitary Measures;

[43] Resolution 5652 adopted at the 107th session, third meeting, of the Council of the League of Arab States on 31 March 1997, paragraph 5.

[44] League of Arab States, Agreement to Facilitate and Develop Trade among Arab States, article 7, paragraph 4.

(vi) The provisions of the programme are not applicable to products and materials whose import, circulation or use is prohibited on religious, health, safety or environmental grounds or by agricultural or veterinary quarantine rules in order to ensure that the GAFTA Agreement operates in accordance with international sanitary and phytosanitary treaties;

(vii) Arab goods traded under the GAFTA Agreement may not be subject to any non-tariff customs or other barriers of any kind, or to any administrative, quantitative or monetary restrictions, in accordance with WTO rules;

(viii) Compliance with the general rules governing the origin of Arab goods in order to prevent the economic advantages flowing from the expansion of the Arab market from being extended to non-Arab goods; action to achieve integrated Arab production by adopting cumulative rules of origin so that processing can be undertaken within the Arab market.[45] It should be noted that as at the date of preparation of this *Annual Review*, no detailed rules had yet been adopted to determine which goods were eligible for preferential treatment in terms of exemptions from tariffs and taxes with a similar effect;

(ix) Application of the principle of transparency and sharing of information and data to ensure the efficient implementation of the GAFTA Agreement and to build trust in trade relations among Arab countries; establishment by the Economic and Social Council of national focal points to furnish the requisite information and data;

[45] League of Arab States, Economic and Social Council resolution 1336, sixtieth regular session, first meeting, 17 September 1997.

(x) Special treatment for the less developed Arab countries. The countries/territories that the Economic and Social Council designated as less developed, namely, the Comoros, Djibouti, Mauritania, Palestine, Somalia, the Sudan and Yemen, are given preferential treatment under GAFTA. The Council determines the nature of that treatment, which involves exceptions from the Implementation Programme rules and in respect of time frames, and which depends on the circumstances of the country concerned;

(xi) Adoption of decisions by a two-thirds majority vote.[46] Decisions are binding on all Arab States parties to GAFTA, which thus differs from the League of Arab States, in which decisions are adopted by consensus and are binding on countries that accept them;

(xii) Compliance with international provisions in respect of technical regulations governing protective measures, action against subsidies, measures to address balance-of-payment deficits arising from the application of GAFTA, and identification and action against cases of dumping. Arab countries that are WTO members adopt WHO technical regulations on accession. Arab countries that are not WTO members are not bound by agreements to which they are not a party, but must comply with the GAFTA rules and provisions in respect of technical regulations;

(xiii) Adoption of the Harmonized System of commodity classification, coding and nomenclature for the purposes of GAFTA at the six-digit level. That classification is applied to Arab goods included in the Common Arab

[46] League of Arab States, Agreement to Facilitate and Develop Trade among Arab States, article 11, paragraph 2.

Agricultural Harvesting Calendar, the list of exceptions and the list to which the Implementation Programme is not applicable;

(xiv) Compliance with the Common Arab Agricultural Harvesting Calendar rules: the Economic and Social Council listed products in the Calendar in respect of which all countries are allowed to suspend gradual tariff reductions provided that the number of products does not exceed ten, that the period of suspension of tariff reductions does not exceed 45 months for the commodities of the country concerned, and that the total number of periods of suspension for a single commodity does not exceed seven months. The Calendar, which was terminated in 2006, was amended to reduce the number of commodities and the Calendar time frames;

(xv) Application of the principle of equal treatment: the Economic and Social Council of the League of Arab States endorsed the principle of equal treatment in order to curb unilateral measures that are detrimental to the interests of one or more States parties to GAFTA.[47] The application of that rule promotes compliance with the provisions of the Implementation Programme, given the scale of the economic interests created by GAFTA;

(xvi) Application of rules permitting exceptions: article 15 of the Agreement to Facilitate and Develop Trade among Arab States allows member States to request exceptions to the application of the rules governing gradual reduction of duties and taxes with a similar effect for certain commodities, or to retain a specific restriction or to protect a specific commodity where domestic production may be adversely affected by gradual liberalization. The Council decides on such exceptions and on the time frames to be accorded, ensuring that they do not undermine GAFTA implementation, that the liberalization process covers a large proportion of traded domestic products, and that the application of exceptions does not result in a higher level of protection than before the establishment of GAFTA.

2. *Implementation issues*

Implementation issues comprise difficulties arising in the implementation process during the transitional period leading to the establishment of GAFTA and ways and means of addressing them. They may be divided into two main sets of issues: the first consists of technical implementation issues and the second of what may be termed public policy issues which, though unrelated to the former, nonetheless have an impact on the implementation process.

(a) *Technical implementation issues*

(i) *Technical issues that have already been addressed*

a. *Method*

The method of liberalization applied in the context of the Agreement to Facilitate and Develop Trade among Arab States was based on lists of commodities. That method was subsequently converted into gradual liberalization through the application of a specific annual percentage to all traded Arab commodities, which resulted in the following: (a) a review of the total exemption of agricultural products under the provisions of article 6 of the Agreement; (b) compilation of a list of commodities comprising all goods not subject to reduction of duties and taxes on religious, security, environmental or health grounds; (c) classification of commodities in accordance with the Harmonized System and nomenclature at the six-digit level.

b. *Time frame*

One of the issues that arose in establishing GAFTA was the time frame to be adopted for the transitional period, as well as the dates of

[47] League of Arab States, resolution 1350 of the Economic and Social Council, sixty-first regular session, 11 February 1998.

launching and completion of implementation and, hence, the annual rate of liberalization. That led to a delay in the starting date so that some Arab countries could adopt the legislative and administrative amendments required for accession.

c. *Exceptions from the gradual reduction of duties and taxes*

The issue of exceptions was the most controversial, both within GAFTA and for external observers. The Implementation Programme allowed member States to submit requests for exceptions, which required the approval of the Economic and Social Council in accordance with the rules governing exceptions.[48] The main issue under that heading was how to treat the exceptions that were being applied by a number of Arab countries, individually or under bilateral or international agreements, prior to accession to GAFTA. That issue had to be referred to the Economic and Social Council for rulings on the granting of exceptions, the specification of time frames, which should not exceed four years, and determination of the value of trade in the commodities concerned, which should not exceed 15 per cent of the value of trade among the Arab countries. Six countries, namely, Egypt, Jordan, Lebanon, Morocco, the Syrian Arab Republic and Tunisia, were granted exceptions the value of which did not exceed 6 per cent of the value of trade among the member States of GAFTA. The number of tariff list lines for the excepted commodities at the eight-digit level of the Harmonized System amounted to 2,087 out of a total of 80,220 lines, which is equivalent to about 3 per cent.

All the exceptions were terminated when the GAFTA transitional period ended in 2005. The General Secretariat made an announcement to that effect, but difficulties remained for three countries. Tunisia requested permission to apply for a tax concession as an organizational measure permitted under the Implementation Programme. Morocco requested permission to apply for a customs duty exemption, characterizing it as a statistical measure brought about by the large number of preferential regulations Morocco had enacted, while Egypt linked the suspension of exceptions to preferential rules of origin relating to Arab goods. Egypt had expected the preferential rules to be terminated in September 2002 before the date of termination of the exceptions, but they were not. However, the Economic and Social Council, at its session in February 2006, adopted a resolution calling on the termination of exceptions accorded to Egypt and not to link them to any preferential rules of origin that had not been approved by the Council.

d. *The Common Arab Agricultural Harvesting Calendar*

Agricultural products are the most sensitive commodities in free trade areas as they fall under a vital economic sector, in terms of the importance of guaranteeing food supply and in terms of employment and subsistence in developing countries. As a result, caution has been exercised in liberalizing trade in agricultural products since the beginning of the GAFTA implementation, especially since such products were completely exempt under the provisions of article 6 of the Agreement, a situation that was incompatible with their sensitivity to liberalization. The Economic and Social Council therefore adopted the Common Arab Agricultural Harvesting Calendar, which lists a number of agricultural products as exceptions to the gradual reduction of duties and taxes during the production season when they enjoy full tariff protection. The Calendar lists the production seasons for such products, which may not exceed six months. Moreover, the number of agricultural products covered may not exceed ten for each Arab country participating in the Calendar. The Council must be informed of such exceptions and the Calendar must replace agricultural calendars applied individually or under bilateral agreements. Moreover, protection must be confined to customs duties, and no bans or quotas may be imposed.

The application of the Common Arab Agricultural Harvesting Calendar was terminated after the end of the transitional period in February 2005, and all member States notified the General Secretariat of the League of Arab States of the termination of joint or bilateral agricultural calendars by the end of 2005, except for the bilateral agricultural calendar between Lebanon

[48] League of Arab States, Agreement to Facilitate and Develop Trade among Arab States, article 15.

and Egypt, which was terminated at the end of August 2006.

e. *Special treatment for less developed Arab countries*

The Implementation Programme provided for special treatment for less developed Arab countries, but the countries concerned only began to enjoy such treatment in 2005 after the League of Arab States adopted resolutions enabling them to benefit from full non-reciprocal exemptions and setting a deadline of 2010 for completion of the implementation of gradual reductions of duties and taxes in accordance with the mechanism put in place by the country concerned. Yemen and the Sudan acceded to GAFTA in accordance with that special treatment facility, and each country began the process of liberalization in 2006.

f. *List of commodities*

The list of commodities include those which are not subject to the provisions of the Implementation Programme on religious, security, health or environmental grounds. The list is reviewed at the request of the Arab countries, and commodities may be added to the list with the approval of the Economic and Social Council.

g. *General rules governing the origin of Arab goods*

At the time of the launching of GAFTA, the member States adopted detailed rules of origin to be applied during the transitional period. It was agreed to set the value added requirement at 40 per cent to establish the Arab identity of a product enjoying exemption from duties and taxes with a similar effect, and to issue a certificate of origin for Arab products traded in the framework of GAFTA.

h. *Arrangements for monitoring implementation*

The following arrangements were introduced to monitor implementation:

i. Periodic reports on implementation to be submitted by countries to the Economic and Social Council;

ii. Periodic reports on problems and obstacles to implementation to be submitted by the private sector to the Council;

iii. Field missions to identify implementation issues at border posts;

iv. Establishment of focal points in countries to monitor progress with the parties concerned and the private sector and to address implementation problems;

v. Establishment by the Council at its session in February 2004 of a dispute settlement mechanism.

(ii) *Technical issues that have not yet been addressed*

a. *Detailed preferential rules of origin for Arab goods*

The Arab States agreed to apply general rules of original to Arab goods during the GAFTA transitional period and to draw up detailed rules of origin for Arab goods on the basis of which preferential treatment would be accorded to certain goods, namely, goods eligible for exemption from duties and taxes with a similar effect. The Technical Committee on Rules of Origin approved general provisions concerning detailed rules of origin for a number of agricultural products at the beginning of 2006, but by September 2006 it had not yet completed detailed rules of origin for other agricultural products and industrial goods. The reasons for the delay in drawing up detailed preferential rules are as follows:

i. Lack of relevant Arab expertise in drawing up multilateral preferential Arab rules of origin. Existing Arab expertise related either to non-preferential treatment in the context of the World Customs Organization (WCO) or to bilateral, rather than multilateral, preferential rules, as in the case of agreements with the United States of America or EU.

ii. Different interpretations of the justifications for establishing detailed preferential rules of origin and of their role in the implementation of the GAFTA Agreement. Some parties consider that their role is to promote

integrated production and that the rules should therefore be stringent, while others consider that their role is to facilitate trade and that greater flexibility is required.

iii. The adverse impact of bilateral dealings with EU and the United States of America and the acceptance by a number of Arab member States of GAFTA of rules of origin laid down by EU in partnership agreements with Arab countries, such rules being used as the basis for Arab rules of origin notwithstanding the different levels of economic development.

b. *Implementation of gradual reductions in duties and taxes with a similar effect*

Many Arab countries are still imposing duties and taxies on imports from Arab countries in the context of GAFTA. Although their characteristics differ, three types of duties and taxes with a similar effect can be distinguished: (i) charges levied on services with a similar effect, which are imposed as percentages of the value of goods or as a progressive tax on real value which is not based on the actual cost of the service, for example customs service charges, veterinary service charges, and inspection and sample testing charges; (ii) supplementary import duties and taxes, for example the Al-Azim River import charges, which are imposed as a percentage of the value of goods and sometimes of the total added value of goods subject to import duties; and (iii) domestic duties and taxes that are imposed on imported goods, but not on domestic products, or which are imposed at different rates, for example stamp duties and municipal taxes. Those duties and taxes with a similar effect are still being imposed by Arab member countries and the Trade Negotiations Committee has been unable to devise an appropriate methodology for dealing with them.

c. *Elimination of customs-related and non-customs-related non-tariff restrictions*

Non-tariff restrictions are defined in the Agreement to Facilitate and Develop Trade among Arab States as "[a]ctions and measures that may be taken by a party-state to control imports, other than for organizational and statistical purposes. Specifically, such restrictions include quantitative monetary and administrative restrictions imposed on imports".[49] They include such customs-related restrictions as customs inspection measures, re-evaluation of goods for customs purposes or the imposition of customs services, and non-customs-related restrictions, namely, those linked to the implementation of Government or local authority policies in the country concerned, including security, cultural or telecommunications measures, import certificates, health or veterinary measures, measures requiring the issuance of certificates of conformity with domestic specifications and measurements, certificates of inspection, transit, insurance and guarantee measures, individual retaliatory measures based on the principle of equal treatment that have an impact in excess of what may be justifiable, including measures to address what a country regards as dumping, or the imposition of new restrictions or duties, increased rates or new requirements that did not exist prior to the implementation of the GAFTA Agreement.

Almost all Arab member States of GAFTA impose one or more unannounced restrictions of such kind. Difficulties may arise when dealing with such restrictions because of the following: (i) they are covert and lack transparency, and instructions regarding implementation can easily be concealed by the authorities, for example by issuing oral, rather than written, instructions; indeed, the authorities may at times be unaware when they take the form of conduct by border officials acting without instructions or receiving sums of money other than legally authorized duties; (ii) the large number of entities involved in imposing non-customs-related restrictions in a particular country, including security, health, communication, veterinarian and agricultural bodies; (iii) the different ways in which Arab countries interpret the term "restriction", for example the Syrian Arab Republic does not consider that requiring a statistical certificate constitutes a restriction because it is covered by the exception for "statistical purposes" mentioned in the Agreement and the Implementation Programme, although such a certificate has to be signed by a number of public authorities, a procedure that takes three days; Morocco and

[49] League of Arab States, Agreement to Facilitate and Develop Trade among Arab States, article 1, clause 6.

Tunisia have requested an exemption in respect of what they regard as an organizational measure, while the other Arab countries view it as a restriction because it is newly introduced and is applied to a product benefiting from an exception.

d. *National treatment obligation*

The Implementation Programme requires national treatment to be applied in respect of rules of origin, preventive and conditional health and veterinary measures, and the imposition of duties and taxes with a similar effect. However, some countries are still applying different tax rates to national goods and imported goods or imposing duties or taxes on imported goods that are not levied on national goods. Differential national treatment also ensues from the application of bilateral agreements, so that Arab intraregional bilateral agreements must be replaced with the GAFTA Agreement and institutional negotiations must be held on free trade area agreements with non-Arab countries so that such agreements do not result in differential treatment of Arab goods in the markets of a particular country.

e. *Treatment of products of free zones*

In spite of the many studies that have been undertaken in that area, it is still difficult to deal with the products of free zones owing to the multiple customs regulations applicable to such products in terms of origin and the differential treatment accorded to them in Arab countries. Moreover, it is not one of the primary tasks of the free trade area to standardize customs regulations. Hence, that difficulty will continue to exist until the process of establishing detailed rules of origin for Arab goods has been completed and the first stage of the Arab Customs Union is launched.

