ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

ANNUAL REVIEW OF DEVELOPMENTS IN GLOBALIZATION AND REGIONAL INTEGRATION IN THE ARAB COUNTRIES, 2007

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Preface

The sixth *Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2007*, addresses efforts made by the Arab countries to keep up with the pace of globalization on the one hand, and to assess the extent to which regional integration of the economies of the Arab countries has been achieved, on the other. 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. It is hoped that this 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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ABBREVIATIONS AND ACRONYMS

AGFUND	Arab Gulf Programme for United Nations Development Organizations
AMCEN	African Ministerial Conference on Environment
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
CAMRE	Council of Arab Ministers Responsible for the Environment
DESA	Department of Economic and Social Affairs
GAFTA	Greater Arab Free Trade Area
GATT	General Agreement on Trade and Tariffs
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GOIEC	General Organization for Import and Export Control
IAF	International Accreditation Forum
IMF	International Monetary Fund
JCEDAR	Joint Committee on Environment and Development in the Arab Region
LAS	League of Arab States
MCTC	Model Customs and Tax Center
MEDRING	Mediterranean Electric Ring
MERCOSUR	Common Market of the Southern Cone
NAFTA	North American Free Trade Area
OECD	Organisation for Economic Co-operation and Development
PERSGA	Regional Organization for the Conservation of the Environment of the Red Sea and Gulf of Aden
QUALEB	Lebanese Quality Program
ROPME	Regional Organization for the Protection of the Marine Environment
UCTE	Union for the Coordination of Transmission of Electricity
UCPTE	Union for Power Production and Transport Coordination
UNCTAD	United Nations Conference on Trade and Development
UNDA	United Nations Development Account
UNDP	United Nations Development Programme
UNEP/ROWA	United Nations Environment Programme/Regional Office for West Asia
USAID	United States Agency for International Development
WTO	World Trade Organization

Executive summary

The efforts made by the Arab countries in 2006 to enhance their integration into the world economy produced varying results. Their share of world trade and revenues from tourism saw a slight increase; the former increased by 4.1 per cent compared with 3.9 per cent in 2005; the latter grew by nearly 178 per cent in five years from US$ 15.1 billion in 2001 to US$ 42 billion in 2006. Furthermore, foreign exchange reserves in the Arab world grew slightly in 2006 to reach 5.5 per cent of the world total, in comparison with 5.2 per cent in 2005. On the other hand, foreign direct investment (FDI) flows into the Arab countries in 2006 declined a little as a percentage of global FDI inflows, reaching 4.78 per cent compared with 4.87 per cent in 2005 and less than 1 per cent in 2001. In addition, natural gas reserves dropped to 29.4 per cent in 2006, compared with 32.1 per cent in 2005.

FDI flows worldwide amounted to US$ 62 billion in 2006, representing a rate of about 36 per cent. The share of the Arab world rose to 4.8 per cent of the global FDI flows in 2006, a growth reflecting the magnitude of the efforts made by most of the Arab countries to attract FDI. Several factors contributed to that growth including: high rate of economic growth in the Gulf Cooperation Council (GCC) countries due to the significant rise in oil revenues; economic reforms undertaken by several Arab countries, particularly the implementation of privatization programmes, the opening up of new sectors to FDI; and the great progress made in improving the business environment. Saudi Arabia ranked first in terms of FDI inflows, receiving nearly US$ 18 billion in 2006 at a growth rate of 51 per cent compared with 2005. Egypt came second, receiving US$ 10 billion, compared with US$ 5.3 billion in 2005, at a growth rate of about 87 per cent. The United Arab Emirates moved from first rank in 205 to third in 2006, receiving more than US$ 8 billion, compared with about US$ 11 billion in 2005, with a decline rate of approximately 23 per cent.

While FDI flows into the Arab countries grew in 2007, the performance of those countries varied. Growth of FDI inflows was high in Jordan, Egypt, Morocco and Saudi Arabia, whereas it was negative in the United Arab Emirates (23 per cent), the Syrian Arab Republic (13.3
per cent), Oman (5.8 per cent), Qatar (55 per cent) and Kuwait (56 per cent).

On the other hand, of the total FDI inflows into the developing countries, Arab countries accounted for about 16.5 per cent in 2006, compared with 14.6 per cent in 2005.

The Arab countries made remarkable progress in tourism, as the number of tourists rose at a rate of 193 per cent between 1993 and 2006, although the number of arrivals in Arab countries is still modest as a percentage of global total number of arrivals.

The current multilateral trade negotiations undertaken within the framework of the World Trade Organization (WTO), known as the Doha Development Agenda have not made any real progress since the failure of the Fifth WTO Ministerial Conference held in Cancún, Mexico from 10 to 14 September 2003. Despite numerous important developments that raised hopes of making progress such as the July 2004 package, the Sixth WTO Ministerial Conference held in Hong Kong in December 2005, and the intensive efforts exerted by the Chairmen of the Negotiations Committees, the situation in 2007 did not undergo significant change since the suspension of negotiations in 2006, especially on agriculture. So far there has been no concrete indication that serious solutions or agreements could be reached in that regard in the early months of 2008.

The performance of Arab countries in regional integration has shown no new or significant developments. Available figures point to some progress in 2005-2006 in that performance based on indicators of Arab regional integration and a decrease in the value of some other indicators. Arab intraregional trade made little progress in 2006, increasing as a percentage of total Arab trade to 11.3 per cent, compared with nearly 11.2 per cent in 2005. For the second consecutive year, Saudi Arabia led the Arab countries in Arab intraregional trade in absolute terms while the Syrian Arab Republic led them in relative terms as intraregional trade represented about 47 per cent of total Syrian trade in 2006.

While Arab intraregional investment grew by 11.1 per cent to reach US$ 11.5 billion in 2006 in comparison with US$ 10.3 billion in 2005, the Arab intraregional investment as a percentage of FDI saw a remarkable decrease from about 34 per cent in 2005 to nearly 27.4 per cent in 2006, notwithstanding the significant growth of total FDI flows into the Arab countries in 2006 at a rate approaching 4.8 per cent.

As for Arab intraregional tourism, political and security instability in the Arab region have led Arab tourists, especially those from GCC countries, visiting European and East Asian countries. Consequently, Arab intraregional tourism retreated with the number of Arab arrivals decreasing from 22.5 million in 2004 to 21.8 million in 2005 and about 20 million in 2006.

Arab intraregional workers' remittances in 2005 remained at their 2004 level of approximately US$ 9.8 billion. Five Arab countries continue to account for 86 per cent of the total Arab intraregional remittances, with Egypt leading at 23 per cent, followed by Jordan at 21.6 per cent, Lebanon at 19.5 per cent and Yemen and the Sudan at 11.1 per cent each. In view of the rising oil prices worldwide over the past four years and the significant growth of the GCC economies, it is expected that the amount of remittance will exceed the levels of 2006 and 2007.

Serious but unsuccessful attempts continued to be made to inter-link Arab stock markets as an important step toward regional integration. Lack of success of those attempts may be attributed primarily to the variation in the management and organization of stock markets; the requirements of entry and disclosure; and the procedures for trading and pricing. There is a great extent of such variation that each market has its unique nature and characteristics, not to mention the highly dissimilar levels of development and the fact that each market has its own mechanism.

A strategy is needed to interlink Arab stock markets. Such a strategy includes: freedom of trading across borders in the region; allowing investors to freely buy and sell shares in all the Arab markets; adoption of electronic trading across borders to allow regional investors to trade in all the Arab stock markets from any place; and encouraging and supporting the establishment of regional financial brokerage firms to enable investors to trade in stocks listed in all the Arab stock markets at the same time and through one account without having to move between different stock markets. Such a strategy would increase the number of investors and brokerage firms in the Arab stock markets and as a consequence would raise operational efficiency and increase market depth.

The air transport sector in the Arab world continued to grow at significant rates during 2006 and 2007 in comparison with the global average, whether in passenger or cargo transport. The Gulf area in particular has seen significant investments in increasing the fleets of airline companies and as well as in the construction and expansion of airports. It was noted that there was a trend toward enhancing the efficiency of air transport through low-cost airline companies. Some national airline companies and airports continued to privatize some of their basic services. On 18 February 2007, the Arab Agreement to Liberalize Air Transport went into force. In spite of those positive developments in this sector, it was noted that there was a need for Arab airline companies to form new and large groups to increase their competitiveness firstly in the Arab world and secondly in the rest of the world. Undoubtedly the Agreement to liberalize the air transport sector in the Arab world needs further enforcement and implementation on the general.

Concerning the water sector, Arab countries now face a problem due to an increase in population growth which results in a reduction of per capita share of renewable water resources in the region. It is a problem that has been exacerbated by the increasing demand on water resources as the urban population in particular grew in Dubai, Sana'a and Riyadh respectively. Since most of the surface and ground water resources in the ESCWA region are common among ESCWA member countries and other countries, there is a need to develop an effective framework for regional cooperation to guarantee the effective use of surface and ground water resources.

In the energy sector, the Arab countries have exerted great efforts to cope with the increasing demand on electricity. There are several projects for electrical network interconnection the most important of which are the following: the seven-country electrical network interconnection project which interconnects the electrical networks of Jordan, Turkey, Libyan Arab Jamahiriya, Syrian Arab Republic, Egypt, Iraq and Lebanon (EIJLLST). The eleventh Ministerial Meeting of the seven countries interconnected was held on 16 January 2007 and among its major outcomes was the approval in principle of Palestine's joining the project as an observer until it fulfils all the technical and legal conditions as well as the approval of the electrical interconnection among the GCC countries. By the end of March 2007, 21 per cent of phase I of the project was completed.

In the technology sector, it was noted that a number of Arab countries had made remarkable progress in land-line and mobile telephone service as well as in the use of the Internet, namely Jordan, United Arab Emirates, Bahrain, Qatar, Lebanon and Saudi Arabia. The United Arab Emirates, Bahrain and Qatar surpassed the global average number of mobile telephone lines per 100 persons.

Introduction

This sixth edition of the *Annual Review* addresses comprehensively the significant developments in globalization and regional integration in the Arab countries. It covers the progress made by Arab countries in integrating their economies into the world economy as well as their efforts in Arab regional integration. Globalization is reviewed by drawing a comparison between 2006 and earlier years based on a set of significant indicators such as the Arab countries' share of the world economy, particularly their share of international trade, FDI, production and export of oil and gas, as well as tourism. However, the progress made in Arab regional integration is reviewed through an analysis of a set of sectors that play an important role in regional integration such as trade, investment, tourism, labour remittances and official development assistance (ODA) on the Arab intraregional level.

The review focuses on the depth of Arab regional integration; it examines and analyses the integration index which shows, on the basis of the performance of different sectors, the degree of regional integration of many Arab countries on which data are available.

Chapter I analyses the contribution of the Arab countries to the world economy. It compares various indicators such as gross domestic product (GDP), FDI, international trade, as well as oil and natural gas production and reserves. Those indicators are also against world figures. Chapter I focuses on the performance of the Arab countries in attracting FDI and addresses tourism in those countries as compared with world tourism.

Chapter II addresses developments in WTO negotiations and international efforts to re-launch the Doha Round Negotiations. It also discusses efforts made by Arab countries in the process of trade facilitation and trade in services.

Chapter III analyses the depth of regional economic integration in fields including Arab intraregional trade, investment, tourism, labour remittances and ODA. It addresses the performance of Arab countries in regional integration.

Chapter IV ranks the Arab countries by the regional integration index. It further discusses interlinking Arab financial markets as an important step towards Arab economic integration; it is included as a main topic in view of the importance of interlinking the Arab financial markets which have been growing and expanding during the recent years in terms of capitalization, number of listed companies, or the volume of traded shares.

Chapter V addresses sectoral integration in energy and transport, emphasis is placed for the first time on the performance of the Arab countries in air transport, as they made significant progress during the past few years.

Chapter VI summarizes the most important conclusions of the Review regarding the various sectors whether in terms of Arab economic integration into the world economy or in terms of regional Arab integration. It also presents a set of recommendations to the decision makers in the Arab countries to help them formulate decisions that enhance the integration of their economies into the global economy and that strengthen regional Arab integration. The recommendations serve as an input into the efforts made by the Arab countries to promote their regional and global role and as an important step toward sustainable development which stimulates growth, reduces unemployment, and poverty, and raises the standard of living of the population of all the Arab countries.

I. ARAB WORLD SHARE OF THE GLOBAL ECONOMY

A. CORE INDICATORS

“A notable increase in the Arab countries’ share of global FDI flows in 2006”

The Arab countries in 2006 made attempts to increase their share of the global economy in various sectors. A look at the figures in table 1 shows that the Arab countries varied in the progress they made in increasing their share of the global economy; the substantial increase in their GDP in 2006 was reflected in their share of the global GDP which rose from about 2.4 per cent in 2005 to 2.64 per cent in 2006.

TABLE 1. SHARE OF ESCWA REGION AND THE ARAB WORLD IN THE GLOBAL ECONOMY, 2001 AND 2005-2006: SELECTED INDICATORS

	ESCWA region	Arab world	World	ESCWA region	Arab world	World	ESCWA region share of world total (percentage)			Arab world share of world total (percentage)		
	2001			2006			2001	2005	2006	2001	2005	2006
Area (million of square miles)	1.8	5.3	51.8	1.8	5.3	51.8		3.5	3.5		10.2	10.2
Population (millions)	146.9	266.5	6 141.2	192.6	328.6	6 555	2.39	2.95	2.94	4.34	5.00	5.01
GDP (billion of dollars)[a/]	507	663	31 614	959	1 273	48 244	1.65	1.8	1.99	2.13	2.4	2.64
Total foreign currency reserves (billions of dollars)[b/]	80.4	131.3	2 471.1	109.2	228.2	4 183.4	3.25	2.7	2.6	5.31	5.2	5.5
Total trade (billions of dollars)[c/]	314.7	399.8	12 531.1	838.4	1 054.5	25 645.7	2.51	3.12	3.27	3.19	3.92	4.11
Total number of tourist arrivals (millions)[d/]	23.5	24.9	684.1	30.8	45.3	842	3.44	3.48	3.66	5.11	5.36	5.38
Revenue from tourism (billions of dollars)[e/]	10.8	15.1	459.5	33.6	42.0	435	2.34	3.81	4.57	3.28	4.49	4.71
FDI (millions of dollars)	2 636	7 711	817 574	48 925	62 407	1 305 852	0.32	3.91	3.75	0.94	4.87	4.78
Labour remittances (millions of dollars)[f/]	10.0	15.7	147.0	24.1	14.4	262.0	6.8 1	6.07	5.48	10.69	10.33	9.19
Oil production (millions of barrels per day)	18.5	20.9	67.0	19.64	23.04	72.49	27.54	26.072	27.09	31.22	31.42	31.79
Known year-end oil reserves (billions of barrels)	604.1	652.5	1 081.7	609.07	668.2	1 160.84	55.85	52.83	52.47	60.33	57.59	57.56
Natural gas production (billions of cubic metres)[g/]	539.2	655.5	2 553.8	250.9	355.2	2 836.9	21.11	8.26	8.85	24.49	11.60	12.52
Year-end natural gas reserves (billions of cubic metres)	46 240	52 240	176 988	47 196	53 433	182 040	26.13	26.13	25.93	29.52	32.11	29.35
Current refining capacity (m/b/d)[h/]	5 645	6 866	..	6.1	7.3	84.4	..	7.21	7.22	..	8.61	8.61
Energy consumption (millions of barrels of oil equivalent per day)[i/]	5 245	6 301	..	6.9	8.2	208.9	..	3.10	3.29	..	3.68	3.91

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. The figures are for 2002, 2004 and 2005 respectively.

c/ With the exception of Palestine.

d/ The figures do not include all Arab countries for lack of precise data.

e/ The figures do not include all Arab countries for lack of precise data.

f/ The figures refer to 2004 and 2005 respectively.

g/ The figures refer to 2004 and 2005 respectively.

h/ The figures for the refining capacity globally in the ESCWA region, and in the Arab world refer to 2005.

i/ The figures for energy consumption globally in the ESCWA region, and in the Arab world refer to 2005.