(b) *Public policy issues*

Those are issues related to the economic, political and security situation and to the institutional infrastructure in Arab countries, as well as to the institutional infrastructure of joint Arab economic and social bodies. They are not directly related to GAFTA, but have a bearing on all multilateral Arab treaties and on resolutions adopted by joint Arab institutions. They include the following:

(i) The Arab economic, manufacturing and service infrastructure is weak and a protective economic policy continues to be pursued, especially by Arab countries that have adopted an import substitution policy to promote economic development. The Arab manufacturing infrastructure is still poorly correlated and interconnected and relies heavily on imported input and capital goods, which impedes regional integration among the Arab countries;

(ii) Domestic investment policies in Arab countries are oriented towards the service sector and sectors producing raw materials, in particular oil and gas, neither of which produces industrial commodities for export to Arab markets because the former provides services and the export market for the latter is the global market. The oil-exporting countries concentrate their investment on increasing the output of oil and gas, while non-oil-exporting Arab countries look for ways of becoming oil or gas exporters and channel an increasing proportion of their investment into oil and gas production and exports, namely, Egypt, the Sudan, the Syrian Arab Republic and Yemen;

(iii) The institutional framework for administering economic integration is weak, both at country level and at the level of joint Arab bodies, since the Arab countries treat Arab economic integration issues as though they were bilateral issues that do not require the appropriation of substantial financial and technical resources. That is reflected in the level of participation and representation in regional technical and executive committees and in the priority given to bilateral economic matters in relations with Arab countries;

(iv) The lack of transparency in dealings among Arab countries is part of a general pattern in inter-Arab relations. However, at the level of Arab intraregional trade there has been some movement towards greater transparency in response to interrelated economic interests, awareness of the importance of creating a free trade area, and greater ease of access to data through computerized networks;

(v) Bilateral trade agreements continue to be concluded among many Arab countries and their provisions, which allow for some exceptions, continue to be applied. This impedes overall reciprocal trade liberalization among the Arab countries. As GAFTA implementation proceeds, the effectiveness of the bilateral agreements will be undermined and with full implementation of GAFTA they will be terminated. The Economic and Social Council requested the Arab States parties to GAFTA by resolution 1547 of 17 February 2005 not to include any lists of commodities or agricultural calendars in their bilateral agreements, to address in such agreements some of the non-tariff restrictions imposed on trade among member States, and to submit a copy of bilateral agreements to the General Secretariat of the League of Arab States. By September 2006, the General Secretariat had received copies of bilateral agreements between Jordan and the United Arab Emirates;

(vi) The security factor is still an impediment to trade among Arab countries. It hampers intraregional movements of goods and people, and its impact is reflected in a multitude of complicated measures at border crossings between Arab countries. Many stringently applied technical and administrative measures are attributed to security concerns. The security factor impedes not only movements of goods, but also movements of business people involved in trade;

(vii) Obstacles also exist in the transport sector in Arab countries, especially in the transit transport sector. Outdated infrastructure and monopolistic practices obstruct trade in goods between Arab countries and increase costs. That additional cost burden will reduce competitiveness in Arab markets until goods are exempted from all customs duties;

(viii) A number of foreign factors have an impact on compliance with GAFTA obligations, for example bilateral agreements with developed countries, partnership agreements with EU and free trade zones with the United States of America, which permit imports of goods that compete with Arab goods on Arab markets and provide export bonuses and financial facilities which distort trade in favour of developed countries. There is also a political dimension which involves selecting regional projects on the basis of diverse designations so that developed countries can share control and influence over the Arab region, thereby promoting instability, channelling resources into those projects and their economic outcomes.

(i) *Results of the evaluation of implementation*

Average progress in implementation amounted to 55.9 per cent, which means that the Arab member States of GAFTA did not record significant progress and that they must redouble their efforts to achieve the set goals. The degree of compliance by Arab States with their obligations varies in terms of the area considered. There is great diversity in terms of the gradual reduction of customs duties and the degree of compliance is low in areas of joint or multilateral implementation, including institutional interaction and national treatment. The areas of

implementation may be divided into the following three groups in terms of degree of compliance:

a. *Group 1*

Member States achieved an average rate of compliance exceeding 60 per cent in the following areas:

i. A gradual annual reduction in customs duties imposed on imports of Arab goods. The rate of compliance was 95.4 per cent, since all Arab member States fulfilled that obligation. However, Egypt, Morocco and Tunisia attached conditions to the application of reductions to goods for which an exception period had ended, while applying reductions to other Arab goods;

ii. Exceptions approved by the Economic and Social Council. The rate of compliance was 86.9 per cent, namely, eight Arab countries did not request exceptions, while six Arab countries did, namely, Egypt, Jordan, Lebanon, Morocco, the Syrian Arab Republic and Tunisia. Jordan and Lebanon undertook to terminate the exceptions by a fixed deadline, while Egypt, Morocco and Tunisia continued to encounter difficulties. The Syrian Arab Republic continues to impose restrictions on public-sector imports;

iii. Application of the Common Arab Agricultural Harvesting Calendar and termination of application at the beginning of 2005. The rate of compliance was 78.5 per cent. As Jordan, Saudi Arabia and Tunisia were late in informing the General Secretariat of the suspension of application of the Calendar, their rate of compliance was reduced in each case to 0.8. Egypt and Lebanon suspended implementation of the Calendar in 2005 and continued to apply the bilateral agricultural calendar until September 2006, as a result of which their rate of compliance dropped to 0.5. The Libyan Arab Jamahiriya failed to submit any periodic reports or to state whether or not it had complied, hence a rate of compliance of 0.5 was recorded;

iv. The general rules of origin applicable to Arab goods and resolution 1431 of the Economic and Social Council of 13 February 2002 concerning the abolition of validation of Arab certificates of origin and accompanying documents by Arab consulates and embassies in States members of GAFTA, and hence the abolition of the associated certification fees. The rate of compliance was 76 per cent. Some countries, namely, Jordan and the United Arab Emirates, applied the resolution two years later. Others countries, namely, Lebanon, Morocco, Saudi Arabia and Tunisia do not require embassy authentication and, hence, charge no fees. With regard to the general rules of origin applicable to Arab goods, all Arab countries have been bound to apply those since the launching of GAFTA, but differences between some of them have led to a stringent approach to the acceptance of certificates of origin. The general rules of origin will cease to apply once the detailed preferential rules of origin have been established.

b. *Group 2*

The average rate of compliance with requirements in the following areas is around 50 per cent:

i. Elimination of non-tariff restrictions and non-imposition of any new restrictions within GAFTA on imports of Arab goods. The rate of compliance was approximately 55 per cent, since all Arab countries impose one or more non-tariff restrictions to varying extents. In general, the GCC countries, except for Saudi Arabia, rank first in terms of compliance with the requirement of elimination of existing restrictions and non-imposition of new restrictions, while Egypt, Jordan, the Libyan Arab Jamahiriya, Morocco and the Syrian Arab Republic rank lowest. Lebanon, Saudi Arabia and Tunisia occupy the middle ranks;

ii. Elimination of customs-related restrictions and non-imposition of any new customs-related restrictions. The rate of compliance was approximately 53 per cent, which is lower than the rate of compliance for non-tariff restrictions, since some GCC countries, including Kuwait, Oman and Saudi Arabia, continue to apply customs restrictions to imports of Arab goods, while such other Arab countries as Egypt, Jordan, Lebanon, the Libyan Arab Jamahiriya, Morocco, the Syrian Arab Republic and Tunisia apply various kinds of non-customs-related restrictions.

c. *Group 3*

The average rate of compliance is less than 40 per cent in the following areas:

i. "Institutional interaction" means the degree of interaction of Arab States with the institutional framework of GAFTA, for example contacts with the focal points, use of the dispute settlement mechanism, amendment of legislation and enactment of the legislation required to implement GAFTA. The average rate of compliance with GAFTA institutional mechanisms was around 38 per cent, which is low, especially since it encompasses all Arab member States. It reflects the weakness of commitment among States to multilateral Arab mechanisms;

ii. Submission of periodic reports on progress in implementing GAFTA, difficulties encountered and proposals to address those difficulties. The rate of compliance with the reporting requirement was about 37 per cent. Tunisia ranked first among the Arab countries, having submitted five reports during the five-year period. It therefore recorded a full compliance rate equivalent to 1. The Libyan Arab Jamahiriya, Morocco and the Syrian Arab Republic ranked lowest, since none of them submitted any periodic report on implementation, hence they recorded rates equivalent to zero;

iii. Gradual reduction of duties and taxes with a similar effect. The average rate of compliance was about 26 per cent, which is a low rate compared with that for the lowering of customs duties. The value of those duties, which are imposed on a large number of goods, exceeds the value of customs duties. All Arab member States of GAFTA apply diversely named duties and taxes with a similar effect, which undermine the positive impact of the exemption of Arab goods traded in the context of GAFTA from customs duties on imports;

iv. National treatment, particularly in terms of rules of origin, specifications, measurements, and health and veterinary regulations. The rate of compliance was only 13 per cent. Almost all Arab member countries of GAFTA fail to apply national treatment to Arab goods traded among them, so that such goods are subjected to discriminatory treatment in Arab markets. Such treatment takes the form of customs-related and non-customs-related restrictions and duties and taxes with a similar effect, for example disclosure and inspection fees, certificates of conformity and other types of health-related requirements, specifications and measurements.

(ii) *Assessment of implementation*

Despite the low level of implementation of GAFTA, there have been some positive results in terms of regional economic integration among Arab countries, including:

a. All customs duties and taxes on Arab goods, namely, goods of Arab origin, have been eliminated in accordance with WTO standards. The liberalization of trade in over 80 per cent of goods of national origin meets the standard of acceptance of GAFTA as a free trade area whose member countries can enjoy a waiver of the

application of most-favoured nation status.

b. Elimination or reduction of non-tariff protection, or what is known as non-tariff customs-related or non-customs-related restrictions, in particular authentication of certificates of origin and trade documents and consular fees; gradual reduction of duties and taxes with a similar effect by some Arab member States; conversion of duties imposed as a percentage of the value of goods into a charge related to the actual cost of the service; and elimination of import bans and quotas in Arab intraregional trade;

c. Establishment of new machinery for joint Arab economic action, including the multilateral dispute settlement mechanism and an Arab investment tribunal; enhancement of the role of the Economic and Social Council as an Arab economic and social authority; establishment of focal points in Arab member States to monitor implementation; involvement of the private sector in monitoring and of inter-Arab organizations in monitoring and implementation; agreement on a list of commodities to which the Implementation Programme is not applicable on religious, health, security and environmental grounds;

d. Improvement of the trade environment by reducing non-tariff barriers; conversion of seasonal restrictions into tariffs and their eventual elimination; reduction of the adverse impact of bilateral trade agreements on Arab intraregional trade liberalization and, hence, an expected decline in the business risk ratio in the Arab market and increased predictability of trade costs;

e. Increased rates of compliance with obligations, a problem encountered in all inter-Arab agreements; development and improvement of monitoring and implementation mechanisms and of measures incumbent on member States; improvement of methods of resolving implementation issues by means of direct identification, earmarking of technical aspects and subsidiary analysis to facilitate problem-solving, for example through field missions and private-sector reports; a resulting change in understanding among Arab countries of the requirements of compliance with their obligations under Arab agreements; a change in decision-making machinery from consensus decision-making, with decisions that are binding only on countries that accept them, to decision-making by a two-thirds majority, with decisions that are binding on all GAFTA member States;

f. Gradual replacement of financial assessments of the impact of GAFTA on Arab economies by an overall economic assessment; most Arab countries calculated the financial losses incurred by their Treasury as a result of liberalization and failed to take account of the economic benefits that could be reaped;

g. A gradual increase in awareness of the importance of Arab economic integration among economic stakeholders in Arab countries with, for example, increased interest in Arab fairs, product promotion, greater Arab interregional investment and greater ease of movement among Arab countries.

V. THE SECTORAL APPROACH TO ARAB INTEGRATION

A. DEVELOPMENTS IN THE MARITIME TRANSPORT SECTOR

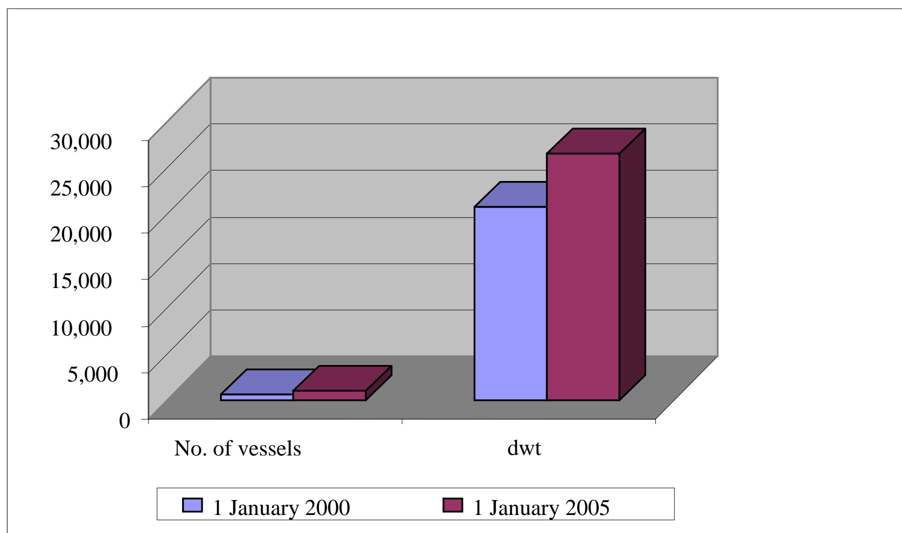
Entry into force on 4 September 2006 of the Memorandum of Understanding on Maritime Transport Cooperation in the Arab Mashreq

The ESCWA member countries depend to a large extent on the sea for the transport of goods, including oil and oil derivatives, for a significant proportion of their food supply, as well as for tourism, including such activities as diving. Other important aspects include the preservation of the marine heritage, for example coral reefs; local and foreign shipbuilding and maintenance, as well as shipyards for the building of traditional timber-hulled vessels; and the use of ports for cargo reloading for other countries and for such regions as East Africa, the Indian subcontinent, the Far East and Europe, which promotes trade among ports in the region and those in other regions, as well as global trade.

World maritime transport has increased markedly. The volume of goods transported by sea reached a record figure of 7.11 billion tons in 2005, corresponding to an annual increase of 3.8 per cent. The global merchant fleet reached 960 million tons at the beginning of 2006, a sharp increase of 7.2 per cent and the highest figure recorded since 1989. In ESCWA member countries, the increase in the merchant fleet amounted to 3.5 per cent. Global container ship deadweight tonnage (dwt) increased by 13.3 per cent in 2005. ESCWA member countries recorded an increase of 8 per cent in dwt, and of 13 per cent in the number of container ships.

With regard to fleet growth, as shown in figure 8, ESCWA member countries recorded an increase of 27.5 per cent in dwt during the period 2000-2005, and an increase of 44.99 per cent in the number of ships. That may be viewed as a positive indicator, especially in the light of the instability that the region has experienced and its subsequent impact on maritime transport, national investment in ships and tankers, and such related areas as maritime insurance and the port fees levied by a number of ports in the region.

Figure 8. Total merchant fleet of ESCWA member countries, 2000 and 2005



Source: Based on table 21.

As indicated in table 20, the number of container ships rose sharply over the six-year period, with an increase in dwt of about 226 per cent and of 165 per cent in the number of ships, which represents a marked growth rate for an important category of vessel for the transport of commercial goods. The United Arab Shipping Company, which is jointly owned by five GCC countries, has the largest fleet of container ships in the region.

TABLE 20. TOTAL MERCHANT FLEET OF ESCWA MEMBER COUNTRIES OF 1,000 GROSS TONS OR MORE, 2000 AND 2005

Country	2000		2005			
	Number of ships	Deadweight tonnage (thousands)	Number of ships	Deadweight tonnage (thousands)	Increase in number of ships (percentage)	Increase in deadweight tonnage (percentage)
Bahrain	15	105	11	66	(26.60)	(37.00)
Egypt	133	1 441	127	1 269	(4.50)	(11.90)
Iraq	41	761	28	101	(31.70)	(86.70)
Jordan	8	101	26	705	225.00	598.00
Kuwait	35	3 682	69	5 035	97.10	36.70
Lebanon	52	593	76	394	46.10	(33.50)
Oman	1	5	15	11	1 400.00	120.00
Qatar	18	524	24	386	33.33	(26.30)
Saudi Arabia	124	10 482	134	11 320	8.10	7.99
Syrian Arab Republic	73	499	170	1 289	132.80	158.3.
United Arab Emirates	179	2 570	301	5 835	68.00	127.00
Yemen	4	25	9	85	125.00	240.00
Total ESCWA member countries	683	207 88	990	26 496	44.90	27.50

Sources: ESCWA, based on *World Fleet Statistics 2000* and *2005* and *Review of Maritime Transport 2006* (UNCTAD).

Note: Parentheses ( ) indicate a negative figure.

Box 7. Entry into force of the Memorandum of Understanding on Maritime Transport Cooperation in the Arab Mashreq*

The Memorandum of Understanding on Maritime Transport Cooperation in the Arab Mashreq entered into force on 4 September 2006, 90 days after five ESCWA member countries/territories, namely, Jordan, Lebanon, Palestine, Saudi Arabia and the Syrian Arab Republic, appended their final signature to the Memorandum or deposited an instrument of ratification, acceptance, approval or accession.

In the light of a recommendation issued by the Council of Arab Ministers of Transport at its twenty-eighth session held in Damascus on 23 and 24 November 2005 to the effect that the scope of the Memorandum of Understanding prepared by ESCWA should be expanded to include all Arab countries, and that countries which had not yet signed it should be invited to study it with a view to adhering thereto, a number of Arab countries, including Algeria, the Libyan Arab Jamahiriya, the Sudan and Tunisia, expressed their agreement in principle, pending completion of the requisite measures for accession to the Memorandum of Understanding. ESCWA held an Expert Group Meeting from 12 to 14 February 2007 in Cairo on the implementation of the Memorandum and other related topics.

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* For more detailed information, see the *Annual Review of Developments in Globalization and Regional Integration in the Countries of the ESCWA Region, 2005* (E/ESCWA/GRID/2005/13).

B. DEVELOPMENTS IN INTERNATIONAL TRANSPORT IN THE REGION

1. *Road transport*

A road network links the Arab countries with each other and with neighbouring countries in Europe, Asia and Africa. The basic infrastructure of the network needs to be improved, but the main problem lies in the procedures hampering traffic at border crossings within the region and between it and other regions.[50] The road freight transport sector is adversely affected in many Arab countries by fragmentation, since it is conducted by small entities with limited capacity and is unable to take advantage of economies of scale in the market.

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[50] ESCWA, *Facilitation of the International Transport of Goods in the ESCWA Region*, Vol. I: *Summary, Conclusions and Recommendations*, 2 March 2001 (E/ESCWA/TRANS/2000/4, Arabic only).

Some Arab countries are taking corrective measures in that regard, for example Egypt, which recently enacted a single transport law designed, inter alia, to improve the licensing system and integrate the road transport industry. Lebanon has undertaken studies of the problem and is expected to utilize their findings in future legislation.[51]

In May 2006, the ministers of transport of Saudi Arabia, Jordan and Lebanon signed a draft Protocol on the development of cooperation in the field of transport and the harmonization of procedures applicable to vehicles at border crossings. The Protocol, which has now been implemented, specifically provides for the harmonization of border procedures and the adoption of a transport document for vehicles operating between Lebanon, the Syrian Arab Republic and Jordan since 2001. Saudi Arabia subsequently acceded to the Protocol.

Positive developments occurred in the road transport sector and in regional integration in 2006, in particular the application of the Agreement on International Roads in the Arab Mashreq, the Road Agreement, which was drafted by ESCWA and entered into force on 19 October 2003, the stages of implementation having been completed more quickly than expected.

It is recommended that all Arab States adopt and implement the Road Agreement, simplifying transport and trade procedures in order to facilitate cross-border trade. The road freight transport sector should be liberalized so that both companies and consumers benefit from the market economy. Member countries have taken the following steps:[52]

(a) *Jordan*

Jordan has put in place all requisite signs and signals on the routes specified in the Agreement on International Roads in the Arab Mashreq. The Ministry of Public Works and Housing is carrying out activities, projects, studies and plans aimed at enhancing the capacity, repairing, upgrading and widening the roads within routes M40 and M45, specifically at the Karamah border crossing with Iraq, the Al-Mudawara border crossing with Saudi Arabia, the Jaber border crossing with the Syrian Arab Republic, and the King Hussein Bridge border crossing with Palestine.

The Ministry of Public Works and Housing in Jordan is currently preparing procedures for the improvement of services on exit roads to ensure freedom of traffic on the main roads passing through populated areas. A rapid survey of the main roads within populated areas and in the vicinity of human settlements, villages and towns has been conducted.

(b) *Saudi Arabia*

The Road Agreement has been fully implemented in Saudi Arabia, which is regarded as a model in the region. It should further be noted that the network in Saudi Arabia accounts for some 40 per cent of the total network covered in the Agreement. The head of the Saudi Arabian delegation referred to that fact at the seventh session of the Committee on Transport in Beirut from 17 to 19 April 2006, and announced that all articles of the Road Agreement would be fully implemented by the end of 2006. In addition, improvements are being made to all routes and the project will be completed by late 2009.

With regard to the specific work carried out on the Road Agreement network, a 631 km dual carriageway is being built on the M25 route from Al-Qurayyat to Rafhaa and a 1,203-km stretch of road from Al-Qaryat to Abu Hadriyah is being extensively repaired. On the M35 route, a 336-km dual carriageway linking the Ha'il region to the Al-Jawf region is being completed, as well as a 245-km expressway between Ha'il and Al-Qasim. The 275-km road between Al-Qurayyat and Sakakah has been turned into a dual carriageway. On the M55 route, the 771-km Ad Durra-Dhuba-Yanbu border road has been turned into a dual carriageway, and the 262-km expressway linking Yanbu and Rabigh to Thul north of Jeddah has been completed. The 754-km road between Jeddah and Darb and the Al-Tuwal border crossing is currently being turned into a dual carriageway. On route M70, the 19-km road between Ar Ruqi and Hafar El Batin has been turned into a dual carriageway, and the 172-km

[51] EuroMed Transport Project, *Blue Paper: Towards an Integrated Euro-Mediterranean Transport System*, November 2005.

[52] ESCWA, Follow-up of Implementation of the Agreement on International Roads in the Arab Mashreq, 12 January 2006 (E/ESCWA/GRID/2006/IG.1/3 (Part I)/Add.1).

road between Hafar El Batin and Artawiyah is currently being turned into a dual carriageway. A 153-km expressway is being constructed between Medina and Yanbu. On route M90, the 116-km road between Salwah and Batha'a is being turned into a dual carriageway, and similar work is being completed on the 714-km road between Al Aflaj and Abha.

The priority M45 route from the Syrian Arab Republic to Yemen begins at the Al Mudawara border crossing and the Halat Ammar border crossing with Jordan and continues via Tabuk, Qalibah, Tayma, Al Jahra', Khaybar, Medina, Mecca, Taif, Al-Bahah, Abha, Khamis Mushayt and Janub Dhahran to the Yemeni border crossing at Elb.

Saudi Arabia is currently focusing on upgrading the M45 route by turning individual sections into dual carriageways and reconstructing the existing road, in accordance with the specifications established by ESCWA. Work will be completed by the end of December 2009. Signposting of the international roads, including route M45, was completed in February 2005.

(c) *Syrian Arab Republic*

Implementation of the Agreement on International Roads in the Arab Mashreq was officially begun in January 2006. One thousand international road signs have been produced and will shortly be put in place on all routes, and the Agreement has been distributed to all parties responsible for implementation of its technical provisions. A new numbering scheme for the Syrian Arab Republic has been studied, taking into account the route numbering system required by the Agreement.

Part of route M45 passes through the territory of the Syrian Arab Republic. It runs for 500 km, beginning at the Bab Al Hawa border crossing with Turkey and ending at the Nasib border crossing with Jordan. The road from Bab Al Hawa to Aleppo is a second-class road, but the remainder is a first-class freeway. Service facilities and installations along the route include bridges, intersections, mandatory diversions, petrol stations, traffic police stations, first aid centres and rest areas. Road freight control centres have been built on the route at the Deraa and Nasib border crossings between the Syrian Arab Republic and Jordan, and at the Bab Al Hawa crossing between the Syrian Arab Republic and Turkey, in addition to the existing centres along the road between the Turkish and Jordanian borders, in order to check vehicles carrying irregular types of cargo, to identify any infringements and to prevent such cargo from entering the Syrian Arab Republic without rectification.

(d) *Iraq*

The section of route M40 within Iraq runs for some 837 km from the Munthareya border crossing with the Islamic Republic of Iran to the border with Jordan at Tarabil. Most of the route within Iraqi territory consists of toll-free expressways and first-class roads, except for the section linking the Munthareya border crossing to Baquba, which is a single-carriageway, second-class road. A project to add a second lane to the 140-km section of the road linking Khanaqin to Baquba was included in the 2005 State Investment Budget in order to bring the road into line with the first-class expressway specifications by turning it into a divided dual carriageway. The project is to be implemented in three stages, beginning in 2005. It is expected to be completed by 2010.

In addition, the Baquba-Baghdad freeway, which is to be upgraded from 2006, will shorten the distance to be covered by users of the M40 route. Traffic will be confined to the northern outskirts of Baghdad, thus avoiding the intersections and dual carriageways within the city. The remainder of the M40 route to the Jordanian border has been brought into line with high-grade specifications.

(e) *Egypt*

Egypt began signposting work on its international road network in February 2005 and the process of replacing signs and signals that fail to meet the specifications is to be completed by the end of 2011. The Ministry of Transport drew up a comprehensive plan aimed at fulfilling all the requirements of the Agreement within a specific period of time, recording all existing specifications and identifying all signs and signals that fail to meet the new specifications. ESCWA was provided electronically with a detailed overview of the work that needs to be done in terms of standardizing traffic signs and amending the technical specifications to bring them into line with the Agreement. The upgrading of the section

of the international road network passing through Egypt to bring it into conformity with the Agreement specifications will be completed by 2019.

Route M40 runs for 1,053 km within Egyptian territory from the Rafah border crossing with the occupied Palestinian territory, along the coastline through Arish, Kantara Bridge, Port Said, Damietta, Alexandria and Matruh, to the border crossing of Salum between Egypt and the Libyan Arab Jamahiriya. The roads are in good condition for 500 km, while the remaining section needs to be upgraded. The maximum vehicle load has been increased to 13 tons on the single-carriageway road in most sections of the route, and the capacity of the remaining sections will be increased within the time period specified in the Agreement.

(f) *Yemen*

There are three roads linking Yemen to neighbouring countries, namely, the north-south routes M45 and M55 linking Yemen with Saudi Arabia, and east-west route M100 linking Aden to the border crossing of Shahan between Yemen and Oman. The 104-km section of the M45 route running through Sa'dah, Huth and Haraf Safyan is to be brought into line with the Agreement specifications by 2006. It is expected that the 200 signs required under the Agreement will be put in place immediately after expansion work on the approaches to cities is completed by the end of 2006.

The specifications applied in building the main paved roads in Yemen are broadly consistent with the minimum or medium-level specifications set out in the Road Agreement, which reduces the cost of road-building to a reasonable level, especially in view of the great need to extend construction to the whole of the country and in light of the economic situation.

(g) *Lebanon*

Appropriate steps are being taken to bring signs and signals on international roads within the network covered by the Agreement into line with its provisions. The Council for Development and Reconstruction was asked to take the requisite action and requested the Council of Ministers on 30 September 2005 to authorize it to put in place signs, signals and medians along the entire length of the north-south coastal M51 route running from the Abboudieh border crossing with the Syrian Arab Republic, via Tripoli and Beirut to Naqoura, and of the east-west M30 route running from the Masna' border crossing with the Syrian Arab Republic to Beirut, and to make available the requisite funds.

Box 8. Workshop on the Implementation of Good Practices for Road Traffic Safety

ESCWA held a Workshop on the Implementation of Good Practices for Road Traffic Safety in Muscat, on 28 and 29 November 2005, in which the International Automobile Federation (IAF) participated. It was attended by heads of departments and decision makers responsible for traffic safety, advisers and representatives of international traffic safety bodies, representatives of civil society groups concerned with traffic safety in the ESCWA region and international advisers. The purpose of the Workshop was to discuss good practices for road traffic safety from the point of view of the conduct of road users, vehicles and road engineering, focusing on both good and bad practices in a selected group of ESCWA member countries, and to prepare for the First United Nations Global Road Safety Week to be held in April 2007. The participants studied internationally recognized good practices for road traffic safety and the necessary arrangements for the introduction and implementation of such practices in the ESCWA region. They also took note of the experience of good and bad practices ESCWA representatives had had in parts of the region, and exchanged views on ways of enhancing the implementation of good practices and of addressing bad practices.

The main recommendations adopted by the Workshop included an invitation to ESCWA to encourage cooperation in the region on the implementation of good traffic safety practices and the sharing of experience, to organize another workshop prior to the United Nations Global Road Safety Week with a view to reviewing the results of those activities, and to organize a specialized workshop and/or seminars for professionals in the ESCWA region in a number of areas including, in particular, the auditing of road traffic safety accounts, database training and electronic learning. The Workshop also stressed the need to establish appropriate criteria for measuring road safety performance and its impact in terms of traffic accident casualties and injuries in ESCWA member countries, on the basis of relevant International Road Traffic and Accident Database (IRTAD) definitions. The Workshop further recommended that ESCWA develop an Internet website on activities in the area of road traffic safety in the member countries and that it be provided with the necessary funding, and that ESCWA assist member countries in setting up national committees specializing in the promotion of road safety.

The necessary funds were made available for the two international roads and some work on them has already begun. A study was undertaken of route M51 with a view to building an extension between the port of Tripoli and Badawi, which will circumvent the city of Tripoli, preventing traffic jams. However, no timetable has yet been set for that project.

The Israeli war on Lebanon from 12 July to 14 August 2006 destroyed a large proportion of the infrastructure of the country, including 630 km of roads, 107 bridges and three ports. It also damaged the international airport. The Council for Development and Reconstruction estimated the material losses incurred in the transport sector at approximately $484 million.[53]

Box 9. Environmental impact of the war on Lebanon

1. *Oil spill and pollution of the coastline*

Between 13 and 15 July 2006, Israeli warplanes targeted fuel storage tanks at the Jiyeh power plant, which is located about 30 km south of Beirut. The tanks burst into flame and continued to burn for three weeks, covering the surrounding area with a white dust of pulverized concrete. The bombardment of the plant also led to a spillage of some 15,000 tons of heavy fuel oil into the sea, the worst environmental disaster in the history of the Mediterranean. According to the Lebanese Ministry of Environment, a total of 150 km of the shoreline from Arida in the north to Naqoura in the south was affected by oil pollution. The coast consists of 50 per cent rocky stretches and 50 per cent sandy stretches, with a number of beaches suitable for swimming, and small ports and fishing harbours. The pollution was not confined to the Lebanese coast, but extended into the Syrian Arab Republic. The oil spill has endangered wildlife, including turtles and seabirds, in the areas close to the shore. However, the fish stock has suffered the most, since the oil, even where it sank to the bottom of the sea, is slowly emitting toxic materials into the water, including polyaromatic hydrocarbons which can become attached to fish organs causing biological reactions and, hence, decimating the fish stock.

2. *Water pollution*

A large number of wells, water pipes, tanks, pumping stations and water purification plants in different parts of southern Lebanon were destroyed. Moreover, the water supply network throughout the country broke down because subterranean water pipes were heavily damaged when the roads above them were bombed. In addition, the destruction of the Earth's crust by heavy bombardment opened up fissures in the geological strata close to the surface, leading to leakages of pollutants into the groundwater, adversely affecting its quality. Furthermore, the massive displacement of people to overcrowded centres lacking in appropriate drainage and basic hygiene led to leakages of untreated sewage into open drains and streams, causing water pollution and spreading disease.