Referring to 2001, it is evident that the Arab countries' share of FDI increased significantly, rising from less than 1 per cent in 2001 to 4.8 per cent in 2006. As will be elaborated later, that increase is attributed to efforts by the Arab countries to improve and provide the appropriate investment environment, which is reflected positively in their increased share of the global investment flows. If this tendency continues, the Arab countries' share of FDI will grow in the coming years, which will enhance their link with the global economy.

It was in 2006 that the Arab countries' share of global FDI flows exceeded for the first time their share of revenues from tourism, increasing from nearly 4.5 per cent in 2005 to 4.7 per cent in 2006. The little increase in revenues from tourism, notwithstanding rising prices, is due to the slight increase in the Arab countries' share of tourist arrivals, which grew from 5.3 per cent in 2005 to 5.38 per cent in 2006. The growth of the number of tourist arrivals in the Arab countries was below the global average, the reason being the strong competition with the Arab countries, particularly from East Asian countries as well as the return of Arab tourists to European countries whose number dropped in the wake of the events of 11 September 2001.

In international trade, the share of the Arab countries rose slightly from 3.9 per cent in 2005 to 4.1 per cent in 2006. The increase is attributed primarily to higher oil prices in 2006. It is to be noted that Arab countries raised their share of total trade by about one percentage point since 2001, from 3.2 per cent to 4.1 per cent, which is well below the four percentage points gained in their share of FDI during the same period.

The slow growth of the share of Arab countries in total trade is due to their dependence mainly on oil. It is expected that the situation will continue unless they diversify their economies in such a way as to increase their exports from other sectors and reduce the oil portion of exports.

In oil production, the contribution of Arab countries is relatively stable, as most of the major Arab oil-exporting countries are members of the Organization of the petroleum Exporting Countries (OPEC) which determines the quotas of its members, which lends relative stability to their production of oil in accordance with OPEC decisions. Of the world oil reserves, the Arab countries also have a relatively stable share which approached 57.6 per cent in 2006 due to the discovery during the last five years of oil reserves in different parts of the world.

In natural gas production, the share of the Arab countries went up slightly from 11.6 per cent in 2005 to 13.5 per cent in 2006. Natural gas production in the Arab countries as a share of the global level of production dropped from nearly 24.5 per cent in 2001 to about 12.5 per cent in 2006, representing a fall approximating 50 per cent due to increasing production in non-Arab countries, particularly Iran and the Russian Federation. Likewise, natural gas reserves in the Arab countries as a share of the global total fell from 32.1 per cent in 2005 to 29.4 per cent in 2006.

Analysis of another indicator was added to this Annual Review, namely, labour remittances in which the share of the Arab countries as a percentage of the global total dropped from 10.7 per cent in 2001 to 9.2 per cent in 2006. It is to be noted that labour remittances to Arab countries came for the most part from other Arab countries, except for Morocco, and Tunisia the greater part of whose labour remittances came from countries of the European Union.

In general, the figures for 2006 show that the Arab countries made little progress in tourism in terms of revenue as was the case in foreign exchange reserves which represented over 5 per cent of the global total, which is the equivalent of the population of the Arab countries as a percentage of the world population.

As to the GDP of the Arab countries, it still represents a modest percentage of the world GDP, not reaching 3 per cent so far, which is close to the growth rate of world GDP. However, this percentage will change as of the beginning of 2007; figures show that the growth rate of the GDP of the major oil-exporting Arab countries and Egypt will increase, which will raise the overall share of Arab countries in 2007.

B. FOREIGN DIRECT INVESTMENT

FDI flows over the past few years was foremost amongst the foreign sources of financing development in the developing countries. They exceeded in importance in the field of development finance, the banks and ODA. Hence the emphasis placed by the International Conference on Financing for Development, held in Mexico in 2002, on the significance of FDI as a major source of foreign financing for development in the developing countries.

There are two types of FDI: (a) new projects known as greenfield projects, and (b) mergers and acquisitions. Mergers and acquisitions have gained in importance due to legislation and expansion of privatization programmes in developing countries as well as implementation of economic reform programmes. FDI is made up of three components: equity capital, reinvested earnings and intra-firm loans.

In their investment strategies, countries must include the types of investment set in their economic plans. For countries that have not yet implemented expanded privatization programmes, allowing the establishment of new projects managed and implemented by FDI is the most important way to enhance FDI flows. New projects can be faster and perhaps more important in the transfer of technology and providing job opportunities in comparison with investment that falls under acquisitions and mergers which may need a longer time to transfer technology and which may lead to a reduction in the number of jobs existing in the original companies prior to their privatization. Therefore, acquisitions and mergers are not effective in providing job opportunities.

In addition, the host countries must spell out their investment policies vis-à-vis the export sector and thus improve the quality of domestic products. The type of the investment to be encouraged to enter the economy should be made clear from the outset. For sometimes, foreign investment in greenfield projects aims at satisfying the domestic market rather than producing for the export market, which leads to conflict between interests of the host country and the interests and goals of the foreign investor. Therefore, state FDI policy should include not only magnitude of FDI flows but also its type as well as the extent to which it can serve the goals of the economic policy of the state. FDI derives its importance from its ability to stimulate or contribute to the stimulation of the domestic economy, making it more dynamic and efficient rather than creating a parallel economy or independent companies that do not deal or interact with local companies.

The significance of FDI lies in the momentum it lends to the domestic economy by enhancing its ability to interact with the world economy and to participate in the global process of production in such a manner that FDI becomes one of the major factors that contributes to a more efficient economy linked to the global economy and involved in the global process of production. FDI will have a limited impact if its only goal, important as it may be, is to reap financial resources. Hence the importance of the investment policy of that state. It is also important that this policy be part of the macroeconomic policy and that it falls within the strategy of economic financing and of keeping up with the global economy, rather than being a policy with limited, modest goals confined to the provision of financial resources, important as they may be.

Moreover, FDI should contribute to the improvement of the performance of the educational sector in the Arab countries by taking part in opening schools and universities in order to resolve a long-standing problem in the Arab countries, namely, the weak performance of the educational sector and consequently the continuing inability to provide a cadre of professionals attractive to FDI flows.

1. *Share of Arab countries in the global flows of FDI*

"**Saudi Arabia ranked first among the Arab countries and Egypt ranked first in Africa as recipients of FDI flows in 2006**"

Global FDI flows in 2006 rose by 38 per cent in comparison with 2005, reaching its highest magnitude of US$ 1.3 billion since 2000. In those flows, the share of the developing countries reached the record amount of US$ 379 billion (table 2). Developed country transnational corporations continue to dominate the FDI, representing 84 per cent of global FDI flows. Although many factors contribute to the growth of global FDI, the main source is still corporate acquisitions and mergers with transactions worth US$ 880 billion in 2006, representing nearly 67 per cent of the global FDI flows.[1]

FDI flows into the Arab countries continued to grow in 2006 attaining a record US$ 62 billion and a growth rate of 32 per cent in comparison with 2005. The oil-exporting Arab countries continue to be in the lead in terms of attracting FDI, due to the measures which they took a few years ago and which began to bear fruits (table 2 and figure 1).

TABLE 2. FDI FLOWS TO ARAB COUNTRIES AND SELECTED REGIONS, 2004-2006
(*Millions of United States dollars*)

				Growth rates (percentage)	
	2004	2005	2006	2005	2006
Bahrain	865	1 049	2 915	21.27	177.88
Egypt	2 157	5 376	10 043	149.24	86.81
Iraq	300	515	272*	71.67	(47.18)
Jordan	261	1 532	3 121	146.70	103.72
Kuwait	24	250	110	941.67	(56.00)
Lebanon	1 993	2 751	2 794	38.03	1.56
Oman	229	900	952	293.01	5.78
Qatar	1 199*	1 152*	1 786*	(3.92)	(55.03)
Saudi Arabia	1 942	12 097	18 293	522.91	51.22
Syrian Arab Republic[a/]	180[a/]	692[a/]	600	284.44	(13.29)
United Arab Emirates	10 004	10 900	8 386	8.96	(23.06)
West Bank and Gaza Strip	49	47	38*	(4.08)	(19.15)
Yemen	144	(302)	(385)	(309.72)	27.48
All ESCWA member countries	19 707	36 959	48 925	87.52	32.38
Algeria	882	1 081	1 795	22.56	66.05
Comoros	1	1*	1*	0.0	0.0
Djibouti	39	22	108	(43.59)	390.91
Libyan Arab Jamahiriya	357	1 038	1 734	190.76	67.05
Mauritania	392	864	(3)*	120.41	(100.35)
Morocco	1 070	2 946	2 898	175.33	(1.63)
Somalia	(5)*	24*	96*	(580.00)	300.00
The Sudan	1 511	2 305	3 541	52.55	53.62
Tunisia	639	782	3 312	22.38	323.53
All Arab countries (non-ESCWA members)	4 886	9 063	13 482	85.49	48.76
Total Arab countries	24 593	46 022	62 407	87.13	35.60
World	742 143	945 795	1 305 852	27.44	38.07
Developing countries	283 030	314 316	379 070	11.05	20.60
Colombia	3 084	10 255	6 295	232.53	(38.62)
Germany	(9 195)	35 867	42 870	(490.07)	19.52
Singapore	19 828	15 004	24 207	(24.33)	61.34

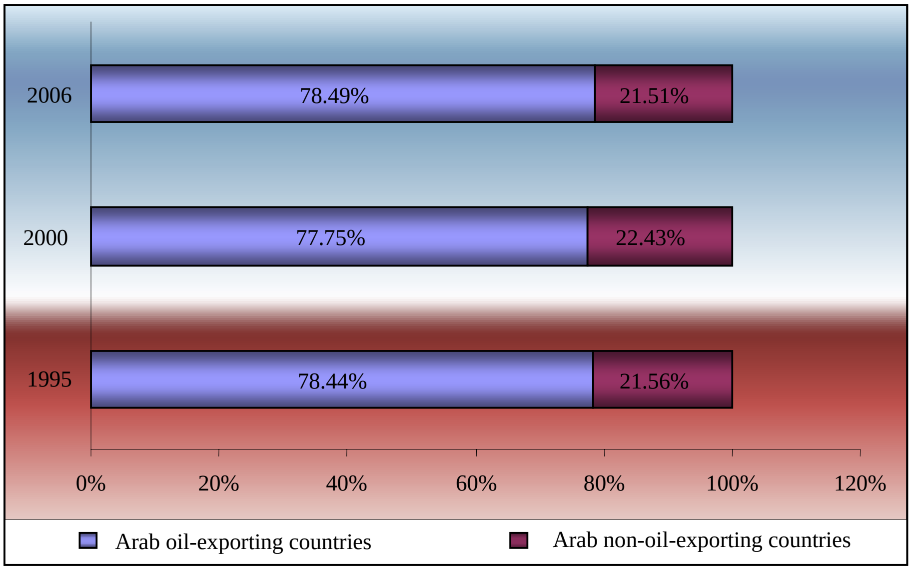
Source: UNCTAD, *World Investment Report, 2007*, annex table B.1.

Notes: Parentheses ( ) indicate a negative figure.
Two dots (..) indicate that data are not available.
An asterisk (*) indicates that data are estimated.
Two dashes (--) indicate that the item is 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 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.

[1] UNCTAD, *World Investment Report, 2007*, annex table B.1.

Figure 1. Balance of FDI in Arab countries at the end of 1995, 2000 and 2006



Source: UNCTAD, *World Investment Report, 2007*, annex table B.2.

Note: Oil-exporting countries: Algeria, Bahrain, Egypt, Iraq, Kuwait, Libyan Arab Jamahiriya, Morocco, Oman, Qatar, United Arab Emirates, Saudi Arabia, the Sudan, Syrian Arab Republic and Yemen.

Non-oil-exporting countries: Jordan, Tunisia, Comoros, Djibouti, Somalia, Palestine, Lebanon and Mauritania.

The main measures include economic reform, provision of an investment-promoting environment, implementation of privatization programmes, and the liberalization of the financial sector in a number of countries which in turn paved the way for FDI to enter the financial sector which is considered one of the most important sectors that enhance economic growth. Furthermore, the opening up of the construction sector to FDI, though to a limited extent in the GCC countries, played a major role in increasing the volume of FDI flows into Saudi Arabia where the completion of the construction of the King Abdallah Economic City led to a significant increase in FDI inflows. The liberalization of the telecommunications sector also led to greater contribution by FDI to that sector; as a result, overall FDI inflows grew in a number of Arab countries. Improved business environment in several Arab countries, including GCC countries and Egypt, helped the growth of FDI inflows.

It was noted that most FDI flows into the Arab countries took the form of investment in new projects, with investment in acquisitions and mergers continuing to be weak in comparison with the global average; that weakness is one of the factors that still limit FDI flows into the Arab countries.

Saudi Arabia ranked first among Arab countries, reviewing FDI in the amount of US$ 18 billion in 2006, which represents an increase of about 51 per cent over 2005. Egypt came second with over US$ 10 billion, with financial service and tourism playing an important role in attracting FDI to Egypt during the past few years as the Government began to privatize the banking sector and as major corporations started to establish tourism projects, especially the construction of hotels and retreats. The business environment was also successfully improved.

Despite a drop of 23 per cent in FDI flows into the United Arab Emirates in 2006, the United Arab Emirates ranked third with FDI inflows of nearly US$ 8.4 billion in 2006 due to efforts by the Government to improve the investment environment, especially through simplifying procedures to establish corporations, reducing the size of the bureaucracy, and significantly reducing taxes. However, the United Arab Emirates had not yet passed and unified investment law, which shows that such a law, important as it may be, does suffice to increase FDI inflows. The success of the United Arab Emirates in improving the business environment, transparency, and combating corruption also encouraged FDI inflows.

Egypt, Saudi Arabia and the United Arab Emirates, together accounted for 45.4 per cent of FDI flows into the Arab countries in 2006. Tunisia's FDI inflows grew significantly by 324 per cent, rising from less than US$ 1 billion in 2005 to US$ 3.3 billion in 2006. Tunisia also made significant progress in improving the business environment. It is among the foremost countries in cutting the costs of and reducing the procedures for establishing corporations and setting investment disputes, which are considered among the basic factors contributing to an increased share for the country in global FDI flows, along with the implementation of privatization programmes considered among the first in the Arab countries. Tunisia was one of the first Arab countries to implement economic reform, including privatization.

The Sudan's share of global FDI flows continued to grow; it amounted to more than US$ 3.5 billion in 2006, increasing by nearly 54 per cent over the 2005 amount. The oil sector attracts the most investment, especially from China and Malaysia.

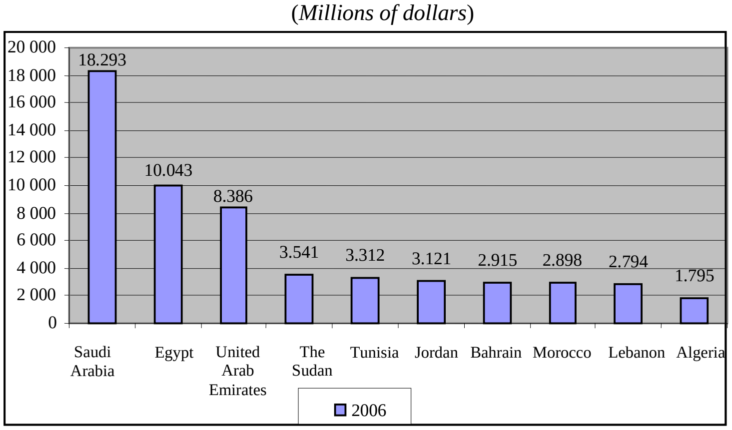
The Libyan Arab Jamahiriya witnessed remarkable growth in the past year with its share of FDI inflows exceeding US$ 1.7 billion in 2006, namely with a growth rate of 67 per cent over 2005 which grew by 191 per cent over 2004. The increase in the Libyan Arab Jamahiriya's share is attributed to the lifting of the economic sanctions and the return of oil companies after years of Libyan isolation as a result of those sanctions.