3. *Atmospheric pollution*

The marine pollution caused by the oil spill is also a source of atmospheric pollution, since about 20 per cent of the oil dries up, producing a toxic spray that adversely affects the health of people living on the Lebanese coast. The worst environmental effect on health related to direct destruction was the release of asbestos used for heat insulation in buildings. When bombs and shells fall on such buildings, the asbestos wrapping comes undone and people inhale the fumes, which can cause lung cancer. Moreover, the fuel tanks released clouds of polyaromatic hydrocarbons and dioxin that cause diverse respiratory problems.

4. *Reconstruction of Lebanon*

ESCWA is providing technical and technological support in a variety of areas, especially those related to water and the environment, in coordination with the ESCWA Unit for Emergency and Conflict-related Issues. Moreover, a number of Arab countries assisted in alleviating the Lebanese crisis by providing material and technical support for the reconstruction of the country.

[53] Bank Audi, *The Lebanon Weekly Monitor*, Week 34, 14-19 August 2006.

2. *Rail transport*

There are railway lines in the following 11 Arab countries: Algeria, Egypt, Iraq, Jordan, Lebanon, Mauritania, Morocco, Saudi Arabia, the Sudan, the Syrian Arab Republic and Tunisia. They total approximately 25,000 km. Most lines are single-track, with only about 2,400 km being double-track and 694 km electrified track.[54]

Most railway lines in the Arab world were laid more than 150 years ago. Owing to their age, a large proportion of lines urgently needs to be overhauled in order to meet the demands of modern rail transportation and to compete with other means of transport. Moreover, most railway lines are not interconnected for the following reasons:

(a) Sixty per cent of the total railway network covered by the Agreement on International Railways in the Arab Mashreq has not yet been built;[55]

(b) There are no railway lines in the Libyan Arab Jamahiriya, and the Libyan railroad development project was recently shelved;[56]

(c) There are no connecting lines between the railway networks in Jordan, Egypt and Lebanon;

(d) Large sections of the Arab railway network cannot be connected because of track gauge differences, in particular the existence of narrow gauges in Jordan, the Syrian Arab Republic and Tunisia;[57]

(e) In some cases, political factors impede rail transport where mutually compatible and well situated lines can be linked. For example, the closure of lines between Morocco and Algeria prevents both passenger and freight rail traffic between the two countries;

(f) There are many congestion points on the Egyptian railway network owing to the lack of modern signalling systems and the existence of single-track lines.

The Agreement on International Railways in the Arab Mashreq provides a new framework for compatible and standardized railway lines in that region, and it is recommended that all Arab countries implement the Agreement. The Council of Arab Ministers of Transport have welcomed that idea. Table 21 presents an overview of railways in the Arab countries.

TABLE 21. ARAB RAILWAYS

Country	Gauge	Total length (km)	Single track (km)	Double track (km)	Electrified track (km)
Algeria	Standard	3 209	2 864	345	313
	Narrow	1 081	1 081	-	-
Egypt	Standard	4 903	4 903	1 257	42
Iraq	Standard	2 045	1 941	104	-
	Narrow	450	450	-	-
Jordan	Narrow	3 209	788	-	-
Mauritania	Standard	690	690	-	-
Morocco	Standard	1 907	1 907	271	271
Saudi Arabia	Standard	1 392	1 078	314	-
Sudan	Narrow	4 526	4 526	-	-
Syrian Arab Republic	Standard	1 754	1 754		
	Narrow	327	327	-	-
Tunisia	Standard	457	422	35	-
	Narrow	1 484	1 411	73	68

Source: Mourhaf Sabouni, *Arab Railways Past and Present*, Japan Railway and Transport Review, June 1997.

Note: Standard gauge: 1435 mm; narrow gauges: 1000, 1050, 1055 and 1067 mm.

[54] Mourhaf Sabouni, *Arab Railways Past and Present*, Japan Railway and Transport Review, June 1997.

[55] ESCWA, Handbook and map, Agreement on International Railways in the Arab Mashreq, December 2004.

[56] EuroMed Transport Project, *Blue Paper: Towards an Integrated Euro-Mediterranean Transport System*, November 2005.

[57] Ibid.

Box 10. Agreement on International Railways in the Arab Mashreq

The Agreement on International Railways in the Arab Mashreq is the second international agreement negotiated under the auspices of ESCWA. It was adopted on 14 April 2003 and entered into force on 23 May 2005. To date it has been ratified by the following five States: Egypt, Jordan, Lebanon, Saudi Arabia and the Syrian Arab Republic.

The international network covered by the Agreement consists of six north-south axes and ten east-west axes. The Agreement also lays down technical specifications that have to be met by all links at the earliest. All new lines built after the entry into force of the Agreement will meet the specifications laid down in annex 2. The length of the international network covered by the Agreement totals roughly 19,500 km, of which about 8,000 km already exist and 11,600 km, or about 60 per cent of the total, remain to be built.

For the full text of the Agreement, see ESCWA document E/ESCWA/TRANS/2002/1/Rev.2, or visit the ESCWA website: www.escwa.org.lb/divisions.

The following are some of the many railway projects that are currently under study in the Arab world:

(a) *Saudi Arabia*

Saudi Arabia has elaborated three railway projects:

(i) *The east-west Landbridge Rail Project*

The Project will link the city of Jeddah on the Red Sea coast in the west of the country to the port cities of Dammam and Jubail on the Arabian Gulf coast in the east, passing through the city of Riyadh and serving its dry port. The Project comprises a new line of about 950 km between the cities of Riyadh and Jeddah, a new line of about 115 km linking Dammam to Jubail, and the upgrading of the existing line between Riyadh and Dammam, of which 556 km is a single-track line used only for freight transport and 449 km a single-track line used for passenger transport. The Project also provides for integration of the line with the various ports. Although the new line will be single-track, the bridges and tunnels associated with the Project will be designed to allow for subsequent upgrading to double-track. It is anticipated that container traffic, both domestic and international trans-shipment, will account for the bulk of the traffic on that line.

The Project is expected to require a budget of between $2 billion and $2.5 billion and will be implemented on the basis of a build-operate-transfer (BOT) scheme.

(ii) *The North-South Railway Project*

The Project, the cost of which has been estimated at $2.5 billion and the length at 2,400 km, has been characterized as the biggest railway project ever in the Middle East. Eighteen pre-qualified companies submitted tenders in September 2006 for the Project, which is to be completed by 2011. The railway line will run from the Jordanian border in the north-western region of Saudi Arabia to the capital Riyadh, and from there to the Gulf.[58] The primarily line will be used for special 3-km-long freight wagons transporting bauxite and phosphates from mines in the interior of the country to the Gulf to be processed prior to shipment. Trains will be used to carry passengers and freight. They are expected to transport more than 1.2 million passengers a year between Riyadh and the northern border at a speed of up to 160 km per hour.

The North-South Railway Project will be financed by the Government and the private sector. The Saudi Arabian Mining Company Ma'aden is among the private-sector investors.[59]

(iii) *The western railway line between Mecca and Medina*

This line will run between the two holy cities of Mecca and Medina via Jeddah and will also link Medina to Yanbu on the coast. The line will be used mainly to carry passengers and to serve the large number of pilgrims who travel between the two cities each year. It will also be built on the basis of the BOT scheme.[60]

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[58] International Law Institute, Modernization of Transport, August 2005.

[59] The Saudi Road Network, *Ahlan wa Sahlan* journal, March 2005 www.pr.sv.net.

[60] The Saudi Railways Organization, at: www.saudirail ways.org.

(b) *Egypt*

Agreement was reached in May 2006 with the Arab Fund for Economic and Social Development and the World Bank on a loan of $1.4 billion to overhaul and develop the railway sector in Egypt. The loan will be used to fund and modernize the network, in particular restructure the railway sector financially and administratively and replace obsolescent rolling stock.

(c) *Other Arab railway line developments*

The Syrian Arab Republic has taken steps to rebuild the Hijazi railway line and to upgrade it to a standard gauge. Similarly, Jordan has launched a mainline railway modernization study, which will include upgrading the Hijazi line to a standard gauge from the Syrian border. Lebanon will also build a standard-gauge line linking the port of Tripoli to the city of Homs in the Syrian Arab Republic.

Box 11. United Nations Road Safety Collaboration

The United Nations Road Safety Collaboration was established on the basis of General Assembly resolutions concerning the improvement of global road safety, in particular resolution 289/58 of 14 April 2004, in which the Assembly invited the World Health Organization (WHO) to act as a coordinator on road safety issues within the United Nations system, working in close coordination with the United Nations regional commissions, with a view to examining steps that might be taken by international organizations to implement the relevant General Assembly resolutions. The first meeting of the Collaboration was held at WHO headquarters in Geneva, Switzerland, on 1 October 2004. It was attended by delegates from more than 42 international organizations and civil society associations. The discussions focused on the development of an international mechanism for cooperation with the specialized agencies of the United Nations system in identifying the main causes of traffic accidents and in establishing a preliminary framework by which progress over time may be assessed and a progress report submitted to the General Assembly. The meeting decided to develop good practice guidelines and a road safety legislation database, to revise the Consolidated Resolutions on Road Traffic and on Road Signs and Signals, to draw up a training and capacity-building programme on road safety, and to hold a series of meeting to support international efforts in that area.

A second meeting of the Collaboration was held at the headquarters of the United Nations Economic Commission for Europe in Geneva, Switzerland, on 16 and 17 March 2005. The main aim of the meeting was to prepare the report of the United Nations Secretary-General to the sixtieth session of the General Assembly. The meeting also discussed the work being undertaken by the Economic Commission for Europe and requested that the regional commissions be given the capacity to amend and input their own data directly. It further discussed new issues to be addressed by the United Nations Road Safety Collaboration.

The third meeting of the Collaboration was held in London on 14 and 15 October 2005 and was attended by representatives of the five regional commissions and of more than 50 international agencies and organizations. The primary aim of the meeting was to review progress since the second meeting, to study General Assembly resolution 60/5 of 26 October 2005 concerning the improvement of global road safety, to discuss preparations and arrangements for the United Nations Global Road Safety Week, to review progress in preparing the road safety good practice guidelines and to finalize the aims of the United Nations Road Safety Collaboration.

The fourth meeting of the Collaboration was held at the headquarters of the United Nations Economic and Social Commission for Asia and the Pacific in Bangkok in May 2006. The report on the proceedings of the Collaboration, prepared by WHO, covered the preparations for the United Nations Global Road Safety Week.

The fifth meeting of the Collaboration was held at WHO headquarters in Geneva, Switzerland, on 30 and 31 October 2006. It discussed the road safety guides, including the guide dealing with road maintenance and its role in road safety, which ESCWA helped to prepare. The meeting also reviewed the main activities being undertaken by the parties involved in preparing for the Global Road Safety Week.

3. *Air transport*

The air transport industry in the Arab world is the fastest growing worldwide and has been a major success story in recent years. That trend is largely due to the sharp regional economic growth, accentuated by the rise in oil prices, together with strong economic growth in the Asia and Pacific regions, increased tourism and the favourable environment for long-distance transport routes between Europe and Asia experienced by many regional airports and airline companies.

To ensure the continuation of such positive trends in Arab air transport industry, Governments must continue working with the Arab Civil Aviation Organization to bring about an Arab open skies policy, and also to eliminate restrictions on the air transport industry, in order to enhance efficiency for the benefit of consumers in the Arab world. In addition, the Arab countries must address issues relating to air safety and security and air transport administration, as well as environmental issues.

Revenue passenger kilometres (RPK) grew by 19.1 per cent in 2005 in the Middle East, compared with 6.1 per cent in the world as a whole and 10.1 per cent in Africa, which recorded the second fastest growth rate in the world.

The International Air Transport Association (IATA) expects that surge in growth to slacken over the next two years. However, despite IATA expectations, Middle East-Europe links will grow by 6.6 per cent during the period 2005-2009 and Middle East-Asia links by 6.7 per cent, compared with an estimated growth of 5.6 per cent worldwide.[61]

As a result, at least five countries in the ESCWA region rank among the twenty countries which, based on IATA expectations, will record the highest growth rates during the period 2005-2009. They are: Qatar in fourth place with 9.2 per cent; the United Arab Emirates in ninth place with 7.6 per cent; Jordan in twelfth place with 6.8 per cent; Kuwait in seventeenth place with 6.5 per cent; and Egypt in twentieth place with 6.4 per cent.

Four countries in the ESCWA region will rank among the top twenty in terms of annual growth in air freight during the period 2005-2009 according to IATA expectations. They are: Qatar in second place with 44.4 per cent; Oman in tenth place with 8.9 per cent; the United Arab Emirates in seventeenth place with 7.3 per cent; and Kuwait in twentieth place with 6.6 per cent. The annual average growth rate worldwide is estimated at 6.3 per cent.

In spite of the success of the air transport industry and its high growth rate, it accounts for only a small proportion of global transport, and as little as 3 per cent of the world market. The major Arab airline companies carried some 80 million passengers in 2005, as shown in table 23, compared with 119 million passengers carried by Delta Air Lines, the largest airline company in the world which serves 461 cities.[62]

According to Airports Council International (ACI), the number of passengers exceeded 4 billion for the first time in 2005, reaching a total of 4.2 billion, an increase of 6.6 per cent compared with 2004. Passenger numbers in the Middle East attained a total of 111 million, an increase of 10.9 per cent, which is the largest regional increase recorded. Latin America ranked second with an increase of 1.3 per cent.[63] ACI expects passenger traffic at Middle East airports to increase by 8.7 per cent by 2020, while Asia and the Pacific, the second fastest-growing region in the world, is expected to record an increase of 6.1 per cent during the same period.[64]

Passenger traffic at the main Arab airports amounted to about 138 million passengers in 2005, a figure which greatly exceeded that recorded by Atlanta International Airport in the United States of America, for example, which is the busiest airport in the world in terms of passenger traffic with 86 million passengers, and by Heathrow Airport in London, the third busiest airport.[65]

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[61] Airline Industry Statistics, at: www.iata.org.

[62] List of largest airlines, at: www.en.wikipedia.org.

[63] ACI, *World Report*, July 2006, at: www.airports.org/aci.

[64] Aviation – Industry Insight, September 2005, reported by: www.zawya.com.

[65] World's busiest airports by passenger traffic, 2005 final statistics, at: www.en.wikipedia.org.

TABLE 22. THE MAIN ARAB AIRLINE COMPANIES IN 2005

Company	Passenger traffic (millions)	Increase in passenger traffic (percentage)	Freight (tons)	Number of destinations served	Employees	Aircraft
Saudi Arabian Airlines	16.9	7.2	295 000	92	25 000	100
Emirates	14.5	20.2	1 000 000	83	18 600	92
Gulf Air	6.1	(18.0)	..	46	6 100	29
Qatar Airways	5.8	67.0	..	69	5 400	46
EgyptAir	5.3	2.7	..	66	24 000	38
Tunisair	3.8	4.0	14 500	53	7 100	29
Royal Air Maroc	3.6	(2.0)	..	60	5 100	37
Air Algérie	3.0	(3.0)	18 000	37	8 700	49
Kuwait Airways	2.4	7.1	..	34	4 300	24
Royal Jordanian	1.8	4.9	59 500	51	3 200	18
Nouvelaire	1.5	23.0	..	6	600	12
Middle East Airlines	1.1	0.4	59 500	26	1 900	9
Oman Air	1.1	15.0	5 000	18	2 900	10
Air Arabia	1.1	122.0	..	23	400	5
Etihad Airways	1.1	262.5	..	30	700	16
Yemenia	1.0	-	..	13	4 000	18
Syrian Arab Airlines	1.0	-	..	47	5 300	33
Total	79.2		1 443 500		123 300	565

Source: Aviation – Industry Insight, September 2005, reported by: www.zawya.com.