It is to be noted that, in spite of the significant growth of FDI flows into the Arab countries, the share of a number of them in those flows dropped in 2006. The rate of the reduction varied from one country to another; the fall did not exceed 1.6 per cent in Morocco, reached 56 per cent in Kuwait, 55 per cent in Qatar, 13 per cent in the Syrian Arab Republic, and about 23 per cent in the United Arab Emirates. The huge growth in FDI flows was mainly limited to Jordan (104 per cent), Bahrain (178 per cent), the Libyan Arab Jamahiriya (67 per cent), the Sudan (54 per cent), Egypt (87 per cent), and Saudi Arabia (52 per cent).

Box 1. Top 10 Arab countries hosting FDI

As mentioned earlier, 2006 figures show that Saudi Arabia ranks first recipient of FDI flows with more than US$ 18 billion, followed by Egypt with about US$ 10 billion, and the United Arab Emirates in third place with approximately US$ 8.4 billion. The Sudan, Tunisia and Jordan were fourth, fifth and sixth respectively with a total share of over US$ 3 billion in 2006. The shares of Bahrain, Lebanon and Morocco totalled about US$ 3 billion, followed by Algeria with approximately US$ 1.8 billion. It is to be noted that of the 10 countries five are not oil-exporting and that only four are major oil-exporting countries.

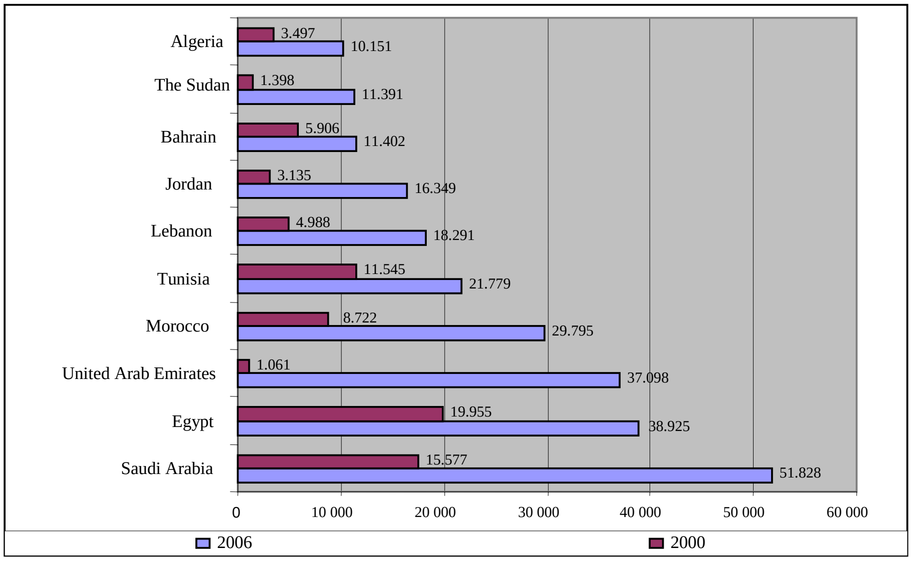
Top 10 Arab countries in terms of FDI inflows, 2006
(*Millions of dollars*)



Source: UNCTAD, *World Investment Report*, 2007, annex table B.1.

Box 1 (*continued*)

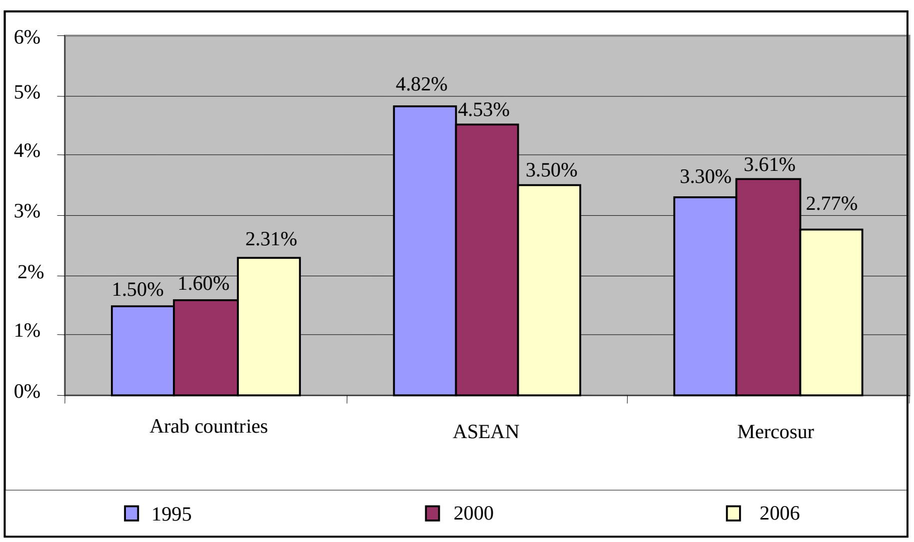
Top 10 Arab countries in terms of FDI stock, 2000, 2006
(*Millions of dollars*)



Source: UNCTAD, *World Investment Report*, 2007, annex table B.2.

Note: According to a survey conducted by the Syrian Arab Republic, it ranked 13th among Arab countries in terms of FDI stock in 2005, while the UNCTAD report ranked it 7th in the same year.

Figure 2. FDI in the Arab countries and selected blocs as a percentage of global FDI, 1995, 2000, 2006



Source: UNCTAD, *World Investment Report*, 2007, annex table B.2.

Box 2. Top 10 Arab Banks

The strong economic growth of the region, especially the GCC countries, had a positive impact on the banking sector through large investments in manufacturing, construction, tourism, telecommunications and transport. The economies of the region saw greater diversification and efficiency, particularly in the wake of the increase of financial investment opportunities within the region. As a result, the performance of the Arab banking system in 2006 was good due mainly to high demand on banking services as well as to economic growth in the Arab countries in general and the GCC countries in particular, which is attributed specifically to higher oil prices and the resulting greater liquidity in Arab markets.

Figures show that in 2006 the total consolidated assets in the top 100 Arab banks reached US$ 1 billion, up by 33 per cent on 2004, while total capitalization surged by 61 per cent to US$ 113.79 billion. GCC based banks dominate the listing, followed by Lebanon, Egypt, Tunisia, Jordan and Morocco. In terms of earnings, Saudi Arabia led the region with an average individual bank return on core capital of 29.2 per cent, followed by Kuwait (27 per cent) and the United Arab Emirates (19 per cent).*

The top 100 Arab banks belong to 14 Arab countries, led by Saudi Arabia which has five out of the top 10 banks in the region, followed by Kuwait (2), and the United Arab Emirates (2). With 16 out of the top 100 Arab banks, the United Arab Emirates led all the other Arab countries, followed by Bahrain (14), Saudi Arabia (12) and Kuwait (10).

Rank	Bank	Country	Capital (Millions of dollars)
1	National Commercial Bank	Saudi Arabia	6.408
2	Al-Rajihi Bank	Saudi Arabia	5.381
3	Samba Financial Group	Saudi Arabia	4.179
4	National Bank of Kuwait	Kuwait	3.699
5	Riyadh Bank	Saudi Arabia	3.202
6	Abu Dhabi Commercial Bank	United Arab Emirates	2.920
7	Arab Bank	Jordan	2.630
8	Kuwait Finance House	Kuwait	2.600
9	Banque Saudi Fransi	Saudi Arabia	2.511
10	National Bank of Abu Dhabi	United Arab Emirates	2.509

Source: Top Arab Banks Special Report, Middle East, October 2007, issue 382, Academic Research Library.

* Top Arab Banks Special Report, Middle East, October 2007, issue 382, Academic Research Library.

2. *FDI inflows in Arab countries compared with world and developing country inflows*

The figures for 2006 show that FDI inflows in the Arab countries fell from 4.9 per cent in 2005 to 4.8 per cent of world FDI inflows, indicating that the rate of FDI inflows in the world was higher than that of FDI inflows in the Arab countries. In comparison with the developing countries, the rate of FDI inflows in 2006 in the Arab countries was stable approximately 16.5 per cent, namely close to that of the developing countries (table 3).

TABLE 3. FDI FLOWS TO ARAB COUNTRIES AS A PERCENTAGE OF GLOBAL FLOWS, AND FLOWS TO DEVELOPING COUNTRIES, GERMANY AND SINGAPORE

	2004	2005	2006	Total (2004-2006)
ESCWA member countries				
World	2.66	3.91	3.75	3.53
Developing countries	6.96	11.76	12.91	10.81
Germany	(214.32)	103.04	114.12	151.84
Singapore	99.39	246.33	202.11	178.85
Arab non-ESCWA member countries				
World	0.66	0.96	1.03	0.92
Developing countries	1.73	2.88	3.56	2.81
Germany	(53.14)	25.27	31.45	39.45
Singapore	24.64	60.40	55.69	46.46
All Arab countries				
World	3.31	4.87	4.78	4.44
Developing countries	8.69	14.64	16.46	13.62
Germany	(267.46)	128.31	145.57	191.28
Singapore	124.03	306.73	257.81	225.31

Source: UNCTAD, *World Investment Report*, *2007*, annex table B.1.
Note: Parentheses ( ) indicate negative values.

In view of continued efforts, opening up of new sectors to FDI, and increasing economic growth rate in the Arab countries, especially the major oil-exporting countries, it is expected that those countries will have higher FDI inflows in the coming years, which will mean a higher share for the Arab countries in global FDI inflows.

Box 3. Regional Forum on the Role of Islamic Financial Institutions in Financing for Development
Manama, 5-6 September 2007

In order to pursue the efforts to implement the recommendations of International Conference on Financing for Development (Monterrey, Mexico, 18-22 March 2002), ESCWA organized, in cooperation with the Central Bank of Bahrain, a regional forum on the role of Islamic financial institutions in financing for development, which was held on 5-6 September, 2007 in Manama, Bahrain, under the aegis of Bahrain Financial Services Development, Albaraka Banking Group, Abu Dhabi Islamic Bank, Shamil Bank, Kuwait, Finance House and Gulf Finance House.

The forum aimed at conducting an analysis of the role of Islamic financial institutions in mobilizing domestic resources for development as well as the instruments used by those institutions in finance projects. It also focused on the relationship and cooperation between Islamic financial institutions in the Arab countries on the one hand and in the countries of East Asia, on the other. The sessions of the Forum concentrated on the relationship of Islamic banks with traditional banks as well as on the future and expansion of Islamic financial institutions in the age of globalization, and in view of the return of some of the Arab funds invested abroad in the wake of the significant surge in oil revenues.

The forum concluded with a set of recommendations to promote the role of Islamic financial institutions in financing development. Following are the main recommendations:

(1) ESCWA should continue its efforts in the area of economic growth and development through cooperation with competent regional organizations that represent the Islamic financial institutions in order to avoid duplication, and to ensure cooperation and exchange of information.

(2) Participants approved the proposal made by ESCWA calling for the creation of a council dedicated to business in Western Asia to support the various activities and initiatives of multi-lateral organizations. The proposed council may be assigned the task of starting and wider dialogue with prominent persons in the region to enhance institutional efficiency and encourage faster economic growth and development in Western Asia.

(3) Enhancing regional development finance through rendering support to the Islamic financial institutions in the ESCWA region.

(4) Encouraging cooperation among traditional and Islamic financial institutions in order to enhance financing development in the ESCWA member countries.

(5) Holding follow-up meetings after two years.

3. *FDI inflows in some Arab countries by sector*

“**Services and construction are two of the main sectors that attract FDI in many Arab countries**”

Results of surveys conducted by some Arab countries within the framework of the ESCWA project for FDI statistics indicate that the sectoral distribution of FDI varies from one country to another. The 2002 survey in Bahrain showed that the financial services sector received the highest percentage of FDI. In Oman, the petroleum and gas sector ranked first in attracting FDI, followed by the manufacturing sector. The Saudi Arabian survey of 2005 showed that the manufacturing and energy sector led the other sectors in attracting FDI, followed by the real estate and business sectors. The Syrian Arab Republic’s survey of 2005 revealed that financial intermediation activity was first in attracting FDI flows immediately followed by manufacturing. According to the United Arab Emirates survey of 2004 manufacturing, water and electricity came first, followed by trade, mining and energy.

The services sector became one of the main sectors attracting FDI in a large number of Arab countries, especially communications and tourism in Tunisia, Algeria, Egypt and Morocco. Mention should also be made of the construction sector which is experiencing a boom in a number of GCC countries, particularly Qatar, Saudi Arabia and the United Arab Emirates where huge projects are underway such as the building of the king Abdallah Economic City which attracted massive investments, especially from the United Arab Emirates.

Furthermore, the liberalization of the communications through privatization programmes in several Arab countries attracted FDI from within and from outside the region. Regional transnational corporation invested heavily in communications.

Box 4. Islamic banking sector in the Arab countries

Although it is a recent sector, Islamic banking achieved significant growth rates in the last few years. Islamic financial services became an important source for mobilizing resources, especially because they attract a large number of investors who stayed on the margin as they considered non-Islamic financial services inconsistent with their religious beliefs. Modern Islamic banking started to spread in the 1970s and accelerated since the beginning of the new millennium. Assets of Islamic banks experienced remarkable growth. Islamic banking diversified its instruments and the presence of Islamic financial institutions increased in importance in a greater number of countries. Instruments of Islamic banking also acquired greater weight in global capital flows. At the same time, local regulators and international organizations concerned with standard setting pay greater attention to Islamic financing and to organizing international cooperation. Standard organizations developed their capacity to classify the products and institutions of Islamic financing.

TOP TEN ISLAMIC BANKS IN THE ARAB WORLD BY ASSETS

Rank	Bank	Country	Assets (Millions of dollars)
1	Al-Rajhi Banking and Investment Corporation	Saudi Arabia	28.3
2	Dubai Islamic Bank	United Arab Emirates	17.5
3	Al Baraka Islamic Investment Bank	Bahrain	7.6
4	Abu Dhabi Islamic Bank	United Arab Emirates	6
5	Al Jazeerah Bank	Saudi Arabia	4.2
6	Qatar Islamic Bank	Qatar	4
7	Faisal Islamic Bank of Egypt	Egypt	3.3
8	Albilad Bank	Saudi Arabia	3
9	Emirates Islamic Bank	United Arab Emirates	2.8
10	Qatar International Islamic Bank	Qatar	2.3

Due to the increasing demand for financial services provided by Islamic banks, the sector's performance was strong with its capital base growing at a rate of 12 per cent, it assets by 23 per cent, its investments by 24 per cent and its deposits by 26 per cent, while current accounts and savings accounts grew by a record 376 per cent.

Islamic financial institutions succeeded in providing various instruments and services consistent with Sharia. The most notable developments in Islamic financing occurred in the *sukuk* market. Data show that the global issuance of sukuk rose 24 times from 2002 to 2006, namely from almost US$ 280 million to US$ 24.1 billion. The issuance of sukuk in the GCC countries amounted to about US$ 16.5 billion, representing a rise of 45 per cent per year since 2001. Many financing projects and institutions depend on mobilizing resources through the sukuk market. It is expected that the issuance of Islamic sukuk will grow to an amount of US$ 50 billion in 2007; in 2006 it reached US$ 20 billion. Sukuk are considered as one of the most important instruments of debt that help companies and institutions that seek to benefit from the huge revenue surpluses in the Arab countries and the finance mergers and acquisitions. They also help investors acquire shares in global corporations.

Sources: BusinessWeek, Arabic Edition, July 2007.
Alvi, Ijlal A. (2007), for trends in the sukuk market.
Deutsche Bank estimates.

4. *FDI as a percentage of total fixed capital formation*

"**Significant contribution by FDI to fixed capital formation, especially in non-oil producing Arab countries**"

FDI as a percentage of global fixed capital formation grew by 12.6 per cent in 2006 in comparison with 10.4 per cent in 2005. In the developing countries, that percentage grew from 12.6 per cent in 2005 to 13.8 per cent in 2006. In a number of Arab countries that percentage was higher than in either the world or the developing countries. In Egypt, for example, FDI as a percentage of global fixed capital formation grew by about 50 per cent in 2006 in comparison with almost 30 per cent in 2005 (table 4).

The reported growth resulted from the significant increase in FDI in 2005 and 2006. In Tunisia, the growth rate approximated 49 per cent in 2006 in comparison with no more than 12.2 per cent in 2005.[2] In the Sudan, the percentage exceeded 65 per cent in 2006 in comparison with about 45 per cent in 2005. Such growth rates indicate the increasing importance of FDI in bridging the investment gap in those countries and consequently point to the significance of FDI for the national economies of those countries. In Bahrain and Jordan the percentage came close to 99 per cent in 2006 and in Lebanon it rose to exceed 72 per cent of total fixed capital formation. Moreover, FDI as a percentage of fixed capital formation began to grow in the major oil-exporting countries as a result of the great increase in FDI flows in the past few years, particularly in Saudi Arabia and the United Arab Emirates. FDI as a percentage of total fixed capital formation grew by 32 per cent in Saudi Arabia in 2006, 31 per cent in the United Arab Emirates, while it remained limited in Oman at about 17 per cent, Qatar at 12 per cent, and in Kuwait at less than 1 per cent.

From the financial point of view, those rates show that FDI was able to contribute significantly to domestic investment and fixed capital formation, thereby beginning to play an important role in economic growth. It is a role that would be greater in non-oil-exporting Arab countries which suffer from a low amount of investment which in turn negatively affected economic growth in the past few years. FDI may have a financial impact on investment which is a goal sought by countries in attracting FDI.

TABLE 4. FDI STOCK AS A PERCENTAGE OF GDP, GROSS FIXED CAPITAL FORMATION IN THE ARAB COUNTRIES AND SELECTED REGIONS, 2000, 2004-2006
(*Percentages*)

	Ratio of FDI stock to GDP			Ratio of FDI flows to gross fixed capital formation		
	2003	2004	2005	2003	2004	2005
Algeria	6.4	8.1	8.9	4.2	4.2	6.6
Bahrain	74.1	64.1	71.0	36.4	37.4	98.7
Comoros	10.1	6.5	6.3	2.1	2.8	2.2
Djibouti	7.2	15.4	30.0	28.0	23.2	107.6
Egypt	20.0	31.0	36.4	15.0	29.9	50.2
Iraq	..	1.3	3.0	16.2	23.0	11.5
Jordan	27.1	39.8	114.2	23.0	51.3	99.1
Kuwait	1.6	0.9	0.8	0.2	1.6	0.7
Lebanon	29.9	68.5	80.9	52.0	74.8	72.1
Libyan Arab Jamahiriya	1.3	1.4	7.5	11.7	28.3	44.8
Mauritania	15.7	35.3	61.7	220.4	392.8	(1.5)
Morocco	26.2	43.9	52.0	8.7	23.1	21.5
Oman	12.6	13.3	10.8	5.3	16.7	16.8
Qatar	10.8	16.2	14.4	13.8	8.1	12.0
Saudi Arabia	9.3	8.5[b/]	14.9	4.5	24.0	32.1
Somalia	0.2	2.3	5.1	(1.1)	5.4	20.6
The Sudan	12.1	28.3	30.3	39.7	44.8	65.3
Syrian Arab Republic	36.9	12.12[a/]	28.7	5.6	9.3	10.6
Tunisia	59.4	56.1	71.0	10.1	12.2	48.6
United Arab Emirates	1.5	21.1	22.0	45.2	42.4	31.0
West Bank and Gaza Strip	22.6	25.3	25.2	4.4	4.4	3.4

[2] Ibid.

TABLE 4 (*continued*)

	Ratio of FDI stock to GDP			Ratio of FDI flows to gross fixed capital formation		
	2003	2004	2005	2003	2004	2005
Yemen	13.8	6.5	3.0	5.3	(11.5)	(13.9)
World	18.3	22.7	24.8	8.5	10.4	12.6
Developing countries	25.6	27.0	26.7	12.9	12.6	13.8
Colombia	13.1	20.0	33.1	22.2	41.9	17.1
Germany	(1.9)	7.5	8.3	14.3	18.0	17.4
Singapore	121.5	158.6	159.0	77.5	57.6	79.5

Source: UNCTAD, World Investment Report, 2007, annex table B.3; and World Investment Report, 2006, annex table B.3.

Notes: 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 the project entitled Networking of Expertise on Foreign Direct Investment in 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 UNDP office in Damascus.

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

5. *Dependence of the Arab countries on Greenfield projects*

"Decreasing share of the Arab countries in mergers and acquisitions in 2006"

Greenfield projects occupy the foremost position in FDI flows. Figures for 2006 show a decrease in the share of Arab countries in global flows resulting from mergers and acquisitions of companies, with that share not exceeding US$ 8.3 billion compared with US$ 8.6 billion in 2005 although the number of mergers and acquisitions grew from 50 in 2005 to 66 in 2006 (table 5). Arab countries accounted for less than 10 per cent of global flows resulting from mergers and acquisitions in 2006, compared with almost 12 per cent in 2005, a drop which contributed to the lack of substantial FDI flows to the Arab countries in the past few years, notwithstanding the growth of those flows especially in the past year. The lack of progress in this regard is mainly attributed to the inability of Arab countries to attract transnational corporations to mergers and acquisitions with Arab corporations outside the communications and banking sectors beyond which the activity of transnational corporation continues to be extremely limited, a situation which hinders Arab economic integration into the global economy and reduces the input of the Arab countries into global production.

TABLE 5. VALUE OF CROSS-BORDER MERGERS AND ACQUISITIONS AND NUMBER OF TRANSACTIONS, 2004-2006
(*Millions of dollars*)

	Value of mergers and acquisitions			Number of transactions		
	2004	2005	2006	2004	2005	2006
Bahrain	-	85	-	1	3	3
Egypt	254	1 326	1 219	7	8	21
Iraq	9	-	-	1	4	-
Jordan	-	89	566	-	5	9
Kuwait	317	-	13	1	1	1
Lebanon	-	236	-	-	3	-
Oman	20	116	-	4	2	1
Qatar	-	-	-	3	-	-

TABLE 5 (*continued*)

	Value of mergers and acquisitions			Number of transactions		
	2004	2005	2006	2004	2005	2006
Saudi Arabia	-	-	21	-	1	6
Syrian Arab Republic	7	-	1 158	1	1	2
United Arab Emirates	14	213	80	9	15	15
Yemen	-	-	716	-	-	1
All ESCWA member countries	621	1 976	3 207	27	38	50
Algeria	25	-	18	4	1	5
Libyan Arab Jamahiriya	-	-	1	-	-	1
Mauritania	147	-	5	2	-	1
Morocco	25	1 579	618	4	5	4
The Sudan	136	-	2 138	2	1	2
Tunisia	3	77	2 325	1	5	3
All Arab countries (excluding ESCWA countries)	336	1 656	5 105	13	12	16
All Arab countries	957	8 632	8 312	40	50	66
World	380 598	716 302	880 457	5 113	6 134	6 974
Developing countries	53 120	94 101	127 372	1 245	1 368	1 605
Colombia	1 421	6 056	4 005	13	14	21
Germany	35 868	63 122	55 270	360	429	512
Singapore	1 190	5 802	7 303	91	114	112

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.

6. *Impact of FDI flows in the economies of the Arab countries*

As stated in the last Annual Review, FDI flows are important for the host countries but more important is the ability of those countries to benefit from those flows and to improve the efficiency of their economies through the use of new technology, new methods of management, and reduction of the cost production with a view to boosting exports. The achievement of those goals requires linking companies involved in FDI domestic companies so that the latter may benefit from the expertise of the former, thus ensuring a positive impact for FDI on the national economies. Links between foreign and domestic companies can be established in several ways: entering into contracts; training people at FDI companies with a view to employing them in companies or in joint enterprises; or other ways that upgrade efficiency of domestic companies and consequently improve production, reduce cost and boost exports.

Analysis of the impact of FDI flows into the economies of the Arab countries needs analytical country studies, preferably dealing with each sector separately and covering a period of at least five years reasonably needed to reach practical results. Therefore, Arab countries should start preparing those studies in 2009, by which time FDI will have been flowing into those countries for a relatively long and meaningful period of time; they should also analyse FDI activity and economic impact. In the light of those studies, it will be possible to review the investment policies of those countries if the results of the studies point to a need to do so. The country studies significantly help decision makers in the Arab countries adopt policies appropriate to FDI flows and direct those flows toward sectors with comparative advantage, which will increase the impact of FDI on the Arab countries.

Despite the increase of FDI flows into the Arab countries during the past few years, the following should be noted:

(a) The limited scope of transnational corporation (TNC) activity in the Arab countries beyond the oil and gas sector contributed to the weakness of Arab economic integration in the global economy. TNCs play a major role in providing financial resources and attracting new technology and modern methods of management. They also play an important role in improving product quality and providing outlets which lead to the expansion of exports. Furthermore, TNC control of the global production process links the Arab countries hosting TNCs to that process, which leads to greater integration of Arab economies into the world economy;

(b) A significant part of FDI flows into the Arab countries went to sectors such as tourism, financial services and construction, while a smaller part went to major sectors such as manufacturing and agriculture which are the major sectors in exports. Therefore, the FDI role in supporting exports will remain limited unless FDI plays a greater role in manufacturing and agriculture. As tourism and construction do not require the transfer of new technology, increasing the role of FDI in those two sectors will not contribute significantly to the flow of new technology to the economies of the host countries;

(c) Surveys conducted by some Arab countries show that the impact of FDI in the transfer of new technology was limited in most of them, which would hinder the achievement of one of the most important goals of opening up space for and facilitating FDI flows;

(d) FDI did not contribute to the integrating of the Arab economies into the global economy in view of the limited presence of TNCs in those economies, except for oil, gas and communications. Their activity continues to be limited in important sectors such as manufacturing, and so does the role of TNC in Arab foreign trade.

7. *Development of FDI performance and potential in the Arab countries, 2005*

"Four Arab countries are among the top 20 countries in performance in 2005-2006"

Data show that Arab countries are divided into four groups based on comparing their performance with their potential in attracting FDI: (a) a group with high performance and high potential; (b) a group with performance higher than potential; (c) a group with performance lower than potential in 2005 (namely with a gap between their performance and their ability to increase their share of FDI at a level consistent with their economic and human potential; they need to exert greater efforts to bridge the gap); (d) the fourth group consists of countries that did not make a significant progress in increasing their share of FDI flows; they need to work harder to increase their share in coming years. The first and second groups made progress in implementing policies aimed at increasing their share of global FDI flows.

A comparison between performance and available potential for the Arab countries shows that while the volume of flows is important, the comparison of that volume with the potential to attract FDI is more important. In this regard, Bahrain, Jordan, Qatar and the United Arab Emirates have both high potential and high performance, which makes them similar to countries with a history of dealing with FDI such as Belgium, Malaysia and the United Kingdom (table 6). At the same time, some Arab countries with modest potential to attract FDI performed beyond that potential. Those countries are Egypt, Lebanon, Morocco and the Sudan which, though low on potential, pursued successful investment policies leading to performance beyond their potential. Their policies were successful in attracting FDI and expanding their share of global FDI flows. The Sudan stands out in this case because it is still considered one of the least developed countries in the world.

It is to be noted that the top 20 countries of the world in FDI performance in 2005-2006 included four Arab countries: Jordan moved up 11 ranks from 19 in 2005 to 8th in 2006;[3] Bahrain came second among the Arab countries and 11th out of 20 countries on the world scale in performance in 2006, moving upwards from 23rd in 2005; Lebanon was 3rd among the Arab countries and 14th worldwide in 2006, with its performance retreating from 9th place on the world scale in 2005;[4] and the Sudan came 4th among the Arab countries and lost six positions on the world scale, moving from 13th in 2005 to 19th in 2006 in terms of the performance index. The four countries have the following characteristics in common: they are not oil-producing; their economies are small and relatively diversified.

[3] UNCTAD, World Investment Report, 2007, table 1.7, page 14.

[4] Ibid.

TABLE 6. WORLD RANKING OF THE ARAB COUNTRIES BY INWARD FDI PERFORMANCE INDEX AND INWARD FDI POTENTIAL INDEX, 2003-2006

	Performance Index ranking	Potential Index ranking	Performance Index ranking	Potential Index ranking	Performance Index ranking	Potential Index ranking	Potential Index ranking
	2003		2004		2005		2006
Algeria	93	73	101	63	113	61	110
Bahrain	61	29	30	32	23	32	11
Egypt	126	82	102	79	68	81	33
Jordan	79	61	51	61	19	59	8
Saudi Arabia	129	31	127	29	92	28	63
Kuwait	138	40	140	41	137	37	136
Lebanon	7	59	9	68	9	75	14
Morocco	35	89	66	90	44	92	55
Oman	112	54	100	57	88	57	88
Qatar	73	10	61	9	66	9	68
Syrian Arab Republic	122	85	118	89	102	93	98
United Arab Emirates	64	23	28	22	18	23	24
The Sudan	27	128	20	125	13	122	19
Tunisia	67	66	77	65	81	68	41
Yemen	114	88	121	92	140	96	140

Source: UNCTAD, *World Investment Report, 2007*, annex table A.I.8.

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

Figures for FDI performance index and potential index for the Arab countries in 2003-2006 show that some Arab countries made significant progress on the performance index during that period. Jordan moved from 79th place in 2003 to 8th place in 2006 on the performance index worldwide, followed by Bahrain which moved from 61st to 11th place. The United Arab Emirates made remarkable progress on the FDI performance index, moving from 64th place in 2003 to 24th place in 2006 in the world ranking. Egypt also witnessed great improvement in its world ranking, moving from 126 in 2003 to 33 in 2006. Saudi Arabia's ranking improved as well, moving from 129th place in 2003 to 63rd place in 2006. Notable progress on the FDI performance index was achieved by some Arab countries, including Oman which moved from 112th place in 2003 to 88th place in 2006; Tunisia which moved from 67th place in 2003 to 41st place in 2006; and the Libyan Arab Jamahiriya which moved from 123rd place in 2003 to 81st place in 2006 (figure 3).