Notes: Two dots (..) indicate not available.
A hyphen (-) indicates not applicable.
Parentheses ( ) indicate negative figures.

In order to handle such growth, a sum of $40 billion has been appropriated for airport development and expansion in the GCC countries, of which $20 billion will be spent in the United Arab Emirates.[66] The Dubai International Airport project, which is estimated to cost $8.1 billion, is the most ambitious of those projects. The cost of another large project to expand the same airport has been put at $4.1 billion, a sum that will cover the building of terminals 2 and 3 and building 3. The project is to be completed by mid-2007. Other projects include the expansion of Abu Dhabi International Airport at a cost of $6.8 billion, Doha International Airport at a cost of $5.5 billion and King Abdul Aziz International Airport in Jeddah, Saudi Arabia, at a cost of $1.5 billion.

The growth in the air transport industry has been accompanied by an increase in the number of countries that have begun promoting the industry and relaxing restrictions. Open skies agreements have been concluded between Bahrain, Jordan, Lebanon, Morocco, Oman, Qatar, the Syrian Arab Republic and the United Arab Emirates. Moreover, Bahrain, Lebanon and the emirates of Abu Dhabi and Dubai are pursuing an open skies policy that allows foreign companies to enjoy unrestricted use of services within their borders.

In December 2005 a Euro-Mediterranean agreement on a joint open skies area between the countries of the European Union and Morocco was initialled.

[66] *Emirates Today*, 4 June 2006, reported by www.zawya.com.

Box 12. Establishment of the Arab Countries Water Utilities Association

The right to water should be guaranteed for the whole of humankind, according to the seventh Millennium Development Goal (MDG) on ensuring environmental sustainability, which aims at reducing by half the proportion of people without sustainable access to safe drinking water by 2015, catering for all social strata, especially poor and marginalized groups. To achieve that goal in the Arab countries, a solution will have to be found for the problem of meeting the increased demand for water in a region where most countries have to contend with water shortages.

The main role of water utilities and drinking water authorities consists in guaranteeing a supply of clean water, ensuring its just distribution and providing health-care services for all social groups. However, the task of ensuring such a water supply for consumers is difficult for water utilities and authorities in many countries of the region because of the scarcity of water, the decline in its quality, the lack of integrated policies, failure to observe the principle of sharing, lack of coordination and cooperation machinery between relevant sectors, and the existence of economic, social, financial and administrative obstacles.

The situation is exacerbated by the lack of cooperation and coordination among water utilities and authorities in the countries of the region, which are in urgent need of investment and development. It therefore became necessary to think about establishing an Arab utilities association to facilitate and support communication among those responsible for various water utilities at the regional level. It is hoped that the association will operate as an effective mechanism, enabling member countries to share expertise and training facilities, to engage in productive consultations, to develop drinking water and health-care indicators, and to ensure constructive interaction between Governments, the private sector, funding sources and international donor organizations that will be of mutual advantage to the countries of the region and of great benefit to users of drinking water and healthcare services in the Arab countries.

ESCWA and the German Agency for Technical Cooperation (GTZ) therefore decided to establish the Arab Countries Water Utilities Association (ACWUA). A consultative meeting to discuss ways and means of establishing the Association and the aims it would pursue was held in Cairo from 4 to 6 September 2006 and was attended by the member countries of the region.

The Association operates as a strong self-supporting communication network aimed at assisting member countries in increasing the capacity and improving the standard of services provided by drinking-water and health-care sectors in the countries of the region, and in benefiting from performance indicators. Moreover, the Association serves as a tool for enhancing regional integration and promoting dialogue among the countries of the region through exchanges of information and effective communication. It further seeks to apply and develop modern technical standards and to assist in enhancing the capacity and improving the administration of investment projects relating to drinking-water and health-care services in the region, promoting Arab integration in those two areas.

C. THE ENERGY SECTOR

Promotion of electricity grid networks in the Arab countries

Arab electricity grid interconnection projects and projects for natural gas pipeline networks linking production sites to consumer locations in the Arab countries represent a strategic investment conducive to economic integration among the countries concerned, including ESCWA member countries. The previous edition of the *Annual Review of Developments in Globalization and Regional Integration in the Countries of the ESCWA Region, 2005*, presented a detailed account of some of those projects. A review of the main developments in the area during the period 2005-2006 is presented below .[67]

[67] League of Arab States, Council of Arab Ministers for Electricity, documents for the twenty-first meeting of the Executive Bureau, Cairo, 24-25 May 2006.

1. *Electricity grid interconnection projects*

The Arab countries have made strenuous efforts to develop their installed electricity-generating capacity to meet the growing demand for electricity. In 2005, total installed generating capacity in the Arab countries amounted to 124 gigawatts (GW), 50 per cent of which was in the GCC countries; 32 per cent in Egypt, the Syrian Arab Republic, Jordan, Iraq and Lebanon; 16 per cent in the Libyan Arab Jamahiriya, Tunisia, Algeria and Morocco; and 2 per cent in the other Arab countries. The maximum load amounted to 102 GW, the total amount of electric power generated to 555,000 gigawatt hour (GWh) and the total amount of power consumed to 480,000 GWh.[68]

[68] Arab Fund for Economic and Social Development, Arab cooperation in the area of electricity interconnection: achievements, obstacles and aspirations for the future, discussion paper for the Eighth Arab Energy Conference, Amman, 14-17 May 2006.

The Arab countries attached great importance to electricity interconnection as soon as they became aware of the vital role of the electricity sector in the economic and social development process, and of the economic, technical and environmental benefits to be gained from electricity grid interconnection. The most important of those benefits are:

(a) Interconnection of grids into a single wider and more balanced grid, ensuring greater static and dynamic stability;

(b) Reduction of the scale of investment in the electric power-generating sector in each of the interconnected countries;

(c) Transmission of electric power from areas with substantial low-cost productive capacity to high-cost areas;

(d) Different peak times in interconnected countries, entailing increased capacity for exchanges among grids;

(e) Increased capacity of generating plants and enhanced capacity and reliability of electricity supply systems;

(f) Utilization of electricity grid interconnection in establishing data exchange networks among the interconnected countries;

(g) Reduction of exhaust gas emissions through the use of higher capacity-generating units;

(h) Easier integration of electrically interconnected countries into the global energy market.

The main developments in electricity grid interconnection in the Arab countries during the period 2005-2006 are presented below.

2. *Electricity grid interconnection projects*

(a) *The Seven-Party Grid Project*

The project provides for interconnection of the grids of Egypt, Iraq, Jordan, Lebanon, the Libyan Arab Jamahiriya, the Syrian Arab Republic and Turkey with a voltage of 400/500 kilovolts (kV).

(i) Egypt/Jordan/Syrian Arab Republic: Electric power exports from Egypt to Jordan totalled 71 GWh, and from the Syrian Arab Republic to Jordan 239 GWh in 2005. The electric power exchange agreements between Jordan and Egypt and between Jordan and the Syrian Arab Republic were renewed in 2006. A planning committee in the three countries is currently preparing an integrated planning study of their interconnected electricity grid;

(ii) Syrian Arab Republic/Turkey: Work on extension of the Syrian-Turkish electricity grid interconnection line with a voltage of 400 kV within the Syrian Arab Republic was completed. It is expected that the Syrian-Turkish electricity interconnection project will come into operation in 2007 after completion of a number of tests and studies to secure the approval of the Union for the Co-ordination of Transmission of Electricity (UCTE); this line represents the last link in the electricity chain around the Mediterranean basin;

(iii) Syrian Arab Republic/Lebanon: It is expected that Syrian-Lebanese interconnection will come into operation in 2007, after completion of the requisite modifications to the Ksara generating plant on the Lebanese side and preparation of the operational studies required for the project;

(iv) Syrian Arab Republic/Iraq/Turkey: It is expected that work on the Syrian-Iraqi and Iraqi-Turkish electricity grid interconnection projects will begin in 2006; however, the interconnections will only come into operation when the requisite operational studies have been carried out and UCTE approval has been obtained;

(v) Latest developments in the Seven-Party Grid Project:

a. Establishment of a committee of experts from the member countries of the Seven-Party Grid Project to study the feasibility of using surplus optical fibres on the electricity grid lines;

b. Initiation of the drafting of terms of reference for the technical and economic studies required for the second stage of the Seven-Party Grid Project, during which it is planned to enhance the capacity for exchanges among the interconnected countries and to prepare their electricity grids for interconnection with European and Gulf countries in the future;

c. Establishment of a committee of experts from Jordan, Egypt and the Syrian Arab Republic to prepare an integrated planning study for the Jordan-Egypt-Syrian Arab Republic electricity grid interconnection. It is expected that this study will be completed in the first half of 2007.

(b) *Grid project involving the GCC countries*

An Electric Interconnection Authority for the GCC countries has been established with its head office in Dammam in Saudi Arabia. A financial institution has been invited to update the previous electricity grid interconnection study in cooperation with specialized technical and legal companies. The project comprises the following three stages:

(i) *The first stage* will involve interconnection of the electricity grids of Saudi Arabia, Kuwait, Bahrain and Qatar with a voltage of 400 kV. Contracts covering the transmission lines and switching stations were signed in 2005 for that stage, which is expected to be completed by the end of 2008;

(ii) *The second stage* will involve interconnection of the electricity grids of the United Arab Emirates and Oman. It is currently being implemented and should be completed in 2007;

(iii) *The third stage* will involve interconnection of the first and second stages and should be completed by the end of 2010.

The six countries are sharing the investment costs of the first and third stages of the project, which are estimated to total approximately $1.33 billion, comprising about $1.2 billion for the first stage and about $130 million for the third. The electricity grid project will enable the GCC countries to economize some 5,100 megawatts (MW), thereby saving an estimated $700 million of the investment costs. The electricity grid interconnection will cost about $700 million, which means that the project will result in economies of almost $1 billion for the countries of the region.

(c) *Grid project involving the Arab Maghreb countries*

(i) *Voltage of 220 kV*

a. Egypt/Libyan Arab Jamahiriya: Completion of the electricity grid, which came into operation in May 1998. To date, the project has yielded major benefits, leading to economies of some 240 MW which were needed to support the generating capacity of the two countries. However, trade between them accounts for only about 5 per cent of total energy exchanged;[69]

b. Libyan Arab Jamahiriya/Tunisia: The Libyan-Tunisian grid interconnection project was tested in December 2005, but the test was unsuccessful and was repeated in April 2006, taking into account UCTE requirements, since the

[69] Arab Monetary Fund, *Joint Arab Economic Report* (Arabic only), September 2005: www.amf.org.ae.

Libyan-Tunisian project will lead to interconnection of the grids of the Libyan Arab Jamahiriya, Egypt, Jordan and the Syrian Arab Republic with the European grid through that of Morocco with Spain.

(ii) *Voltage of 400/500 kV*

Work has been undertaken on the Tunisian-Algerian electricity grid, with a voltage of 400 kV and it is expected to become operational in 2007. Work is currently under way on the transmission line for the electricity grid between Algeria and Morocco with a voltage of 400 kV and a capacity of 900 MW. It is expected to come into operation in 2007.

A feasibility study is being conducted on the upgrading of the electricity grid between Egypt, the Libyan Arab Jamahiriya, Algeria and Morocco and the installation of new lines with a voltage of 400/500 kV. The study will take about 18 months and is estimated to cost $904,000.

(d) *Grid project involving Yemen and Saudi Arabia*

Funding of 100,000 Kuwaiti dinars has been provided for advisory services to update the feasibility study on that electricity grid. A contract was signed with the successful consultant in May 2005 and the study is expected to take one year from the date of signing.

The importance of that project is due to the existence of large reserves of natural gas in Yemen, which can be used for low-cost electricity generation. While the peak load in Saudi Arabia occurs in summer, in Yemen it occurs in winter; hence, energy can be exchanged throughout the year between the two countries. The project, which will cost an estimated $225 million, comprises the establishment of a 300-km electricity grid line with a voltage of 400 kV and conversion equipment of between 60 and 50 hertz.

(e) *Grid interconnection study involving Saudi Arabia and Egypt*

The scope of the study was established and an invitation to tender was issued to international consultants. The deadline for the receipt of bids was 20 June 2006. It was decided to sign a contract for the consultancy work and feasibility study in August 2006.

If implemented, the project will interconnect the countries of the Arab Mashreq and the Arab Maghreb with the GCC countries in an electricity grid covering 98 per cent of the total generating capacity of the Arab countries.

(f) *Request by Mauritania to join the grid interconnection projects*

Mauritania has stated that it wishes to join the existing Arab grid interconnection projects. It is expected to submit a report in the near future on recent developments in the Mauritanian electricity sector and its need for technical or financial support to upgrade domestic grids so that they can be connected to those in neighbouring countries.

(g) *Grid interconnection between Egypt and the Sudan*

The installed electricity capacity of the Sudan totals 1,000 MW, one third of which is water-generated. It is building a large generating plant with a capacity of 1,250 MW as part of the Merowe Dam project, which is expected to be operational by 2009. The Sudanese Government has also decided to raise the height of the Rosswasi Dam, which will increase the amount of electric power generated. Those projects will result in surplus generating capacity until the electricity transmission network expansion programme catches up with the electricity-generating expansion programme. The benefit to be gained from interconnection between Egypt and the Sudan is that the Sudanese electricity grid will first use its surplus to feed the Egyptian grid, and the Egyptian grid will then feed the Sudanese grid. The two countries are carrying out a study to assess the economic impact of the project.

(h) *Request by Djibouti to join the Arab grid interconnection projects*

The latest developments in that project may be summarized as follows: the cost of the proposed interconnection project between Yemen and Djibouti is estimated at $100 million, but the expected benefits are less than the cost of

producing energy by means of liquid fuel at current world prices. Hence, the project is not economically viable as matters stand. The best option may be to increase energy exchanges and the capacity for interconnection between other countries in addition to Yemen and Djibouti, namely, Ethiopia and the Sudan, especially in view of such additional benefits as the existence of hydropower in Ethiopia and gas in Yemen. That could serve as the basis for exchanges of energy between those two countries, in addition to Djibouti. The estimated cost of that option would be in the range of $210 million and it could involve exchanges of electric power of between 60 and 100 MW between Yemen and Djibouti, and of an additional 15 MW between either Yemen or Ethiopia and Djibouti.

(i) *Grid interconnection project between Palestine and Egypt*

Final agreement was reached in July 2006 on an electricity grid interconnection project between Egypt and Palestine with a view to meeting the demand in Gaza for electric power despite the impossibility of harmonizing the grids, since the installed grid capacity in Palestine is 140 MW, while the installed capacity in Egypt is more than 21,000 MW.

The Ministry of Electricity and Energy of Egypt decided to begin expansion work on the El Arish power station and to build a station on the border, facilitating the procedures required to install a double-circuit underground 220-kilowatt (kW) cable running for 8 km within the occupied Palestinian territory, from the Rafah border crossing to the proposed site of the electricity conversion plant in southern Gaza. The Egyptian side is preparing technical specifications, designs and invitation-to-tender documentation covering all project requirements. Each of the parties will be separately responsible for making the necessary awards and financing the work required. A joint task force will be established to promote implementation and completion of the interconnection work within a single year.

(j) *Arab-European grid project*

The combined electricity grid of the countries belonging to the Seven-Party Grid Project and the countries of the Arab Maghreb can be connected to the combined European electricity grid with a voltage of 400 kV, in the east through Turkey following completion of the grid project involving the Syrian Arab Republic and Turkey, and in the west by upgrading the interconnection between Morocco and Spain by adding a line to increase the power exchanged. An assessment of the performance of the Euro-Mediterranean grid that is being built through current and planned interconnection projects is currently being conducted, and preparations are under way for a new study of electricity grid expansion and upgrading in the Mediterranean basin.