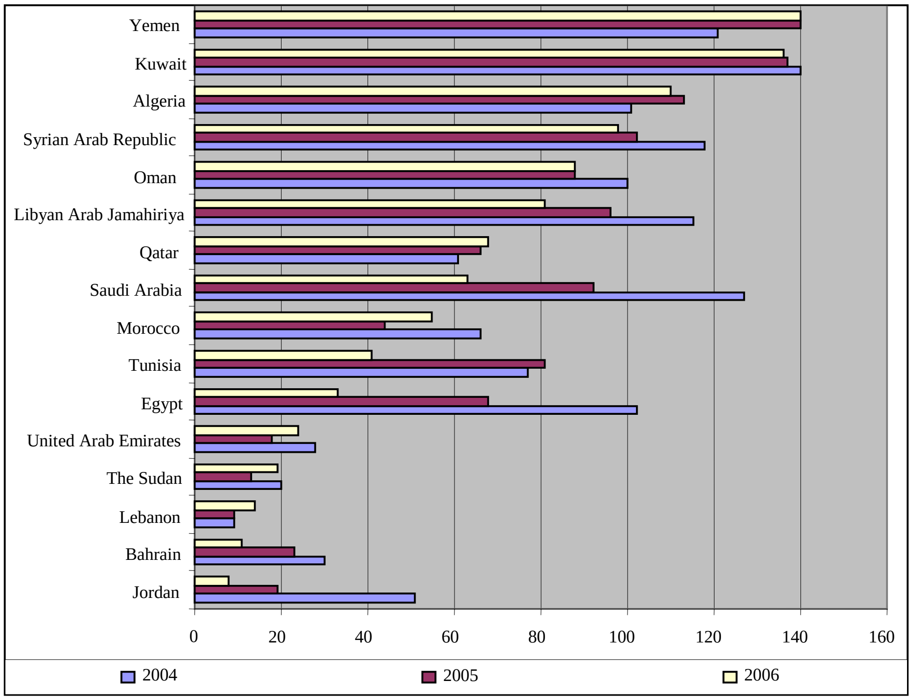
For some Arab countries, the FDI Performance Index fell during the period 2003-2006. Lebanon's ranking fell from 7th in 2003 to 14th in 2006. Yet Lebanon is still 3rd among the Arab countries and 14th on the world scale, which is a good achievement testifying to the success if the Lebanese Government in implementing policies that encourage Inward FDI. The result was positive: greater share for Lebanon in global FDI flows. In the Arab countries, the Inward FDI Index retreated significantly in 2003-2006; yet from 114th place in 2003 to 140th place in 2006. Likewise, Algeria's ranking moved from 93rd to 110h during that period. Lastly, Morocco fell from 53rd in 2003 to 55th in 2006.

8. *Development of Inward FDI Potential index in the Arab countries, 2003-2006*

The Arab countries witnessed various developments regarding Inward FDI Potential index. The world ranking of some of them improved during 2003-2006: Jordan moved from 61st to 59th; Saudi Arabia from 31st to 28th; Algeria from 73rd to 61st; the Libyan Arab Jamahiriya from 46th to 40th. The preceding figures show modest progress in comparison with that achieved on the performance index, which is normal as the potential index relates to the size of the economy, available financial resources, and human potential which do not change much in a relatively short period of time (figure 4).

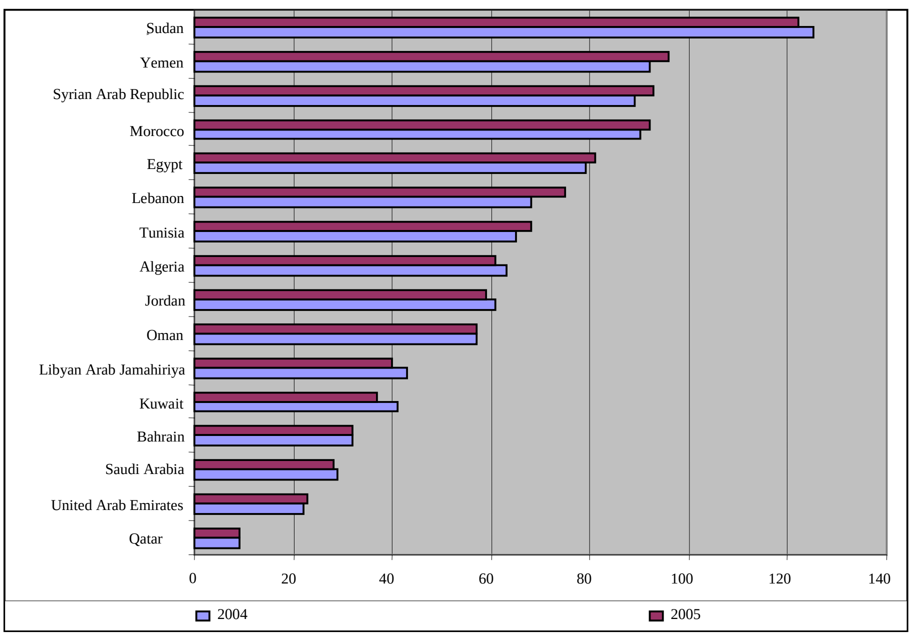
The figures also show that, in the same period, some other Arab countries fell in their ranking by the Inward FDI Potential Index: Bahrain fell from 29th in 2003 to 32rd in 2006; the Syrian Arab Republic from 85th in 2003 to 93rd in 2006; Yemen from 88th to 96th; and Morocco from 89th to 92nd.

Figure 3. World rankings of the Arab countries by Inward FDI Performance Index, 2004-2006



Source: UNCTAD, *World Investment Report, 2007*, annex table A.I.6.

Figure 4. World rankings of the Arab countries by Inward FDI Potential Index, 2004-2005



Source: UNCTAD, *World Investment Report, 2007*, annex table A.I.6.

9. *Business environment in the Arab countries*

"Egypt ranked first among the Arab countries and two other Arab countries were on the list of the world's top 10 countries in 2006 in terms of improving the business environment"

In addition to improving the performance of macroeconomic policy, legislation and Government services, there is an important indicator of the ability of a country to attract FDI, namely, business environment indicator which includes several basic factors facing the investor upon the start of investment in a country such as the number of procedures and days needed to register companies and enterprises, as well as to enforce contracts when disputes arise between the investor and the authorities, official and unofficial, in the host country. Such disputes may require resort to domestic courts which involves numerous procedures and long periods of time. Moreover, a better business environment requires a reduction in the number of procedures and the time needed to terminate an enterprise or activity should the investor wish to do so in the host country.

An analysis of available data on the business environment in the Arab countries shows that a number of them, mostly GCC members, made significant progress in the recent past. Among the Arab countries and internationally, Saudi Arabia ranked first and 23rd; Kuwait 2nd and 40th; Oman 3rd and 49th; and the United Arab Emirates 4th and 68th respectively. All these four GCC countries have evidently made great efforts in the past few years to improve the business environment either by reducing the procedures or the number of days required to establish companies or investment projects. Moreover, the cost involved in such establishment is considered low as a percentage of the per capita income of those countries. For example, the number of procedures required to establish a project is six in Morocco, seven in Egypt and Saudi Arabia each, while the number of days needed to do so is nine in Egypt, 12 in Morocco and 15 in Saudi Arabia. In Oman, the nine procedures take more than one month to complete. In Lebanon, six procedures may take 46 days. It is thus clear that the number of procedures as such is not as important as the time needed to complete those procedures. Egypt, Morocco and Saudi Arabia may be cited as an example of the progress made by some Arab countries in terms of the speed of establishing a new project, for the number of procedures and days needed in such a case in those three countries is lower than the same in Japan (table 7).

TABLE 7. SELECTED VARIABLES OF THE BUSINESS ENVIRONMENT IN ARAB COUNTRIES AND SELECTED REGIONS, 2007

	Business facilitation index*		Challenges to starting an enterprise			Enforcing contract		Closing an enterprise	
Country	World ranking	Arab ranking	Number of procedures	Time taken (days)	Cost (a percentage of per capita income)	Number of procedures	Time taken (days)	Time taken (days)	Recovery rate (cent/US$)
ESCWA member countries									
Egypt	126	11	7	9	28.6	42	1 010	4.2	16.6
Iraq	141	14	11	77	93.5	51	520	n.a.	n.a.
Jordan	80	5	10	14	66.2	39	689	4.3	27.8
Kuwait	40	2	13	35	1.6	50	566	4.2	33.6
Lebanon	85	6	6	46	94.1	37	721	4.0	19.1
Oman	49	3	9	34	4.3	51	598	4.0	35.5
Palestine	117	9	12	92	280.4	44	700	n.a.	n.a.
Saudi Arabia	23	1	7	15	32.3	44	635	2.8	29.3
Syrian Arab Republic	137	13	13	43	55.7	55	872	4.1	30.8
United Arab Emirates	68	4	11	62	36.9	50	607	5.1	10
Yemen	113	8	12	63	178.8	37	520	3.0	28.6
Non-ESCWA member countries									
Algeria	125	10	14	24	13.2	47	630	2.5	41.7
Morocco	129	12	6	12	11.5	40	615	1.8	35.3
The Sudan	143	15	10	39	57.9	53	810	n.a.	n.a.
Tunisia	88	7	10	11	8.3	39	565	1.3	51.5
Selected regions									
Hong Kong	4		5	11	3.1	24	211	1.1	79
Ireland	8		4	3	0.3	20	515	0.4	87.1
Japan	12		8	23	7.5	30	316	0.6	92.6
Singapore	1		5	5	0.8	22	120	0.8	91.3

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

* Ranking by business facilitation index, 2007 or 2008.

However, Arab countries still face, in the area of improving the business environment, the problem of procedures required for contract enforcement, particularly the settlement of disputes that may arise between the investor and domestic parties. It is noted that many required procedures may take long periods of time, perhaps several years. For example, in Saudi Arabia, the top ranking Arab country in terms of the business environment, contract enforcement involves 44 procedures that may take 635 days to complete, compared to Japan with no more than 30 procedures and 316 days; Singapore with 22 procedures and about 4 months. Contract enforcement takes more than 1,000 days in Egypt, 872 days in the Syrian Arab Republic, and 800 days in the Sudan. Therefore, Arab countries need to do more to reduce the number of procedures and the time taken to settle disputes and enforce contracts. To do so requires primarily the reform of the commercial courts system in order to speed up the resolution of commercial disputes that arise between the investor and the parties he deals with.

Such reform would help improve the business environment and consequently the investment environment as a whole in those countries, which would be positively reflected as a greater share of global FDI flows. But it is not easy to carry out such improvement as it relates to juridical reform in general and to the commercial court system in particular which still plays a limited role in many Arab countries and needs structural reform to enable it to speedily settle commercial disputes and contribute to the improvement of the business environment.

Box 5. Global Competitiveness Index rankings of some Arab countries

Some Arab countries made remarkable progress in improving their economic environment. According to data of the Global Competitiveness Report 2007-2008, four Arab countries entered the list for the first time, and they can be ranked globally and relative to other Arab countries as follows: Saudi Arabia (35^{th}, 4^{th}; 3^{rd} globally in terms of economic stability), Oman (42^{nd}, 6^{th}), Syrian Arab Republic (80^{th}, 11^{th}), and the Libyan Arab Jamahiriya (88^{th} globally).

Country	GCI 2007	GCI 2006
Kuwait	30	44
Qatar	31	38
Tunisia	32	30
Saudi Arabia	35	-
United Arab Emirates	37	32
Oman	42	-
Bahrain	43	49
Jordan	49	52
Morocco	64	70
Egypt	77	63
Syrian Arab Republic	80	-
Libyan Arab Jamahiriya	88	-
Mauritania	125	114

Source: World Economic Forum, *Global Competitiveness Report 2007-2008*, www.weforum.org.

The above table shows that a change has occurred in the GCI rankings of some Arab countries. In 2006, Tunisia ranked first among the Arab countries to be replaced by Kuwait which moved 14 points from 44^{th} in 2006 to 30^{th} in 2007. Qatar remained 2^{nd} among the Arab countries and moved seven points globally from 38^{th} in 2006 to 31^{st} in 2007. The United Arab Emirates moved from 2^{nd} in 2006 to 5^{th} in 2007 among the Arab countries, and from 32^{nd} to 37^{th} globally.

As in all oil-exporting countries in the Arab region, the economic environment in Kuwait improved noticeably in the last few years primarily due to the economic stability manifested by budget surplus, small debt, and growing domestic savings. Kuwait is distinguished by its effective financial structures that make accessible a number of financial services such as loans, stock markets, and investment capital, which show Kuwait attained in 2007 first rank among the Arab countries in terms of competitiveness.

For Saudi Arabia, which entered the GCI rankings for the first time, economic stability is considered the main indicator of competitiveness. Other factors that helped Saudi Arabia find its way to the GCI rankings include a good financial environment, low interest rates, controlled inflation rates, and large domestic and global markets.

Higher oil prices and more links to international trade have led to very high growth rates in the Arab region over the past five years. Reforms undertaken by some countries have also contributed to regional economic growth. Had the Arab countries increased the pace of reform with a view to removing the barrier competitiveness and productivity, they would have fared better in terms of competitiveness.

Source: World Economic Forum, *Global Competitiveness Report 2007-2008*, www.weforum.org. Al-Sharg al-Awsat, 13 Arab States among top in GCI rankings, 1 November 2007, No. 10565.

C. TOURISM

Tourism sector in the Arab region: can it solve economic and social problems?

1. *Tourism in Arab countries*

In comparison with the other regions of the world, the Arab region witnessed a drop in the number of tourist arrivals, although its countries present a variety of tourist attractions: historic, civilizational, and cultural sites as well as conference, religious, environmental and recreational tourism.

As shown in table 8, international tourist arrivals in 2006 reached almost 842 million, including about 458 million in Europe (about 54.4 per cent), about 167.1 million in Asia and the Pacific, and about 136.3 million in the Americas. Tourist arrivals in the Arab countries approximated 40.7 million or 4.8 per cent of total global arrivals, a modest performance in view of the tourism potential of the Arab countries.

TABLE 8. TOURIST ARRIVALS IN THE ARAB COUNTRIES, THE OTHER REGIONS AND THE WORLD 2005-2006
(*Millions*)

	2005	2006	Percentage of world total (2006)	Rate of increase from 2005 to 2006
World	806	842	0	4.5
Europe	441	458	54.4	3.9
Asia and the Pacific	155.4	167.1	19.8	7.6
Americas	133.5	136.3	16.2	2.1
Africa	37.3	40.3	4.8	8.0
Arab countries	39.7	40.7	4.8	2.5

Source: UNWTO, World Barometer, Volume 5, No. 1, January 2007.

2. *Causes of weakness of Arab tourism*

Several factors contributed to the insignificant performance of Arab tourism such as the lack of regional stability resulting from war, border disputes, and destruction in some countries as Iraq and Palestine, and political disturbances. Other factors relate to the tourism industry which suffers from inadequate investment in tourism infrastructure such as hotels, restaurants, and means of transportation by air, sea and land, not to mention the lack of awareness of the significance of tourism. In addition, there is weak Arab cooperation in tourism, such as coordination to attract groups of tourists to visit several Arab countries. For example, a group of tourists may start in Morocco, move on to Egypt, the Arab Gulf, and the Arab Levant to visit Jordan, the Syrian Arab Republic and Lebanon. Moreover, there is inadequate provision of tourism products and services as well as lack of regular flights. All those factors and many others raise questions about the small number of tourist arrivals in the region. Is there need for greater Arab intraregional investment and FDI to be spent on tourist facilities in the Arab countries? Is there need for larger numbers of qualified and trained people to work in the tourism sector? Is not that sector, which can absorb a large number of the unemployed, worthy of persistent efforts to overcome the obstacles facing it?

In 2006, the number of tourist arrivals in the Arab countries grew by 2.5 per cent from that of 2005, notwithstanding the geopolitical conditions of the region. World Tourism Organization (WTO) figures show that the number of tourist arrivals in Lebanon dropped from 1,140,000 in 2005 to 1,063,000 in 2006 or by 6.7 per cent. It is clear that the Lebanese tourism sector has huge potential not only in view of its excellent accommodations, recreational, historical and natural sites but also in view of its human resources qualified and able to provide touristic services in an efficient manner. Such potential can lead to a positive impact on the general economic situation, if there were no external factors precluding the realization of that potential.