(k) *Establishment of a centre for coordinated monitoring of electric power exchanges among the Seven-Party Grid Project countries and the Arab Maghreb countries*

A committee of experts from the Seven-Party Grid Project countries and the Maghreb grid countries has been set up to expedite the establishment of a centre for coordinated monitoring of Arab countries that have completed grid projects. The first meeting of the committee was held in Tripoli, the Libyan Arab Jamahiriya, on 27 and 28 July 2005. It discussed arrangements for implementing the project to establish such a centre and decided that, given the limited scale for the time being of electric power exchanges among the countries concerned, it might be appropriate to implement the project in the following two stages:

(i) *First stage*: Establishment of an office to collect, circulate and exchange technical data among the Seven-Party Grid Project countries and the Arab Maghreb countries, and to serve as a nucleus for the planned coordinated monitoring centre;

(ii) *Second stage*: Establishment of a centre for coordinated monitoring of electric power exchanges among the Seven-Party Grid Project countries and the Arab Maghreb countries as soon as the grid projects among those countries are completed, so as to take full advantage of its potential, ensuring that the project yields the anticipated technical and economic benefits. When the time comes, appropriate arrangements will be made for the establishment of the centre.

3. *Joint oil and natural gas projects among the Arab countries*

Oil and natural gas have led to major economic and social changes in the Arab countries. The oil and natural gas industry is one of the main areas in which cooperation among Arab countries can be increased. Projects for oil and natural gas export networks are an important pillar of such cooperation, especially since the demand for natural gas has increased on account of the low levels of pollution associated with its use, and the technical progress that has been made in generating electricity in combined cycle gas-generating plants, which has increased the benefits involved.

Natural gas has begun to play a role in energy geopolitics as a result of the concentration of reserves in a relatively small number of producer countries. Thus, 67 per cent of world reserves of natural gas are located in five countries: the Russian Federation, the Islamic Republic of Iran, Qatar, Saudi Arabia and the United Arab Emirates.

The use of natural gas by Arab countries has increased over the past two decades, from 1,096 million barrels of oil equivalent per day (boe/d) in 1985 to 3.34 million boe/d. The upward trend is expected to continue, reaching 64 million boe/d by 2020. The main reason for increased natural gas consumption in the Arab region is the use of gas rather than fuel oil for electricity generation, in keeping with global trends aimed at reducing harmful environmental effects, which have likewise led to a lowering of rates of increase in the consumption of oil derivatives.

Qatar ranks third in the world, after the Russian Federation and the Islamic Republic of Iran, in terms of natural gas exports. Natural gas transportation network projects in Arab countries are among the most important strategic projects in the region because of the major short- and long-term economic gains to be reaped. The main developments in that area during the period 2005-2006 are presented below.[70]

(a) *Arab cooperation in the exportation of crude oil*

Arab cooperation in the exportation of crude oil takes the following forms:

(i) The Arab Petroleum Pipelines Company (SUMED) was established in 1974 to link Ein Al-Sokhna port on the Gulf of Suez to Sidi Karir port on the Mediterranean by a 320-km, 42-inch-diameter pipeline as a shorter route for oil exports from the Gulf to markets in Europe and the United States of America, and an alternative to the Cape of Good Hope route. Five countries are involved in the company. An agreement was signed in 1997 under which supertankers are partially unloaded at Ein Al-Sokhna terminal so that they can pass through the Suez Canal to Sidi Karir terminal, where they are reloaded, thus linking the SUMED line and the Suez Canal;

(ii) Refining of Saudi Arabian oil at Bahrain refinery, where the quantity of Saudi crude oil refined increased from 137,000 barrels per day in 1995 to 229,000 barrels in 2005. The oil derivatives are exported to the GCC countries, some other Arab countries and the rest of the world;

(iii) Announcement on 30 August 2005 of an agreement between Kuwait and Egypt, under which Kuwait will supply Egypt with fuel for electricity-generating plants, and announcement on the same date of an agreement between Kuwait and Lebanon, under which Kuwait will supply Lebanon with 500,000 tons of gas oil. Iraq is currently importing oil derivatives from Kuwait, Saudi Arabia, Jordan and the Syrian Arab Republic.

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[70] Organization of Arab Petroleum Exporting Countries (OAPEC), Arab cooperation in the area of oil and natural gas, discussion paper for the Eighth Arab Energy Conference, Amman, 14-17 May 2006.

(b) *Arab cooperation on natural gas networks*

(i) *The natural gas pipeline between the northern ESCWA countries (the Arab Gas Pipeline)*

The pipeline is one of the most important Arab natural gas cooperation projects, its aim being to export Egyptian natural gas to Jordan, the Syrian Arab Republic and Lebanon. The project is mutually advantageous for the participating countries and is being implemented in the following four stages:

a. *First stage*: Building of a 246-km, 36-inch-diameter pipeline from the city of Arish to Taba in Egypt. The pipeline then runs underwater through the Gulf of Aqaba to the Jordanian port of Aqaba and the Aqaba electricity generating station. That stage has been completed and is designed to carry one billion cubic metres of natural gas annually from 2003, increasing to 2 billion cubic metres by 2008;

b. *Second stage*: Building of a 295-km 36-inch-diameter pipeline running within Jordanian territory from Aqaba to Al-Rehab, 24 km from the Syrian-Jordanian border. That stage was completed in record time by a joint Egyptian-Jordanian company, taking only 18 months instead of 33;

c. *Third and fourth stages*: Extension of the gas pipeline to Lebanon and Turkey. That project consists of three parts:

i. *First part*: A 310-km extension from Al-Rehab to the Syrian-Jordanian border and from there to the Al-Rayan region in the vicinity of the city of Homs. It is expected that stage will be completed by the end of 2007;

ii. *Second part*: A 78-km extension from the Al-Rayan region to the Syrian-Lebanese border. That stage has been completed on the Syrian side and a further 30 km extension is planned within Lebanese territory;

iii. *Third part*: A 300-km extension from the Al-Rayan region to the Syrian-Turkish border. Its implementation will depend on the outcome of talks and the signing of agreements on the exportation of gas to Turkey, and from there to Europe.

(ii) *Natural gas pipelines connecting the GCC countries*

The natural gas pipelines connecting the GCC countries comprise four projects to supply the United Arab Emirates, Kuwait and Bahrain with Qatari natural gas and the United Arab Emirates with Omani gas:

a. The Dolphin Gas Project to supply the United Arab Emirates with an average of 2.9 billion cubic feet, the equivalent of 82 million cubic metres, of Qatari natural gas per day through a 440-km pipeline running to Abu Dhabi, with a branch running to Jabal Ali in Dubai. The gas is expected to start flowing in 2007;

b. A project to supply Kuwait with an average of 1 billion cubic feet, the equivalent of 28.28 million cubic metres, of Qatari gas per day through a marine pipeline linking the two countries;

c. A project to supply Bahrain with an average of 500 million cubic feet, the equivalent of 14.14 million cubic metres, of Qatari natural gas per day through a tributary marine pipeline of the Qatari-Kuwaiti pipeline;

d. A project to supply the United Arab Emirates with an average of 120 million cubic feet, the equivalent of 3.4 million cubic metres, of Omani natural gas per day to feed the electricity and water purification plant in the Emirate of Fujairah. That pipeline is being used temporarily, pending completion of a project to import gas from Qatar.

(iii) *Algerian natural gas pipelines*

The Algeria-Tunisia-Italy, Algeria-Morocco-Europe pipelines carry Algerian natural gas to Italy and other European countries.[71] The length of the natural gas pipeline running from Algeria to Italy is 667 miles and it has a planned annual capacity of 24 billion cubic metres. Its capacity exceeded 30 billion cubic metres in 2005. As a result of the exportation of Algerian natural gas via Tunisia and Morocco, the latter two countries earned revenue from border-crossing fees. Tunisia imposed in-kind levies amounting to 1.3 billion cubic metres of natural gas in 2004 and Morocco charged cross-border fees of more than $50 million a year for the natural gas pipeline linking Algeria and Europe through its territory and carrying 9.5 billion cubic metres of natural gas annually to Spain and Portugal.[72]

(iv) *Joint Arab natural gas projects*

Joint Arab natural gas projects that are currently being studied are presented below:[73]

a. A project to link Iraq to the Arab natural gas pipeline network: The aim is to carry Iraqi gas to Turkey via the Syrian Arab Republic, beginning with 8 billion cubic metres annually and increasing to 15 billion cubic metres annually. The oil ministries of Egypt, Jordan, the Syrian Arab Republic and Lebanon agreed at their meeting in Cairo on 25 December 2004 to admit Iraq to the Arab gas pipeline project so that Iraqi gas can back up Egyptian and Syrian gas exports;

b. A natural gas pipeline project between Iraq and Kuwait: The first stage of that two-stage project involves the importation by Kuwait of a million cubic metres per day of Iraqi gas, using old gas pipelines connecting the two countries following repairs and maintenance. The second stage involves building a 36-inch-diameter gas pipeline running for 57 km in Iraq and 38 km in Kuwait and carrying 5.7 million cubic metres of Iraqi gas to Kuwait;

c. A natural gas pipeline project between the Libyan Arab Jamahiriya and Tunisia: The two countries agreed on a 275-km extension of the 32-inch-diameter gas pipeline from Mellitah in the western part of the Libyan Arab Jamahiriya to Qabis in Tunisia to supply Tunisia with an average of one billion cubic metres of Libyan natural gas annually from 2005. The project is being implemented by a Libyan-Tunisian company and the pipeline will subsequently be extended to Europe.

(v) *Joint Arab natural gas companies*

The following is an overview of joint Arab natural gas companies:[74]

a. Arab Company for Gas Transportation and Marketing: The company is a project jointly funded, established and run by Jordan, Egypt, the Syrian Arab Republic and Lebanon and has its head office in Damascus. The participating countries ensure the operation and maintenance of the natural gas pipelines, which run from the Rahab region in Jordan to the Syrian-Jordanian border and the Syrian-Lebanese border;

b. Arab Gas Authority: The aim of the Authority is to coordinate work between companies responsible for building, controlling and operating the Arab Gas Pipeline and to monitor operating procedures and the maintenance programme. Its head office is in Damascus;

[71] World Energy Council, *Regional Energy Integration in Africa*, June 2005 report: www.worldenergy.org, p. 77.

[72] Organization of Arab Petroleum Exporting Countries (OAPEC), Arab cooperation in the area of oil and natural gas, discussion paper for the Eighth Arab Energy Conference, Amman, 14-17 May 2006.

[73] Ibid.

[74] Ibid.

c. Global Pipeline Construction Company: An Egyptian-Kuwaiti company that constructs pipelines for Arab gas transportation projects;

d. Arab Company for Petroleum and Gas Pipelines: A company that builds and operates oil and gas pipelines running between Egypt and the Libyan Arab Jamahiriya;

e. Syrian-Egyptian Petroleum Services Company: A company that drills land and marine oil and gas wells, and carries out geophysical surveys.

Box 13. The Arab Integrated Water Resources Management Network: human resource capacity-building for integrated water resource management through support for the relevant institutions

The establishment of an Arab network to raise awareness of the principles of integrated water management and to build the technical, institutional and management capacity required to implement those principles in all bodies operating in the water sector, namely, water ministries, municipalities, universities, research and training institutes, non-governmental organizations and other bodies, is a necessary and highly productive project.

ESCWA participated in the establishment of the Arab Integrated Water Resources Management Network (AWARNET), which consists of a number of training and research institutes whose aim is to support the principles of integrated water resource management in the countries of the Arab region. Since the establishment of AWARNET in March 2002, its statute has been developed and its membership expanded to include 60 research and training institutes in 14 Arab countries. The Network is an effective forum for exchanges of information, expertise and best practices among members on sustainable water management. It has become a successful tool for the promotion of regional integration among ESCWA member countries in the field of integrated water resource management.

In that context, ESCWA produced a *Guide to integrated water resource management: the role of Arab parliamentarians in the ESCWA region* in view of the important role played by parliamentarians in assessing and implementing integrated water resource management. The Guide urges Arab parliamentarians to address water issues in new legislation, ensuring the sustainability of water resources and the preservation of a clean environment. ESCWA is expected to convene a consultative meeting of Arab parliamentarians in the near future on “application of integrated water resource management principles in partnership with international organizations” with a view to enhancing the institutional and legislative role of parliamentarians in the application of integrated water resource management at the country and regional level, and promoting dialogue and communication among them in support of integrated and ongoing cooperation among the countries of the region.

D. INFORMATION AND COMMUNICATIONS TECHNOLOGY

Five Arab countries achieve Internet use averages exceeding the global average

Development of the information and communications technology (ICT) sector and promotion of its involvement in economic and social development play a key role in supporting regional integration in the ESCWA region and in building an Arab information society. Development of the ICT sector is also a prerequisite for obtaining access to the new global knowledge economy and for keeping pace with globalization. This section is divided into three main parts. The first covers the ICT sector and its services in the countries of the region; the second reviews regional efforts to implement the resolutions of the World Summit on the Information Society since the Tunis Summit in 2005; and the third presents a number of key regional integration issues.

1. *The ICT sector and its services in the countries of the region*

The region continued to make progress in 2005 in expanding ICT services and developing the sector. However, a considerable effort is still necessary to catch up with other parts of the world in that area.

Table 23 presents selected ICT indicators for ESCWA countries, comparing them with the global average. If the number of telephone landlines per 100 inhabitants and the number of Internet users per 100 inhabitants is compared with the global average, that five Arab countries exceeded the global average, namely, Bahrain, Kuwait, Lebanon, Qatar and the United Arab Emirates. If the number of mobile telephones per 100 inhabitants is compared with the global average, the number of countries rises to six, namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Turning to the number of personal computers (PCs)

per 100 inhabitants, five countries exceeded the global average, namely, Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates, while no country in the region exceeded the global average for the number of Internet host sites per 10,000 inhabitants.

Table 24 also compares average ICT indicators in the ESCWA region with the global average, illustrating progress achieved in the region, as well as the additional effort required to attain rates close to the global average.

TABLE 23. SELECTED ICT INDICATORS, 2005

Country	Number of landlines per 100 inhabitants	Number of mobile phones per 100 inhabitants	Number of PCs per 100 inhabitants	Number of Internet host sites per 10,000 inhabitants	Number of Internet users per 100 inhabitants
Bahrain	27.05	103.04	16.90	25.84	21.34
Egypt	14.04	18.41	3.78	0.50	6.75
Iraq	4.00	2.22	..	-	0.14
Jordan	11.36	28.93	5.34	5.28	11.22
Kuwait	18.99	88.57	22.33	10.93	26.05
Lebanon	27.68	27.68	11.45	19.37	19.57
Oman	10.33	51.94	4.66	5.94	9.67
Palestine	9.43	29.57	4.59	..	6.56
Qatar	26.41	92.15	17.88	4.23	28.16
Saudi Arabia	15.47	54.12	35.39	6.96	6.62
Syrian Arab Republic	15.24	15.49	4.20	-	5.78
United Arab Emirates	27.51	100.86	19.84	62.02	31.08
Yemen	3.85	9.54	1.45	0.08	0.87
ESCWA	12.36	24.30	8.13[a/]	3.54[b/]	6.48
World	19.78	33.95	13.38	421.63	15.17

Source: International Telecommunication Union (ITU), 2005.

Notes: a/ Excluding Iraq.
b/ Excluding Palestine.

Two dots (..) indicate data not available.
A hyphen (-) indicates zero or close to zero.

The following section focuses on a number of countries of the region that have made significant strides in building up their ICT sector, namely, Jordan, Egypt, Saudi Arabia and the Syrian Arab Republic.

Jordan has created an enabling environment for its ICT sector, especially through full liberalization of the Jordanian telecommunications sector. With a view to attracting Arab and foreign investors, promoting integration of the regional telecommunications networks and enhancing their growth capacity and competitiveness, and increasing landline, mobile phone and fast Internet services, the Jordanian Government sold its 41.5 per cent share in the Jordan Telecommunications Company to a group of regional and international investors headed by France Telecom.[75] In addition, ownership of the Umniah Mobile Communications company was transferred to the Bahrain Telecommunications Company, which has in turn become a regional telecommunications company since participating in joint projects in Kuwait, Saudi Arabia and Egypt.

Egypt has made strenuous efforts to create the enabling environment required to become a knowledge economy, providing such incentives as tax reductions and liberalization of the telecommunications sector and launching government initiatives. Those measures have borne fruit. Egypt has become a regional centre for the Arabization and export of electronic content (e-content), adapting it to meet the requirements of the region. It has also moved ahead of the other countries of the region in terms of software manufacturing, ranking first ahead of

[75] Arab Advisors Group, July 2006.

Saudi Arabia, Jordan and Lebanon.[76] That industry will certainly move into more regional and international markets, especially markets in the GCC countries, Europe and the United States of America.

In that context, the Information Technology Industry Development Agency in Egypt launched an e-content competition in the areas of electronic teaching and training, electronic scientific applications, electronic culture and civilization, electronic government, electronic health, electronic business finance and electronic entertainment applications. The competition is one of a number of activities launched after the World Summit on the Information Society, the second phase of which was held in Tunis in November 2005. It is a core project in an ongoing programme aimed at developing Egyptian e-content institutions and enabling them to compete regionally and internationally, entailing direct benefits in terms of human and economic development, especially in e-business and e-commerce.

Saudi Arabia has also taken steps to create the enabling environment required to promote the ICT sector. The Communications and Information Technology Commission has taken steps to enact legislation[77] permitting the full liberalization of the sector and ending monopolies, with a view to attracting Arab and foreign capital and promoting regional and international integration of telecommunications networks in the region. The landline services market will be opened up to competition for the first time and competitiveness in the provision of mobile services will be enhanced. Such steps have had a positive impact on the mobile phone sector, leading to an increase in regional investment, especially after the Emirates Telecommunications Corporation (Etisalat) entered the Saudi Arabian market, which had previously been monopolized by domestic companies. The competitive environment led to the launching of two new mobile phone networks using the most advanced third-generation technology.[78] The networks provide video communication services, enabling users, for example, to watch television broadcasts, and a fast Internet connection. Those services can be used to build a knowledge society and to bridge the digital divide in the region by ensuring fast access to information, cultural exchanges and knowledge dissemination.

The Syrian Arab Republic has taken vigorous action to meet the challenges presented by globalization. It has focused on developing the ICT sector and expediting the economic and social development process, in particular through exchanges of experience and knowledge with countries of the region and international organizations that have been engaged in similar projects in the region. In keeping with those efforts, a trilateral Memorandum of Understanding was signed between the Ministry of Communications and Technology of the Syrian Arab Republic, the Ministry of State for Administrative Development of Egypt and the United Nations Development Programme (UNDP) office in the Syrian Arab Republic on cooperation in electronic governance projects. A joint task force has been established to prepare a strategic plan and implementation machinery for e-governance in the Syrian Arab Republic, to set up a Syrian e-governance portal and to provide specific electronic services.

Investment in the ICT sector also play a vital role in promoting regional and international integration because of its major impact on all aspects of daily life. Development of the ICT sector boosts growth rates, eliminating such traditional barriers as time and distance, and stimulating trade in goods and services on which modern economies depend.

However, although ICT investment in the ESCWA countries has increased, it has not yet reached the required scale and level, thereby preventing the ICT sector from participating in the process of economic integration of countries in the ESCWA region and other regions. In spite of the low rate of investment, the achievements of two Arab telecommunications companies that have recorded strong growth, Etisalat of the United Arab Emirates and Saudi Oger, should be highlighted.

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[76] Madar Research, *The Arab Knowledge Economy Newsletter*, January 2006.

[77] Arab Advisors Group, August 2006.

[78] Arab Advisors Group, April 2006.

Box 14. Top ten telecommunications companies in the Arab countries, 2005

The top ten telecommunication companies in the Arab countries in 2005 included three Egyptian companies, namely, Orascom, which ranked first, the Egyptian Company for Mobile Services, which ranked fifth, and Vodafone Egypt Telecommunications, which ranked seventh; two Saudi Arabian companies, namely, Saudi Telecom, which ranked third, and Etihad Itisalat, which ranked ninth; two Kuwaiti companies, namely, Mobile Telecommunications, which ranked second, and National Mobile Telecommunications, which ranked sixth; one Moroccan company, Maroc Telecom, which ranked fourth, Emirates Telecom (Etisalat), which ranked eighth; and Qatar Telecom (Q-tel), which ranked tenth. The countries were ranked on the basis of the number of shareholders, capitalization and profits. The total number of shareholders in all ten companies amounted to 91 million in 2005, compared with 47 million in 2004, a growth rate of 94 per cent. Orascom ranked first in terms of the number of shareholders, with 30.4 million or about 33.4 per cent of the total number of shareholders in the ten companies; followed by Mobile Telecommunications of Kuwait, with more than 14 million shareholders in 2005, or about 15.4 per cent of the total; while Saudi Telecom ranked third, with some 11 million shareholders, or about 12.1 per cent of the total.

Company name	Ranking		Number of shareholders (millions)		Market capitalization (millions of dollars)
	2005	2004	2005	2004	2005
Orascom	1	1	30.40	14.5	11 564.54
Mobile Telecommunications	2	6	14.00	3.2	13 226.03
Saudi Telecom	3	2	11.00	9.2	74 234.06
Maroc Telecom	4	3	8.80	6.4	9 502.30
Egyptian Company for Mobile Services	5	4	6.70	4.0	3 491.15
National Mobile Telecommunications	6	8	6.40	2.7	3 767.12
Vodafone Egypt Telecommunications	7	7	5.90	2.9	4 223.04
Emirates Telecom - Etisalat	8	5	4.50	3.7	27 672.20
Etihad Itisalat	9	12	2.30	..	18 665.17
Qatar Telecom - Q-tel	10	10	0.62	0.5	69 590.66

Source: *Al-Iqtisad wal-A'mal*, special issue, May 2006.

Note: Two dots (..) indicate that data are not available.

Table 24 shows the value of ICT expenditure in selected ESCWA countries and ICT expenditure as a ratio of GDP in 2004, with comparative figures for India, Ireland and Turkey. It will be seen from a comparison of figures that the value of expenditure in Turkey of $20,892 million was more than twice the combined value of expenditure in Egypt, Kuwait and Saudi Arabia.

TABLE 24. VALUE OF ICT EXPENDITURE AND AND RATIO OF ICT EXPENDITURE TO GDP IN SELECTED ESCWA COUNTRIES AND IN INDIA, IRELAND AND TURKEY, 2004

Selected countries	GDP	ICT expenditure	
	Value (billions of dollars)	Value of expenditure (millions of dollars)	Expenditure as a ratio of GDP (percentage)
Egypt	78.8	1 103	1.4
Jordan	11.5	967	8.4
Kuwait	55.7	836	1.5
Saudi Arabia	250.3	5 507	2.2
India	694.7	26 399	3.8
Ireland	181.6	6 720	3.7
Turkey	302.8	20 892	6.9

Source: World Development Indicators 2006, States and markets, Table 5.10 - The information age, www.devdata.worldbank.org/wdi2006/contents/Table 5-10.htm.

TABLE 25. EXPORTS OF COMPUTER, INFORMATION, COMMUNICATION AND OTHER COMMERICAL SERVICES AND TOTAL COMMERCIAL SERVICE EXPORTS IN SELECTED ESCWA COUNTRIES AND IN INDIA, IRELAND AND TURKEY, 2004

Selected countries	Commercial service exports	Exports of computer, information, communication and other commercial services	
	Value (millions of dollars)	Value (millions of dollars)	Ratio of the value of commercial service exports (percentage)
Egypt	14 046	3 792	27
Jordan	2 036	281	14
Kuwait	2 067	58	3
Oman	830	21	3
Syrian Arab Republic	2 222	184	8
India	39 638	26 320	66
Ireland	52 158	30 356	58
Turkey	23 806	4 095	17

Source: World Development Indicators 2006, Economy, Table 4.6 - Structure of service exports, www.devdata.worldbank.org/wdi2006/contents/Table 4-6.htm.

With regard to exports, table 26 shows the value of exports of computer, information, communication and other commercial services

and their value as a ratio of the total value of commercial service exports in selected ESCWA countries in 2004 and, for comparative purposes, in India, Ireland and Turkey. The value of such exports in Ireland, which totalled $30,356 million, was double their combined value in Egypt, Jordan, Kuwait, Oman and the Syrian Arab Republic. The value of such exports in Egypt, namely, $3,792 million, was 27 per cent of the total value of its commercial service exports in 2004, namely $14 billion. It should be noted that Egypt ranked among the top ten developing countries in terms of the value of its commercial service exports in 2004.

Table 26 shows the value of high technology exports and their value as a ratio of the total value of commercial service exports in selected ESCWA countries, in India, Ireland and Turkey, in the Middle East and North Africa and in the world as a whole. Exports of that kind require intensive research and a high level of development. The value of such exports in Ireland, namely, $30,239 million, was double their combined value in Egypt, Jordan, Kuwait, Oman and the Syrian Arab Republic in 2004.

TABLE 26. HIGH TECHNOLOGY EXPORTS IN SELECTED ESCWA COUNTRIES COMPARED WITH OTHER COUNTRIES, THE MIDDLE EAST AND NORTH AFRICA AND THE WORLD, 2004

County/region/ the world	Value of high technology exports (millions of dollars)	Ratio of high technology exports to total industrial exports (percentage)
Egypt	15	1
Jordan	147	5
Oman	22	1
Syrian Arab Republic	6	1
India	2 840	5
Ireland	30 239	34
Turkey	1 064	2
Middle East and North Africa	1 152	3
World	1 269 586	20

Source: World Development Indicators 2006, States and markets, Table 5.11 – Science and technology, www.devdata.worldbank.org/wdi2006/contents/Table 5-11.htm.

There is clearly an urgent need for the region to develop its capacity and redouble its efforts to develop the ICT sector, taking advantage of the opportunities it offers and its potential for development and growth.

2. *The region and the decisions of the World Summit on the Information Society since Tunis*

The decisions of the World Summit on the Information Society were adopted in two stages: the Geneva Declaration of Principles on building the information society and the Plan of Action in December 2003,[79] and the Tunis Commitment and Agenda in November 2005. Responsibility for overseeing follow-up to the decisions was assigned to the United Nations Economic and Social Council by the Tunis Agenda and United Nations General Assembly resolution 60/252 of 27 March 2006 concerning the World Summit on the Information Society.

(a) *Implementation of the decisions at the global level and recommendations regarding the region*

The Geneva Plan of Action specified 11 action lines for building a global information society. The Tunis Agenda reaffirmed the action lines, specifying the international organizations that will assist in coordinating and facilitating their implementation. It also listed the moderators/facilitators and called for meetings on each action line or sub-theme. Most of the parties concerned have held initial meetings to coordinate work and produce a plan involving all stakeholders.

The definiting of five Arab regional initiatives in the area of information and communication infrastructure, including translation and Arabization of ICT terminology, was one of the main outcomes of those coordination meetings for the Arab region.

[79] www.itu.int/WSIS/documents/index1, www.itu.int/WSIS/documents/index2.

Box 15. Preparations for implementation of and follow-up to the decisions of the World Summit on the Information Society

In keeping with the Tunis Agenda, the United Nations Secretary-General set up a Task Force on the information society to follow up implementation of the decisions of the World Summit on the Information Society. The Task Force coordinates action by the United Nations system on basic issues and policies relating to the application and implementation of the Geneva Plan of Action and the Tunis Agenda for the information society that were adopted during the Summit. That will promote harmonization of policies throughout the United Nations system, as recommended by the 2005 World Summit on the Information Society. It was agreed that the Task Force should be led alternately for a one-year period by the International Telecommunication Union (ITU), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and UNDP. The ITU is currently the lead organization.

While all stakeholders are involved in implementing the decisions of the World Summit on the Information Society, the United Nations, through its offices and agencies, oversees implementation and follow-up. The United Nations General Assembly will carry out a comprehensive review of implementation of the Summit decisions by 2015. The United Nations agencies concerned have organized multi-shareholder consultation meetings on each action line and sub-theme of the Plan of Action concerning ICT applications. Two meetings were held in February 2006, the first for all moderators and facilitators, and the second to discuss the Internet Governance Forum. In May 2006 a series of coordination meetings were held on the following topics:

1. The role of public governance authorities and all stakeholders in the promotion of ICTs for development.

2. Information and communication infrastructure.

3. Building confidence and security in the use of ICTs.

4. ICT applications in e-government, e-business and e-employment.

5. Cultural diversity and identity, linguistic identity and local content.

6. International and regional cooperation.

7. Review of the mandate and composition of the Commission on Science and Technology for Development in the light of the decisions of the World Summit for the Information Society.

(b) *The Arab Working Group on ICT Strategy*

The Arab region adopted a number of programmes and projects set out in the Regional Plan of Action for Building an Information Society,[80] and ESCWA was a partner in 12 of the 49 projects under the Arab Plan. An Arab Working Group on ICT Strategy was established pursuant to a decision by the Arab Telecommunications and Information Council of Ministers in 2003 with a view to developing and updating the Arab ICT strategy, drawing up implementation plans and selecting regional projects consistent with these plans.

The Arab Working Group on ICT Strategy held nine meetings, some of them during the period leading up to the World Summit for the Information Society. The meetings identified 19 projects to be implemented at the Arab regional level, and the projects were adopted by the Arab Telecommunications and Information Council of Ministers. ESCWA assisted in developing some of the regional projects included in the Regional Plan of Action. The following decisions were taken at the meeting of the Arab Working Group on ICT Strategy held from 11 to 13 September 2006.

(i) *Updating the Arab ICT strategy*

Egypt, as Chair of the Virtual Working Group, submitted a preliminary draft of the updated Arab ICT strategy. A number of publications by the ESCWA Information and Communication Technology Division were used in drawing up the preliminary draft. Moreover, ESCWA joined the Virtual Working Group to update the Arab ICT strategy at the request of the members of the Group. The strategy was reorganized to bring it into line with the outcomes of the World Summit on the Information Society

[80] Issued by the Second Preparatory Regional Conference for the World Conference for the Information Society held in Damascus on 22 and 23 November 2004.

and the needs of the Arab region. Moreover, an Arab regional strategic vision was developed along the following lines: “Building of an integrated Arab society through ICT use and creation of an Arab ICT industry to support sustainable socio-economic development”.

(ii) *Implementation of the projects adopted by the Arab Telecommunications and Information Council of Ministers*

Implementation of the projects adopted by the Arab Telecommunications and Information Council of Ministers, especially those to be implemented by specific Arab countries, namely, Saudi Arabia, Egypt, the Syrian Arab Republic and Iraq, was discussed. The organizations attending the meeting of the Arab Working Group on ICT Strategy, namely, ESCWA, the ITU Arab Regional Office, the UNDP Programme of Information and Communication Technology for Development in the Arab Region (ICTDAR), and the Arab League Educational, Cultural and Scientific Organization (ALECSO), stated their willingness to become actively involved in a number of projects. The Arab Working Group requested ITU at the World Telecommunication Development Conference, held in Doha from 15 to 17 March 2006, to consider funding five of the regional projects adopted. Funding for the projects was discussed at the Plenipotentiary Conference in Antalya, Turkey, in November 2006. The regional and international organizations that took part in the meeting are expected to identify the projects that they wish to implement and the role that they will play.

(iii) *Presentation of new projects*

A number of new projects were presented during the meeting:

a. An Arab university network project in Jordan;

b. Free space optics technology; selection of examples of telecommunications infrastructure in villages and rural areas in Iraq;

c. Establishment of a regional computer emergency response centre in Qatar;

d. Satellite distance learning set up by ALECSO.

All the projects have been submitted to a committee for assessment in the light of the criteria established by the Working Group.