Available figures show the number of tourist arrivals grew by 8 per cent, surging from about 2,987,000 in 2005 to approximately 3,225,000 in 2006. Egypt and Saudi Arabia attract large numbers of tourists. In 2005, Egypt received 8,200,000 tourists and Saudi Arabia received 9,100,000 (table 9). Historical, civilizational and religious sites are popular with tourists, which may give Arab countries a comparative advantage over other regions of the world.

TABLE 9. EVOLUTION OF TOURIST ARRIVALS IN THE ARAB COUNTRIES,* 2004-2006
(*Thousands*)

Country	2004	2005	2006
Bahrain	4 514	3 914	..
Egypt	7 796	8 244	..
Jordan	2 853	2 987	3 225
Kuwait	91	..	..
Lebanon	1 278	1 140	1 063
Libyan Arab Jamahiriya	149	..	..
Qatar	752	..	..
Saudi Arabia	8 580	9 100	..
Syrian Arab Republic	3 032	3 368	..
Yemen	274	336	..

Source: UNWTO, World Tourism Barometer, Volume 5, No. 1, January 2007 and World Tourism Organization: Middle East, Tourism Market Trends, 2005 edition.

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

* Revenues from tourism were US$ 2 billion in Tunisia and US$ 4.6 billion in Morocco in 2005.

3. *Analysis of achievements by the Arab countries*

(a) *Growth of tourist arrivals*

Although tourist arrivals in the Arab countries represent a slight percentage of the total of global tourist arrivals, it should be fairly stated that those numbers grew from about 14 million in 1995 to almost 41 million in 2006, as shown in figure 5.

(b) *Hotels*

Occupancy rates of hotels vary from one Arab country to another and from one city to another in the same country. According to table 10, the occupancy rate in three cities increased from 2005 to 2006 by 9.9 per cent in Riyadh, 3.3 per cent in Cairo, and 2.4 per cent in Luxor, due to the greater number of tourists in general, the financial ability of the tourist, and the degree to which tourist groups prefer certain hotels. In comparison with other regions of the world, the Arab countries form the only group whose occupancy rate fell by 1 per cent from 2005 to 2006,[5] which is consistent with the observation made earlier regarding the number of tourist arrivals and tourist purchasing power and preference for certain hotels.

(c) *Receipts*

Tourism receipts emerge due to tourist expenditure on the various activities in hotels, restaurants, car hire, using cameras, tours, parties and so on. Amount of receipts depends on tourist arrivals, ability and pattern of spending, length of stay; it varies from one country to another, subject to tourism season and nature of activities.

TABLE 10. HOTEL PERFORMANCE, SELECTED CITIES
(*Occupancy rate, 2005-2006*)

Country	City	2005	2006	Percentage change
Egypt	Alexandria	73.4	72.8	(0.8)
	Cairo	71.4	73.7	3.3
	Luxor	57.1	58.5	2.4
	Sharm el Sheikh	70.9	65.1	(8.3)
Jordan	Amman	70.6	57.4	(18.7)
Lebanon	Beirut	49.2	48.6	(1.2)
Syrian Arab Republic	Damascus	55.4	51.5	(7.1)
Qatar	Doha	74.6	73.7	(1.2)
United Arab Emirates	Dubai	83.6	83.1	(0.6)
Saudi Arabia	Riyadh	65.4	71.9	9.9
Oman	Muscat	72.3	63.5	(12.3)

Source: UNWTO: World Tourism Barometer, Volume 5, No. 1, January 2007.

Receipts from tourism in Egypt increased from US$ 6.85 billion in 2005 to US$ 7.6 billion in 2006, namely by 10.9 per cent. In 2006, receipts amounted to almost US$ 6.1 billion in Saudi Arabia. In 2005, receipts amounted to US$ 4.6 billion in Tunisia and US$ 2 billion in Morocco. Clearly, there is urgent need to give high priority to the tourism sector, including its economic, social, cultural aspects as well as construction, promotion and other factors in order for the sector to achieve its desired goals.

TABLE 11. RECEIPTS FOR TOURISM IN ARAB COUNTRIES, 2003 AND 2005
(*Millions*)

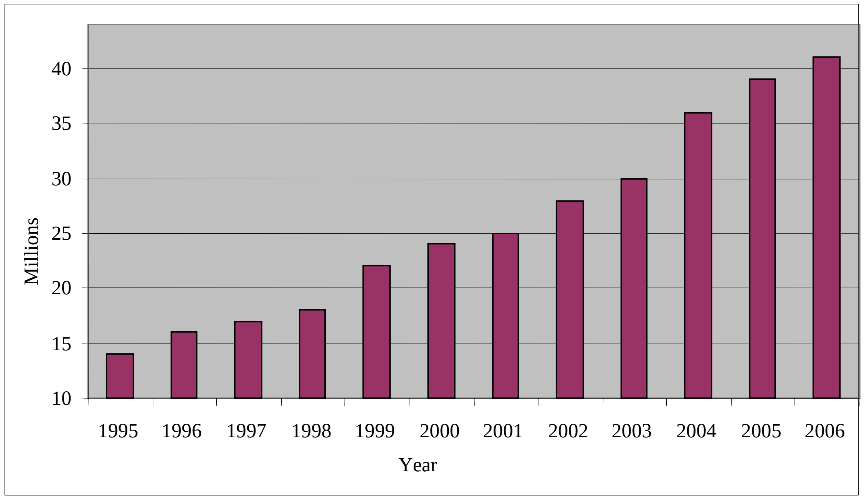
Country	2003	2005
Bahrain	636	..
Egypt	4 052	6 851*
Jordan	939	1 441
Kuwait	104	..
Lebanon	5 635	..
Libyan Arab Jamahiriya	181	..
Oman	340	..
Qatar	326	..
Saudi Arabia	4 998	6 111
Syrian Arab Republic	683	..
United Arab Emirates	1 271	..
Yemen	123	..

Source: UNWTO: World Tourism Barometer, Volume 5, No. 1, January 2007 and World Tourism Organization: Middle East, Tourism Markets Trends, 2005 edition.

* Estimated at US$ 7,600 million in 2006.

[5] UNWTO: World Tourism Barometer, volume 5, No. 1, January 2007.

Figure 5. Growth of tourist arrivals in the Arab countries, 1995-2006
(*Millions*)



Source: UNWTO: World Tourism Barometer, Volume 5, No. 1, January 2007.

II. INTERNATIONAL TRADE NEGOTIATIONS AND TRADE FACILITATION

A. RELAUNCHING OF THE DOHA ROUND OF MULTILATERAL TRADE NEGOTIATIONS

"No significant progress was achieved in sectoral trade negotiations"

The current round of multilateral trade negotiations in WTO, knows as "The Doha Development Agenda", has been facing a real crisis since the failure of the Fifth Ministerial Conference held in Cancún, Mexico in September 2003. Four years later the situation did not show brighter prospects in 2007, notwithstanding numerous developments that brought some hope of a breakthrough such as the July 2004 package, the WTO Sixth Ministerial Conference held in Hong Kong in December 2005, and the persistent efforts of the chairs of the negotiating groups. Apparently an impasse is reached as member States come close to discussing substantive issues in the rounds of negotiations, particularly the issue of agriculture as was the case when negotiations were suspended in 2006. Up to the date of preparation of this report, there was no serious indication that serious solutions or agreements will be reached in this connection in the months leading to 2008. This section will address the most important developments in the Doha Round of negotiations in 2007.

After some eight months of suspension, WTO Director-General announced on 7 February 2007 the relaunching of multilateral trade negotiations of the Doha Round, again raising the hope of reaching a successful conclusion soon.[6] It was the preliminary signal to renew the negotiations, which was sent at the meeting of the 33 WTO member States held as a side event during the World Economic Forum in Davos, Switzerland at the end of January 2007. The meeting determined to relaunch the negotiations.[7] But is this the beginning of a new stage after a relatively long period of inaction? Was that period enough for member States to review the potentially positive effects of a successful round of negotiations? Will there be a return to procrastination and hesitation in making substantive commitments by the developed and developing countries that would undermine any hope of achieving minimal success?

In early 2007, reports suggested that the United States and the European Union wished to complete the negotiations through small groups of member States which submit any agreement they reach to a larger group, convinced that it is easier to reach initial agreement with a smaller number of actors and that sharp differences in viewpoints would be less likely. But this negotiating approach angered a number of developing countries which feared that any future agreement would come at their expense, which may explain the delay that overshadowed the course of the renewed negotiations in the first half of the year. As a result, initiative returned to the chairs of the negotiating groups to activate the negotiations by resorting to the preparation of working papers summarizing attitudes toward agricultural and non-agricultural negotiations with a view to coming to two draft agreements on methods relevant to those negotiations, as will be discussed later.

Disputes over reducing agricultural subsidies and providing market access for agricultural and non-agricultural products formed the focus of contention among the member States in the period from the conclusion of the Cancún Conference through the Hong Kong Conference to the present. As the deadlines set in the Declaration of the Hong Kong Conference to make a breakthrough towards facilitating the completion of the negotiations approached in July 2006, and in view of the lack of progress in general, WTO Director-General announced in mid-July the suspension of negotiations in order to avoid the possible collapse of the round. Following the renewal of negotiations in early February 2007, activity returned to all the negotiating groups, particularly the agricultural negotiating group whose chair made additional efforts to reconcile the different points of view of the member States. In early April, the chair presented papers to help those states narrow down their differences and focus on their resolution.

[6] World Trade Organization, WTO News, 7 February 2007.

[7] Third World Network, Info Service on WTO and Trade Issues, 7 February 2007.

WTO saw an active attempt to reconcile the positions of member States and to reach an agreement on the outstanding difficult issues in the round of negotiations, especially in agriculture and industrial goods, in order to advance the Doha negotiations and make progress before the summer recess and in the last quarter of 2007. In the period preceding the summer of that year, intensive efforts were made by a number of member State groups such as the G-20, and the G-33; persistent activity was undertaken by G-4 made up of the European Union, United States, India and Brazil. The work of the chairs of the negotiating committees was reinforced by those efforts, especially in connection with the negotiations on agriculture and manufactured goods aimed at reaching an agreement on modes of negotiations and target figures for reductions in domestic support. Despite the familiar difficulties in those modes, reaching an agreement thereon would be of utmost importance in concluding accords on the other negotiating tracks.

Attempts made by the chairperson of the agriculture negotiations committee are considered the most important developing those negotiations during the second quarter of 2007, namely his two-part "Challenge Paper" which was issued at the end of April and May 2007 respectively. The paper is a summary of points for a potential accord on agricultural negotiations. Part I addressed what should be accepted prior to coming to an agreement on cuts to agricultural subsidies, setting limits such as the reduction by the United States of its agricultural subsidies to less than US$ 19 billion and by the European Union to a level exceeding 70 per cent, as a compromise accommodating the demands of the developing countries. Part I also covered points of divergence on tariff reductions, presuming that the developed countries would possibly reduce their tariffs by 50 per cent and that the developing countries would cut tariffs by two-thirds as much as developed countries. It further dealt mainly with the topics of sensitive and special products.[8] Part II of the "Challenge paper" mainly addressed other issues such as the implementations of special safeguard mechanisms. Tropical products and diversification products, erosion of preferential margins, and green box subsidies.

Although no consensus was reached on the thorny issues of the negotiations on non-agricultural market access (NAMA) specifically saw some activity as a new proposal was advanced by a group of developing countries (NAMA-11) to bring action to that track of negotiation.[9] NAMA-11 demanded for the developing countries a reduction coefficient that would at least be 25 points higher than the coefficient of the developed countries. Accordingly, the developed countries would reduce tariffs on industrial goods by an average of about 50 per cent, on the basis of the reduction formula adopted at the 2005 Hong Kong Conference. For their part, the developed countries, especially the European Union and the United States, continue to insist on a coefficient of 10 for the developed countries and 15 for the developing countries; in other words, the latter would reduce tariffs by an average of 70 per cent which developing countries view as a source of many difficulties and as a measure that would undermine their attempts to achieve industrial and economic development.

The chairperson of the agricultural negotiation committee as well as the chairperson of the NAMA negotiations committee each took a huge step in July 2007 before the summer recess by releasing the Draft Modalities Text on Agriculture and the Draft Modalities Text on NAMA. Both texts contained proposed numbers and ranges for the desired cuts in subsidies and tariffs, with a view to helping member States use them in negotiations and bridge the gap between positions regarding a comprehensive agreement. Reactions to the two texts varied: many developing countries considered the agriculture text a good basis for negotiation, but they were very critical of the NAMA text viewing it as unfair to developing countries. Encouraging signals came from the major States regarding both texts; the United States stated after the summer recess for the first time that it could commit itself to the ceilings indicated in the agriculture text for reducing domestic agricultural subsidies.[10] And that it agreed with the NAMA text. However, in the final months pf 2007, conflicting signals for

[8] Bridges Weekly Trade News Digest, vol. 11, No. 15, 2 May 2007.

[9] Proposal presented by NAMA-11: Argentina, Indonesia, Brazil, Tunisia, South Africa, Philippines, Venezuela, Egypt, Namibia, India (TN/MA/W/86).

[10] Bridges Weekly Trade News Digest, vol. 11, No. 32, 26 September 2007.

and against were seen; some influential states changed their positions. Yet the two texts remain the only development in 2007; they are not expressly rejected by any member State and are accepted as the ground work for negotiations in the coming months.

On the other hand, on 4 June 2007 the United States submitted a proposal, within the framework of the negotiations on rules, that would proscribe five kinds of subsidies provided by states in accordance with their industrial policies. A number of member developing countries objected to the new United States proposal, considering it a restriction of the space of the space of their development policies aimed at developing their industrial sectors. They also viewed that proscription as a form of applying double standards, as most developed countries had used subsidies in their earlier stages of development and as the United States wishes to maintain its agricultural subsidies.

In connection with trade in services, on 4 May 2007 the United States asked WTO for a clarification of US obligation vis-à-vis Internet gambling as a luxury service. Internet gambling is a market worth about US$ 15 billion per year. The United States had lost the case in a claim field by Antigua and Barbuda with WTO in 2003. The preliminary ruling by WTO was a favour by Antigua and Barbuda and stipulated that if the United States did not comply with the ruling it would subject to sanctions.[11] The United States by requesting a clarification of its commitments in this regard sought to amend those commitments as well as to withdraw electronic gambling from the provisions and rules of the General Agreement on Tariffs and Trade (GATT), which set a qualitative precedent in WTO that will negatively affect the ongoing services negotiations within the framework of the Doha negotiations.

In view of the efforts made by groups of member states at meetings and in deliberation in 2007 to break out of the deadlock reached in the negotiations, any conceivable compromise in the negotiations of the Doha Development Agenda, especially in the short-term, will be determined by three factors, depending on the outcome of the round of negotiations to be held in early 2008. First, the member States will perhaps finally come to a non ambitious conclusion and modest results, especially in NAMA and agricultural negotiations; for example, in the NAMA negotiations, the cuts will only cover bound tariff rates rather than rates actually applied by developing countries. Acceptance of modest results may help bring the round to a conclusion, but it would leave unfinished subjects of negotiation and would let continue elements of fiction between member states; such a situation would mean the transfer of dispute from the round of negotiations to the depth of the trading system itself in the future. In addition, an agreement of this kind would mean abandoning the development component of the Doha Round. Consequently, many less fortunate developing countries will remain on the margins of the international trading system.

Second, perhaps some objective facts relating to the conditions and commitments of WTO member States as well as the role of those states in the achievement of progress should not be overloaded. In the forefront of those conditions is the inability of the United States Administration, without renewal by Congress of the negotiating mandate which was granted to the United States President and which expired on 30 June 2007, to conclude trade agreements; without such renewal the United States would not be able to sign any negotiated agreement on market access commitments without a detailed review and amendment by Congress before ratification in order to ascertain compliance with labour and environmental criteria as demanded by Democrats in Congress.[12] In fact, the other States will see no reason to conclude an agreement on those commitments without the United States being a party to it.