3. *Regional integration priorities*

The following ICT regional integration priorities were identified in 2006:

(a) *Development of a joint strategy on information society indicators*

ESCWA has developed a statistical information system to provide its technical departments with a standardized tool for data storage, processing and retrieval.[81] The system can be used to extract information for statistical indicators concerning various growth-related, social and economic sectors in the countries of the ESCWA region and to undertake coordinated and standardized comparisons with other regions. The system contains more than 850 statistical indicators covering 16 sectors, among which are: national accounts; transport; industry, including the private sector and production; population and development; gender; water; energy; environment; agriculture; science and technology; and ICT.

The ESCWA statistical information system constitutes a practical means of using ICT to promote regional integration of statistical data. In response to requests by a number of countries and regional authorities and organizations, ESCWA developed software that enables the system to be used, according to need, for the storage and processing of data on statistical indicators and that permits direct access to the system to examine and extract data. ESCWA is currently studying the best way of serving users, such as direct distribution software, including verification tools and a self-help system enabling users to extract and compare data on ESCWA countries directly.

[81] E/ESCWA/ICTD/2005/Technical paper.1.

Box 16. Main ESCWA contributions in the area of Arabic Internet domain names

The Arabic Domain Names Task Force

In mid-2003 ESCWA set up an Arabic Domain Names Task Force (ADN-TF), which was the only regional body at the time engaged in coordinating and promoting Arab efforts in that area. The Task Force developed a strategy aimed at building a globally integrated and interactive system capable of performing the desired function.

With a view to establishing a standardized system, ESCWA supervised the production by the Task Force of Guidelines for the Development of an Arabic Domain Names System, a document that is the first of its kind in the world and takes the form of an "Internet Draft". ESCWA circulated that document on the website of the Internet Engineering Task Force (IETF). The Internet Draft had a tangible impact in the region, promoting dynamic action on Arabic domain names in Arab countries and, in particular, in the League of Arab States.

Cooperation with the League of Arab States and the experimental regional project

After the League of Arab States established an Arabic Domain Names Task Force in 2004, ESCWA played an important role in the meetings of the Task Force, which adopted the content of the Internet Draft prepared under the auspices of ESCWA, referring it to the Arab Telecommunications and Information Council of Ministers with a view to developing an Arabic domain names system based on the technical guidelines developed by ESCWA. A number of Arab countries are involved in the project.

ESCWA study (technical publication)

In addition to developing the above-mentioned Internet Draft, which was intended primarily as a study of linguistic issues and standardization of usage, ESCWA prepared a comprehensive technical publication in 2005 covering all Arabic domain name aspects and issues, including technical and operating issues. Those aspects, which were studied for the first time at the regional level, have made a valuable contribution to the work of the Arab Task Force under the experimental regional project aimed at completing the desired matrix of standardized specifications.

Global Symposium on Promoting the Multilingual Internet

ESCWA participated in the Symposium organized by ITU and UNESCO in May 2006, which formed part of the action programme on "cultural diversity and identity, linguistic diversity and local content", presenting the Arabic domain names strategy and work, and demonstrating the consistency of the Arab system with the global system and the decisions of the World Summit on the Information Society, on the one hand, and with the needs of the Arab region, on the other. A number of ESCWA publications were circulated during the Symposium and arrangements for cooperation between ITU, UNESCO and ESCWA were discussed. The Symposium adopted many recommendations, including, in particular:

(a) Prevention of the development of an insularized Internet, in other words an Internet composed of isolated islands, and preservation of a single Internet that supports all languages;

(b) Increased international and regional coordination among research and operational bodies in cooperation with UNESCO and ITU;

(c) Reaffirmation of the role played by the United Nations regional commissions in the coordination and oversight process.

(b) *Development of Arabic digital content*

The development of Arabic digital content is a fundamental prerequisite for building an Arab information society. Despite the fact that most regional, Arab and national strategies and action plans stress the importance of Arabic digital content, practical steps to develop such content have only just begun. Arab digital content accounts for only about 0.1 per cent of Internet content. By way of comparison, Internet users in the Arab countries account for 1.4 per cent of world Internet users and the population of the Arab world accounts for about 5 per cent of the total world population.[82]

The low level of Arabic digital content is due to many factors, chief among them being the ineffective application of copyright laws in the Arab world, notwithstanding the existence of relevant legislation in a number of Arab countries. Furthermore, the production of Arabic digital

[82] www.internetworldstats.com.

content is still unprofitable for the private sector because Arab nationals are unaccustomed to making payments for information provided via the Internet.[83] In addition, many Internet users in the Arab region prefer to use foreign languages in their business dealings and education, which reduces the need to develop Arabic digital content for that group of users. However, many inhabitants of the Arab world are not proficient in foreign languages, hence the language barrier is a major obstacle to Internet use expansion among them and Arabic digital content must be provided to cater for that group. The average rate of expansion of the Internet in the Arab countries is 4.8 per cent.

Studies indicate that momentum towards the development of Arabic digital content is currently being driven by Governments through the launching of national and Arab pilot projects and the development of diverse e-services such as e-governance, e-health and e-education. Some Arab Governments have taken the initiative in this area. For example, the Egyptian Government launched an Arabic digital content development initiative in May 2005, in which the Ministry of Communications and Information Technology, the Ministry of Culture, the Union of Egyptian Publishers and other bodies are participating.[84] Moreover, the Center for Documentation of Cultural and Natural Heritage (CULTNAT) of the Bibliotheca Alexandrina has carried out valuable documentation work on the Egyptian heritage in cooperation with the Egyptian Ministry of Communications.[85] The Arab Telecommunications and Information Council of Ministers has adopted a regional project on the documentation of Arab culture based essentially on work by CULTNAT.

In the area of e-services, the Government of Dubai in the United Arab Emirates has provided e-governance services, which have increased the proportion of Arabic digital content in the United Arab Emirates, especially since the services are designed to serve all members of the population and are therefore developed as a matter of course in the Arabic language.

Another important initiative was the launching by a Saudi-German company in April 2006 of an Arabic search engine called Sawafi which incorporates all characteristics of the Arabic language.[86] The availability of an Arabic-language search engine will certainly assist users in searching for information and promote the development of Arabic digital content.

New interactive Internet initiatives, including online forums and blogging, also help to increase the proportion of Arabic digital content, since they offer a platform for individuals to express their views on important political, religious and social issues.[87]

Lastly, the setting-up of funds to finance major regional digital content projects will certainly promote the development of Arabic digital content, especially in the initial stages before Arab nationals become accustomed to paying for useful information. The development of e-payment systems and the building of trust in such systems will also assist in the development of an Arabic digital content business model.[88]

(c) *Arab Business Forum for Information and Communication Technology*[89]

The Arab Business Forum for Information and Communication Technology has been playing an increasingly important role in the area of regional integration since its establishment in January 2003 as an Arab non-governmental organization (NGO). Its members include directors and managers of many leading Arab companies in the region. The Executive Committee, which was restructured in September 2005, pursues the following goals:

(i) Promotion of contacts and cooperation with Governments in the Arab information society;

[83] www.madarresearch.com.

[84] www.mcit.gov.eg.

[85] www.cultnat.org.

[86] www.abc.net.au.

[87] www.helmionline.com; www.archive.gulfnews.com.

[88] Arabic digital content: opportunities, priorities and trends (Arabic only), ESCWA, 2005.

[89] Proposed action plan of the Arab Business Forum for Information and Communication Technology, 2006-2007.

(ii) Creation of channels of communication and cooperation between the Arab business sector and all parties involved in the global information society;

(iii) Support for and promotion of partnerships and alliances between representatives of the business sector in the area of information and communications technology.

The Forum has become an umbrella organization bringing together representatives of the Arab business sector in the areas of information and communication. Since its establishment, the Executive Bureau of the Arab Telecommunications and Information Council of Ministers has included a standing item on the Forum in its agenda. The Council seeks to encourage the Forum and to provide the best possible conditions for its work since it has distinguished itself by its expeditious performance and independence. The following are some of the objectives for 2006-2007:

(i) Development of Arab regional projects and assistance in problem-solving for the Arab business sector;

(ii) Opening-up of new markets for Arab small and medium-sized enterprises (SMEs);

(iii) Promoting of Arab business-sector activities at the global level and development of channels for cooperation with the sector;

(iv) Enhancement of the role of the Arab business sector in developing the Arab information society.

The following are the main activities being undertaken by the Arab Business Forum for Information and Communication Technology in 2006-2007:

(i) Promotion of initiatives to encourage cooperation between Arab SMEs and Asian and European companies on the implementation of a number of joint projects;

(ii) Completion of an optical cable network study aimed at the interconnecting the Arab countries, undertaking of a feasibility study of the project and organizating a workshop;

(iii) Convening of a round-table on billing of intraregional roaming services in cooperation with the Arab Regulatory Network (ARNET), and a workshop on the role of the Arab private sector in implementing the Tunis Agenda;

(iv) Provision of regional services to enable Arab companies that are members of the Forum to operate and to open temporary experimental branches in other Arab countries, and establishment of virtual offices for SMEs in order to expand their activities;

(v) Launching of an electronic portal to keep track of invitations for tenders announced in Arab countries and to coordinate with chambers of commerce in the United States of America;

(vi) Completion of work on the guide to companies operating in the area of information and communication in the Arab region;

(vii) Promotion of the Arab Distance Learning Academy project by developing new partnership models in that context.

VI. SUMMARY AND RECOMMENDATIONS

A. SUMMARY

The conclusions of the fifth edition of the *Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2006*, may be summarized as follows:

1. The Arab countries recorded significant progress in 2005 in a number of economic indicators that promote their integration into the global economy, in particular the FDI and world tourism indicators. The share of the Arab countries in FDI flows increased to 4.1 per cent, compared with 3.1 per cent in 2004, while their share of world tourism revenues rose to 5.2 per cent, compared with 4.2 per cent in 2004. An increase was also recorded in the Arab share of foreign trade, which grew to 4.2 per cent, compared with 3.5 per cent in 2004.

2. Faced with the impasse in the Doha Round of negotiations and the emergence of a strong trend among developed countries towards the conclusion of bilateral and regional trade agreements, the Arab countries must choose between a number of economic and commercial options, including continued adherence to the multilateral trading system on account of the protection it offers to developing countries in general, and the lack of any acceptable and fair alternative means of integrating those countries into the global economy. In spite of its many shortcomings, the multilateral trading system is still the best option available. The Arab countries must therefore join other member countries in reactivating the negotiations, and participating more effectively in the proceedings so as to protect their commercial interests. The time may have come to take a united stand and put forward negotiation proposals on behalf of the Arab group, following the example of the African and other groups.

3. Arab intraregional trade grew sharply in 2005, leading to an increase in the ratio of such trade to Arab foreign trade to 11.2 per cent, compared with 11 per cent in 2004. If oil exports are excluded, the indicator of Arab intraregional trade as a ratio of foreign trade rose to 18 per cent, compared with 16.5 per cent in 2004.

4. Arab intraregional investment recorded a marked upward trend in 2004 compared with 2003. The ratio of such investment to total investment increased to 26.7 per cent in 2004, compared with 23.7 per cent in 2003. The same applies to Arab intraregional tourism, which rose from 40.3 per cent in 2003 to 43.4 per cent in 2004, and to intraregional workers' remittances, which rose from 5 per cent in 2004 to 5.8 per cent in 2005.

5. In the area of transport, a Memorandum of Understanding on Maritime Transport Cooperation in the Arab Mashreq entered into force in September 2006. It was signed by five Arab countries/territories: Jordan, Lebanon, Palestine, Saudi Arabia and the Syrian Arab Republic.

6. The Arab countries made significant effort to develop their electricity-generating capacity in order to meet the growing demand for electricity. The total generating capacity of the Arab countries amounted to 124 GW in 2005: 50 per cent in the GCC countries; 32 per cent in Egypt, the Syrian Arab Republic, Jordan, Iraq and Lebanon; 16 per cent in the Libyan Arab Jamahiriya, Tunisia, Algeria and Morocco; and 2 per cent in the other Arab countries. The maximum load amounted to 102 GW, the total amount of electric power generated to 555,000 GWh and the total amount of power consumed to 480,000 GWh.

7. The region continued to make progress in 2005 in expanding ICT services and developing the ICT sector. However, a considerable effort is still necessary to catch up with other parts of the world in that area. With regard to selected ICT indicators for ESCWA countries compared with the global average, if the number of landlines per 100 inhabitants is compared with the global average of 19.8 per cent and the number of Internet users per 100 inhabitants is compared with the global average of 15.2 per cent, five countries exceeded the global average, namely, Bahrain, Kuwait, Lebanon, Qatar and the United Arab Emirates.

8. Comparing the number of mobile phone lines per 100 inhabitants with the global average

of 33.9, six countries exceeded the global average, namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Turning to the number of personal computers (PCs) per 100 inhabitants, five countries exceeded the global average, namely, Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates, while no country in the region exceeded the global average for the number of Internet host sites per 10,000 inhabitants. Average ICT indicators for the ESCWA region have also been compared with the global average in order to shed light on progress in the region and to demonstrate the scale of the effort that has been made to achieve averages close to those recorded for the world as a whole.

B. Recommendations

With a view to keeping pace with globalization, bolstering the position of the Arab countries in the global economy and supporting Arab regional integration, the following recommendations to decisions makers in the Arab countries are suggested:

(a) Coordination of trade and investment policies;

(b) Effective participation in world trade negotiations;

(c) Drafting of an Arab integration agreement to facilitate cooperation in the services sector;

(d) Drafting of a regional agreement to facilitate Arab intraregional investment flows;

(e) Action to incorporate the recommendations of the Monterrey Conference in growth programmes;

(f) Promotion of capital market integration by making it easier to forge links between the markets concerned;

(g) Ongoing implementation of the provisions of the GAFTA Agreement, especially in areas where performance has been poor, for example institutional areas;

(h) Action to establish special free zones for information, communications and computer technology in order to promote technological progress;

(i) Further action to build up the ICT sector, especially through liberalization of the telecommunications sector and attraction of Arab and foreign capital investment, in order to enhance growth capacity and competitiveness and to increase service dissemination rate;

(j) Completion of the Arabic Internet Domain Names Project, promoting it regionally and internationally;

(k) Encouragement of regional integration of telecommunications networks, and launching of and support for a large number of regional telecommunications projects.

Annex

Principal Component Methodology (PCM) - Technical Details

PCM is a useful statistical method to find pattern in data of high dimension. It can be used to derive statistically optimal weights that maximize the informativeness of the index. In the case of regional integration in the Arab world, four variables were used to construct the index: inter-Arab (1) trade, (2) investment, (3) tourism, and (4) remittances. Those pertain to the 16 countries: Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, the Libyan Arab Jamahiriya, Morocco, Oman, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates and Yemen. Following is a brief description of PCM in the current context.

Step 0: Let

- Z denote the index;
- $(a_{1j}, a_{2j}, a_{3j}, a_{4j})$ the values of the four economic variables for country j in a given year and (w_1, w_2, w_3, w_4) the corresponding optimal weights.

This implies that the value of the index for country j in a given year is provided by:

$$Z_j = \sum_{i=1}^{4} w_i a_{ij} \text{ such that } \sum_{i=1}^{4} w_i = 1 \text{ and } j: 1 \rightarrow 16$$

The optimal weights were computed for the year 2003 and were then used for every year thereafter to derive the value of the index for that particular year. The reason behind choosing 2003 as a base year from which the weights are computed is that the 2003 data is the most accurate. For many countries in 2004 and 2005, the four economic variables were forecasted based on the observed 2003 variables. The weighting process using PCM is summarized as follows:

Step 1: Group the 2003 data into matrix A of dimension 4×16, so each Arab country has one column comprising its regional integration variables.

Step 2: Calculate the corresponding covariance matrix C of dimension 4×4.

Step 3: Calculate both the eigenvectors and eigenvalues of C.

The weights' vector (v_1, v_2, v_3, v_4) will be the principal eigenvector corresponding to the *highest* eigenvalue because PCM seeks the standardized linear combination of the original variables that provide maximal variance. The resulting weights do not add up to one, so they are normalized according to the expression:

$$w_i = \frac{v_i}{\sum_{i=1}^{4} v_i}.$$