If WTO member States have to wait for the United States Congress to renew that mandate, then they will see no need to hurry the negotiations that may lead to uneven or incomplete settlement. If the mandate is renewed, then there will be hope that a settlement will reached by early next year. If the request for renewal is rejected, then the round will be delayed until 2009, namely until after the United States

[11] Bridges Weekly Trade News Digest, vol. 11, No. 24, 4 July 2007.

[12] "Negotiating Mandate" refers to the Fast Trade Authority. See: SUNS, South-North Development Monitor, No. 6321, 12 September 2007.

presidential elections and the issuance of a congressional mandate to the new president.

In this situation, the developing countries, especially the larger of them such as Brazil and India, will be exposed to heavy pressure and blame for the delay in or failure of the round of negotiations because of their positions, particularly on agriculture and industrial goods. As a result, they would have to do two things: (a) take a somewhat conciliatory approach to the proposed cuts to agricultural subsidies in the developed countries and accept the proposed cuts to US subsidies and the European Union tariffs; (b) make significant concessions on NAMA, which is viewed by many developing and least developing countries as detrimental to their programmes and policies in industrial and economic development as a whole. Initially those countries accepted, for example, the Swiss Formula for NAMA tariff cuts at the Hong Kong Conference and considered their acquiescence to engage in negotiations focusing on the reduction coefficient as a significant concession, but both those actions formed the ground for the skilful exercises of pressure on them by the developed countries.

Third, pivotal States outside the international trading system, such as the Russian Federation, influence the round of negotiations; they escalated their criticism if the WTO, its agreements and negotiations, accusing the WTO of being undemocratic, serving only the interests of the developed countries; they called for finding alternatives to the WTO.[13] On the other hand, the unprecedented proliferation of bilateral and regional trade agreements between developed and developing or between developing countries as well as the economic results of the evaluation of those agreements in the foreseeable future will directly affect the course of the round of negotiations. In 2007, major developing countries for the first time entered the fray of those agreements; for example, India engaged in talks with the European Union to conclude such agreements.[14]

[13] The Saudi Gazette Internet Edition, Monday, 11 June 2007.

[14] Bridges Weekly Trade News Digest, vol. 11, No. 12, 4 April 2007.

Developing countries, in general, and Arab countries in particular are called upon today to be highly prepared to deal with any developments that may occur in the early months of 2008 in order for them to find fast and not adequately studied solutions as well as to understand better and be more aware of what may be presented to them in trade negotiations to conclude bilateral agreements with major States without taking advantage of the momentum of the multilateral trade negotiations.

B. Arab countries and trade facilitation

Trade facilitation involves many sides with international activities; they include customs, customs clearance companies, transport services, information services, and financial services (including insurance companies and banks). Trade facilitation also involves, inter alia, legislative, regulatory and procedural frameworks as well as specifications and standards. It is important due to the fact that the current WTO negotiations may lead to any international agreement in this regard.

Trade facilitation contributes in several ways to greater trade efficiency either by cost reduction, or by shortening the time needed to complete procedures. The long time involved in such procedures is usually an obstacle to speedy completion of formalities for exporters, importers and producers. Trade facilitation also enhances Government ability to collect fees and improve security. Many studies were unanimous that trade facilitation brings benefits to countries and individuals that far exceed the benefits of tariff reduction or elimination. Studies showed that trade facilitation in maritime and air transport, customs, legislation and infrastructural services would have a positive impact on economic growth and income; it would also increase flows of commodities and FDI.

Trade facilitation received notable attention from international organizations such as the World Customs Organization, WTO, The United Nations Conference on Trade and Development (UNCTAD) and United Nations regional organizations. It also got the attention of regional and Arab organizations, primarily the League of Arab States before the inclusion of trade facilitation in the Ministerial Declaration of the

WTO Ministerial Conference held in Doha from 9 to 14 November 2001. Such reference to trade facilitation in the Declaration may be viewed as a step towards including it in the future in the agenda of WTO. Trade facilitation underwent a number of important developments, mainly the drafting of a negotiating framework agreement on trade facilitation at WTO in July 2004 which signaled that trade facilitation had entered the negotiating stage. Currently negotiations focus on improving articles V, VIII, X of the 1994 GATT. Those three articles deal with: customs regulations and procedures; early disclosure and transparency of trade laws, legislation, procedures, provisions, and agreements; simplification of customs procedures and reduction of fees imposed on imports and exports; as well as freedom and regulation of transit (WTO July package).

It is noteworthy that coming to a consensus among developed and developing countries on capacity-building for trade facilitation in the future would have positive effects on the economic performance of developing countries in general and particularly on small- and medium-sized enterprises as one of the major parties whose productive and marketing activities are affected by trade efficiency. Often import-export activities in trade and expansion into new markets are affected by ambiguous legislation, slow clearance operations, high import-export fees, inability to estimate seen and unseen costs, and the resulting inability to form a picture and provide estimates of future costs as well as of productive and marketing plans due to inconsistent regulations, procedures, costs and other factors relevant to trade facilitation or as a result of lack of awareness of all those factors. Import-export operations require the exchange of a huge amount of information and data among those involved in import-export operations in customs agencies, relevant authorities, stakeholders in the private sector or their representatives (transport and customs clearance companies, banks, insurance companies, etc.). According to studies, obstacles to trade take the form of: (a) a variety of routine procedures for trade transactions; (b) plurality of relevant government agencies, and excessive requirements (official documentation, forms, approvals and signatures) that burden companies with increasing financial costs related to importation and exportation; and (c) unnecessary delay in formalities and clearance of import-export goods.

In an effort to mitigate the negative effects of those obstacles, numerous relevant international organizations and national Governments introduced programmes and mechanisms for trade facilitation either by developing customs regimes, linking border crossings, simplifying the procedures in force, and establishing criteria for documentation requirements and the exchange of data, all of which had a significant impact on trade facilitation. The revolution in ICT and its applications helped reduce the financial burden and the time needed to complete trade formalities worldwide. ICT applications expanded to include the management of trade activity in customs authorities and other relevant national agencies in order to facilitate import-export operations in such a way as to form an incentive for trade and industrial enterprises to increase their involvement in international trade.

Many Arab countries kept up with the major developments in trade facilitation through participation in the current negotiations on trade facilitation at WTO; introduction of legislative, procedural and administrative reforms to facilitate trade; and entering bilateral and regional agreements for cooperation in trade facilitation.

Available information on Arab countries suggests that, although many of those countries followed the ongoing trade facilitation negotiations at WTO, they were not involved actively enough, especially in third generation proposals (except for few proposals submitted by negotiating groups).[15] In connection with measures taken to facilitate trade, available information for 2006-2007 indicate that a number of Arab countries have carried out many reforms aimed at improving their business environment,[16] including the improvement of cross-border trade. In the area of reforming the business environment, Egypt ranked first globally, having improved in five of the 10 areas selected in the World Bank study on the business environment. Through

[15] See WTO website: http://docsonline.wto.org/gen to view the following documents: TN/TF/W/43/Rev.12, TN/TF/W/47, TN/TF/W/69.

[16] The World Bank Group: Reformers in the Middle East and North Africa – Doing Business. Http://www.doingbusiness.org/Reformers/MENA.aspx.

cross-border reforms, Egypt was able to cut by half the time and costs required to start a business. For trade facilitation, Egypt installed the single Window in ports, reducing export time to five days and import time to seven days.[17] For its part, Morocco introduced a risk-based inspections system, reducing the time to export by 2 days and time to import by 4 days.[18] Saudi Arabia[19] reduced the number of documents required for importing by document, and the ports and terminal handling time by 2 days for import and 2 days for export.[20] But Algeria increased the level of uncoordinated inspections, causing additional delays to the customs clearance process and an increase in the time needed for cross-border trade by 2 days for export and 1 day for import.[21]

World Bank sources provide details of costs and procedures required for the import and export of a standardized cargo of goods. The index for measuring trade across borders takes into account every official procedures – from the contractual agreement between the two parties to the delivery of goods. Data are made available according to region and country. Table 12 shows the components of the index of trading across borders by region, as well as for the Arab countries.

As shown in table 12, the average number of documents for export in the Arab countries is 7.5. compared with 4.5 in the countries of the Organisation for Economic Co-operation and Development (OECD), and for import 8.3 and 5 respectively. The average time for export is 27.1 days in the Arab countries, compared with 9.8 days in the OECD countries, and the import 30.6 days and 10.4 days respectively. Cost to export in the Arab countries (US$ 1,082) is larger than that in the OECD countries (US$ 905) and lower than that in each of Sub-Saharan Africa, Latin America and the Caribbean, Eastern Europe and Central Asia, and South-Asia. Likewise, the average cost to import per cargo of goods in the Arab countries (US$ 1,218) exceeds that of the OECD countries and falls below that of the other regions (see table 12).

TABLE 12. TRADING ACROSS BORDERS BY REGION: REQUIRED IMPORT-EXPORT COSTS AND PROCEDURES FOR A STANDARDIZED CARGO OF GOODS

Region or economy	Documents for export (number)	Time for export (days)	Cost to export (US$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US$ per container)
East Asia and Pacific	8.1	35.6	1 660.10	9	43.7	1 985.90
Eastern Europe and Central Asia	7.5	27.1	1 082.2	8.3	28.7	1 218.80
Latin America and Caribbean	7	22.2	1 107.50	7.6	25.8	1 228.40
Middle East and North Africa	7	29.3	1 393.40	8.3	30.8	1 551.40
OECD	8.6	32.5	1 179.90	9.1	32.1	1 417.90
South Asia	4.5	9.8	905	5	10.4	986.1
Sub-Saharan Africa	6.9	24.5	885.3	7.5	25.8	1 014.50

Source: Extracted from World Bank Group, http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders.

[17] Ibid.

[18] Ibid.

[19] It ranked eighth among the best 12 countries in reform in the 2006-2007, measured by the best business practice index (ibid.).

[20] Ibid.

[21] Ibid.

Table 13 shows the costs and procedures required for the import and export of a standardized cargo of goods, by country; it also shows the same for some non-Arab countries for the purpose of comparison.

TABLE 13. TRADING ACROSS BORDERS IN THE ARAB COUNTRIES, COMPARED WITH SOME NON-ARAB COUNTRIES: COSTS AND PROCEDURES REQUIRED FOR THE IMPORT-EXPORT OF A STANDARDIZED CARGO OF GOODS

Country	Documents for export (number)	Time for export (days)	Cost to export (US$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US$ per container)
Jordan	7	19	680	7	22	1 065
United Arab Emirates	7	13	462	8	13	462
Algeria	8	17	1 198	9	23	1 378
Syrian Arab Republic	8	19	1 300	9	23	1 900
The Sudan	7	39	1 700	7	54	2 300
Iraq	10	102	3 400	10	101	3 400
Kuwait	8	20	935	11	20	935
Morocco	8	14	600	11	19	800
Saudi Arabia	5	19	1 008	5	20	758
Yemen	6	33	1 129	9	31	1 475
Tunisia	5	17	540	7	22	810
Comoros	10	30	971	10	21	974
Djibouti	8	22	960	6	18	960
Oman	10	22	665	10	26	824
West Bank and Gaza Strip	6	25	830	6	40	995
Lebanon	5	27	1 027	7	38	810
Egypt	6	15	714	7	18	729
Mauritania	11	35	1 360	11	42	1 363
Denmark	4	5	540	3	5	540
Sweden	4	8	561	3	6	619
China	7	21	390	6	24	430
Philippines	8	17	800	8	18	800
Germany	4	7	740	5	7	765
United Kingdom	4	13	940	4	13	1 267
India	8	18	820	9	21	910
United States of America	4	6	960	5	5	1 160
Singapore	4	5	416	4	3	367
Mauritius	5	17	728	6	16	673

Source: Extracted from the World Bank Group, http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders, 18 November 2007.

As shown in table 13, Lebanon, Saudi Arabia and Tunisia ranked first by number of export documents (five documents), while Saudi Arabia ranked first by number of import documents (five documents), followed by Djibouti (six documents). The United Arab Emirates ranked first among the Arab countries in terms of time for exports (13 days)[22] and time for import (13 days).[23] The United Arab Emirates led the Arab countries in terms of the low cost of export (US$ 462)[24] and import (US$ 462) of a standardized cargo of goods, followed by Tunisia (US$ 540 per standardized cargo of goods) and Egypt (US$ 729 per standardized cargo of goods).[25] Iraq and the Sudan registered the highest level of cost of the import and export of a standardized cargo of goods (see table 13). A comparison among the Arab countries as well as between those and non-Arab countries shows that the Arab countries made progress in cutting both the cost and the time involved in import and export. In order to facilitate trade, the Arab countries can determine their priorities and formulate programs that would address and reduce the differences in such a way as to make a positive contribution to overall trade and economic growth.

[22] Compare United Arab Emirates time for export (13 days) with that of Denmark (5 days) and Singapore (5 days).

[23] Compare United Arab Emirates time for import (13 days) with that of Denmark (5 days) and Singapore (3 days) and United States of America (5 days).

[24] Compare these amounts with those of Britain and United States of America, table 13.

[25] Compare these amounts with those of Britain and United States of America.

III. REGIONAL INTEGRATION

"Little progress in performance of the Arab countries in regional integration in 2006"

No new or significant developments were reported on the performance of the Arab countries in enhancing regional integration. Available figures draw a mixed picture: there was progress in performance on some indicators of Arab regional integration and a lag on others in 2005 and 2006. Arab intraregional trade as a percentage of total Arab trade grew slightly from 11.2 per cent in 2005 to 11.3 per cent in 2006. On the other hand, Arab intraregional investment as a percentage of total FDI dropped from about 34 per cent in 2005 to almost 27.4 per cent in 2006 (table 14), notwithstanding the significant growth by about 74 per cent of FDI inflows in 2006 due to the higher growth rate total FDI in comparison with the growth rate of Arab intraregional investment. The difference shows that the most important source of FDI flows into the Arab countries continues to be non-Arab countries, especially the European Union, United States of America and Japan; Jordan, the Sudan and Yemen are exceptions in the sense that intraregional investment there contributes a high percentage of total FDI inflows.

The reduced volume of mergers and acquisitions among Arab companies contributed to a reduction in Arab Intraregional investment as a percentage of FDI. Arab intraregional investment notably focused on the services sector (for example, communications and tourism) and the building/construction sector).

TABLE 14. SELECTED INDICATORS OF REGIONAL INTEGRATION AMONG ARAB STATES 2001-2006
(*Percentage*)

Indicator	2001	2002	2003	2004	2005	2006
Ratio of interregional trade to external trade	9.30	9.74	9.20	10.81	11.16	11.30
Ratio of interregional investment to all direct foreign investment	34.3	36.0	23.74	26.77	34.21	27.35
Ratio of interregional tourism to all tourism	44.59	45.35	48.62	53.27	50.73	44.14
Ratio of interregional migrant worker remittances to GDP	3.58	3.83	3.35	3.83	3.58	..
Ratio of official interregional development aid to GDP	0.75	0.86	1.20	1.51	3.64	..

Source: "Investment climate in Arab countries 2006", Inter-Arab Investment Guarantee Corporation, Kuwait, 2007; ESCWA, based on IMF, *The Direction of Trade Statistics Yearbook*, Database and Browser, July 2007, (CD Rom at library); World Tourism Organization, *Tourism Market Trends, Middle East*, 2004 and 2005 Editions; *World Development Indicators* database, www.worldbank.org.

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

The reduced volume of Arab intraregional tourism as a percentage of total tourism in 2005-2006 may be attributed, inter alia, to the reduced volume of tourism in Lebanon which forms a high percentage of Arab intraregional tourism. In other words, the reduced volume of Arab intraregional tourism to Lebanon led to a fall in the overall volume of that tourism in 2005-2006. There are other causes: the emergence of new touristic areas that so strongly compete with the Arab countries, especially the Asian areas, that they affect the growth of Arab intraregional tourism; and the revival of Arab tourism to Europe and the United States of America, which had dropped in the wake of the events of 11 September 2001.

The inadequate number of accommodations such as hotels and furnished apartments pushed their prices up and adversely affected Arab intraregional trade. A high percentage of Arab tourists, who bring their families along, prefer furnished apartments which cost less than hotels. Moreover, the reduced volume of investment in the tourism sector played a part in the sluggish growth of tourism.

In addition, Arab intraregional remittances from labour as a percentage of GDP fell from 3.8 per cent in 2004 to 3.6 per cent in 2005, because remittances during that period grew at a rate lower than that of GDP. It should be noted that labour remittances to the countries of the Arab Maghreb come from Europe and not from Arab countries.

Intraregional ODA, as a percentage of GDP, grew significantly from 1.5 per cent in 2004 to 3.6 per cent in 2005, due to the ODA Iraq received in 2005 in the amount of US$ 13 billion, namely about 79 per cent of total intraregional assistance to all the Arab countries in 2005.

Box 6. Expert group meeting on "Sectoral Approach to Arab Regional Integration", Cairo, 11-12 July 2007

Promotion of Arab economic integration is considered one of the principal goals that Arab countries endeavour to achieve. In this connection, ESCWA held on 11 and 12 July 2007, in Cairo, Egypt, an expert group meeting on the "Sectoral Approach to Arab Economic Integration". The aim of the meeting was the creation of a centre for international, regional and national experts; official bodies; and representatives of the private sector to serve as a place for sharing experience on how to develop four sectors considered important for regional integration, namely, trade, tourism, investment and transport at the intraregional level. It could also study obstacles that impede Arab economic integration in those four basic sectors.

The meeting was attended by experts from member countries with specialized experience in the sector analysed as well as by experts who prepared the studies discussed and experts in the various aspects of integration. Participants discussed the most important challenges and obstacles that prevent rendering support to Arab economic integration in the four basic sectors.

Based on analysis of the conclusions of the studies presented at the meeting, a set of recommendations was prepared in support of regional integration in the four basic sectors. A list of some of those recommendations follows:

1. Conclusion of a regional convention to support regional integration in FDI and a convention on trade in services within the framework of existing Arab, international and regional obligations.

2. Conclusion of a regional convention on cooperation and integration in Arab intraregional tourism.

3. Strengthening and activating regional mechanisms to implement and follow-up the implementation of regional conventions.

4. Coordination of economic policies especially the financial, monetary and trade policies.

5. Encouraging greater participation by the productive private sector in the implementation of regional projects.

A. ARAB INTRAREGIONAL TRADE

"Saudi Arabia leads in terms of the Absolute value of intraregional trade, while the Syrian Arab Republic leads in relative growth in two consecutive years"

Arab intraregional trade grew by 23.5 per cent in 2006, compared to almost 29 per cent in 2005. In absolute terms, it grew fourfold in 1999-2006, from US$ 29 billion to US$ 119 billion. However, as a percentage of total Arab foreign trade, it did not grow much during the same period, increasing from 9 per cent to 11.3 per cent (table 15, figure 6), due to causes mentioned in the 2006 Review. One of the most important of those causes is the dominant position of oil exports in Arab foreign trade, representing more than 70 per cent of Arab exports, and not more than 6 per cent of the imports of the Arab countries. Such a discrepancy does not leave much room to increase the share of Arab intraregional trade. On the other hand, imports of machinery, equipment and manufactured goods account for nearly 64 per cent of total Arab imports and only 16 per cent of Arab exports (table 16). The most important cause of increase in the total value of Arab exports is attributed to the significant surge of oil prices, which contributed to a reduction in Arab intraregional trade as a percentage of total Arab external trade. There is also the low quality of some Arab goods which fails to find some market in the current open trading. Another cause is the continuing presence of some obstacles such as non-tariff barriers which do not facilitate the flow of Arab intraregional trade, especially in connection with certificates of origin, administrative constraints and other factors.

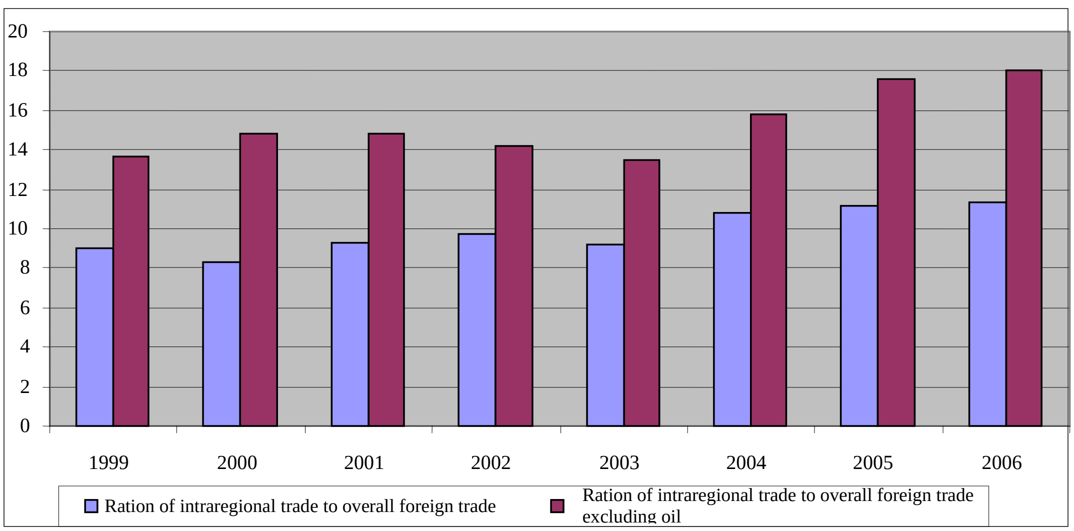
TABLE 15. FOREIGN AND INTRAREGIONAL TRADE IN THE ARAB WORLD, INCLUDING AND EXCLUDING OIL,* 1999-2006
(*Millions of dollars and percentages*)

	1999	2000	2001	2002	2003	2004	2005	2006
Overall foreign trade	322.8	402.1	399.8	418.2	503.3	691.0	865.0	1 054.5
Intraregional trade**	29.1	33.3	37.2	40.7	46.3	74.7	96.5	119.2
Ratio of intraregional trade to overall foreign trade	9.03	8.28	9.30	9.74	9.20	10.81	11.16	11.30
Ratio of intraregional trade to overall foreign trade excluding oil	13.67	14.81	14.80	14.17	13.47	15.84	17.60	18.02

Sources: ESCWA, based on IMF, *Direction of Trade Statistics, Yearbook*, Database and Browser, July 2007, CD Rom; OAPEC, *33rd Report of the Secretary General, 2006.*

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

Figure 6. Ratio of intraregional trade to overall foreign trade, including and excluding oil, 1999-2006



Source: Based on table 9.

TABLE 16. STRUCTURE OF ARAB TRADE, 1996, 2000 AND 2005
(*Percentage*)

	Arab Exports			Arab Imports		
	1996	2000	2005	1996	2000	2005
Food and drinks	3.7	2.9	3.0	15.3	13.7	14.0
Metal fuel	72.5	70.4	73.4	4.8	6.0	5.8
Machinery and transport equipment	3.1	3.9	3.4	33.2	37.7	37.7
Manufacturers	13.6	15.2	13.2	29.7	26.5	26.3
Other	7.1	7.6	7.0	17.0	16.1	16.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Consolidated Arab Economic Report, 2006.

Arab intraregional trade continues to be low as a percentage of total Arab foreign trade, yet that percentage is high in some Arab countries: almost 47 per cent in the Syrian Arab Republic, 35.2 per cent in Jordan, 30.4 per cent in Lebanon, and nearly 21 per cent in Bahrain. In other words, the foreign trade of some Arab countries depends considerably on trading with other Arab countries, but the volume of that trade as a percentage of Arab foreign trade is small because the countries concerned are not major oil-exporting countries. Therefore, their share of Arab trade is so small in absolute terms that it does not significantly affect Arab intraregional trade as a percentage of total Arab foreign trade. It may be noted the Arab intraregional trade as a percentage of foreign trade for the major oil-exporting countries did not exceed 8.9 per cent in the United Arab Emirates, 9.8 per cent in Saudi Arabia, 7 per cent in Qatar and 7.7 per cent in Kuwait. It is clear that Arab intraregional trade as a percentage of Arab foreign trade is small in the countries considerably involved in foreign trade, but it is high in the countries not considerably involved in that trade.

TABLE 17. RATIO OF INTRAREGIONAL TRADE TO FOREIGN TRADE IN ARAB COUNTRIES,* 1999-2006
(*Percentages*)

	1999	2000	2001	2002	2003	2004	2005	2006
Algeria	2.10	1.63	2.97	3.27	2.86	2.51	2.91	3.03
Bahrain	14.97	15.53	16.01	16.93	17.56	18.08	20.69	20.73
Comoros	5.08	7.03	5.48	5.72	5.43	7.16	11.53	11.52
Djibouti	27.74	32.40	29.29	32.45	32.06	36.52	35.14	34.33
Egypt	7.52	7.22	10.30	9.31	9.56	12.69	13.86	13.83
Iraq	5.90	7.91	11.55	13.02	9.68	14.67	15.71	15.81
Jordan	27.76	28.19	31.14	31.85	31.79	33.63	36.28	35.18
Kuwait	6.98	6.66	7.30	7.41	6.95	7.32	7.36	7.68
Lebanon	12.38	15.76	15.99	17.55	13.37	24.82	28.39	30.38
Libyan Arab Jamahiriya	7.16	5.96	6.23	6.85	6.28	5.92	5.57	5.32
Mauritania	2.80	3.36	4.09	4.26	4.46	4.78	4.55	4.58
Morocco	4.15	8.92	8.73	8.52	6.89	6.82	8.83	8.88
Oman	22.56	19.43	20.56	20.89	19.24	17.85	17.94	16.60
Qatar	8.62	8.55	6.85	11.48	8.49	9.45	7.94	7.00
Saudi Arabia	9.52	6.77	6.74	7.03	7.42	9.68	9.54	9.77
Somalia	52.69	46.65	45.54	44.98	53.78	55.38	59.34	58.99
The Sudan	18.90	14.51	12.98	12.17	27.70	18.59	18.64	18.97
Syrian Arab Republic	14.31	11.20	15.30	13.57	12.60	22.95	45.33	46.93
Tunisia	5.40	7.87	7.47	7.49	7.32	6.65	8.26	8.56
United Arab Emirates	8.06	6.99	8.35	8.36	7.50	6.71	6.65	8.86
Yemen	20.73	16.98	19.79	25.70	22.52	23.08	24.53	22.77

Source: ESCWA, based on IMF, *Direction of Trade Statistics Yearbook*, Database and Browser, July 2007, CD Rom.

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

TABLE 18. RATIO OF INTRAREGIONAL TRADE TO GDP IN ARAB COUNTRIES,* 1999-2006
(*Percentages*)

	1999	2000	2001	2002	2003	2004	2005	2006
Algeria	0.95	0.92	1.51	1.74	1.69	1.56	1.91	2.07
Bahrain	22.56	21.95	24.08	24.89	27.77	31.77	34.73	37.82
Djibouti	39.76	44.83	48.76	47.75	56.98	63.34	73.55	85.77
Egypt	1.62	2.10	1.92	2.92	3.49	6.49	7.55	7.80
Iraq	2.94	4.31	6.57	7.38	6.13	11.48	15.15	14.14
Jordan	16.70	19.60	24.85	26.13	27.64	34.16	41.74	46.95
Kuwait	4.71	4.72	5.12	4.72	4.53	5.04	4.61	4.45
Lebanon	5.17	6.64	7.03	7.34	8.45	14.06	15.23	17.88

TABLE 18 (*continued*)

	1999	2000	2001	2002	2003	2004	2005	2006
Libyan Arab Jamahiriya	2.87	2.89	3.25	5.45	5.12	5.91	5.06	4.90
Mauritania	3.24	4.23	5.35	6.15	6.11	6.84	6.57	4.92
Morocco	2.37	5.07	4.82	4.64	3.61	3.78	5.26	5.19
Oman	16.90	15.36	16.98	17.63	15.01	14.68	16.36	16.38
Qatar	6.07	7.14	5.64	8.76	6.55	8.17	8.52	6.65
Saudi Arabia	4.55	3.78	4.12	4.27	4.87	6.08	6.74	7.37
The Sudan	4.11	3.41	3.22	2.99	7.71	6.64	7.54	6.09
Syrian Arab Republic	6.23	6.01	9.49	8.96	8.42	48.75	47.47	45.49
Tunisia	4.74	5.91	6.03	5.29	5.16	5.09	6.78	7.74
United Arab Emirates	9.32	6.57	8.35	7.64	7.50	9.13	9.58	9.45
Yemen	12.15	11.42	11.96	15.10	16.30	14.41	15.65	15.05
All Arab countries	4.90	4.85	5.58	6.00	6.12	8.54	9.12	9.31

Source: *Consolidated Arab Economic Report*, 2007, 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.

Arab intraregional trade as a percentage of Arab foreign trade is also low for the countries of the Arab Maghreb, which lowered the overall percentage of the region. In 2005, the percentage was nearly 8.6 per cent in Tunisia, 3 per cent in Algeria, and 8.9 per cent in Morocco. For Tunisia and Morocco, the low percentage may be attributed to partnership agreements with the European Union which increased the volume of trade between those countries and the European Union. In other words, the conclusion of agreements between the Arab countries and some non-Arab countries adversely affects the growth of Arab intraregional trade as a percentage of Arab foreign trade.

TABLE 19. INTRAGERIONAL TRADE FLOWS IN SOME REGIONAL BLOCS, 2005 AND 2006

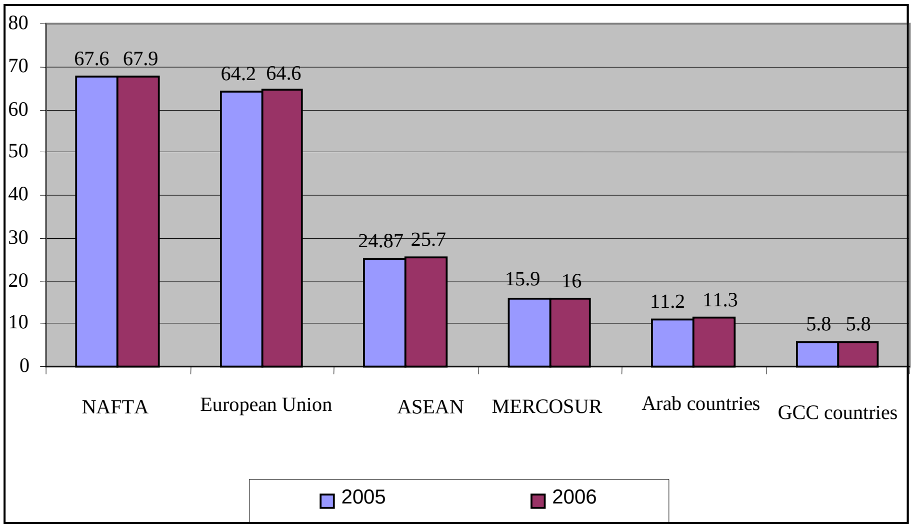
	Value of intraregional trade (billions of dollars)		Ratio of intraregional trade to foreign trade (percentage)	
Regional bloc	2005	2006	2005	2006
ASEAN	306.7	380.4	24.87	25.7
European Union*	5 231.0	5 9346.8	64.2	64.6
Mercosur	48.21	60.1	15.9	16.0
NAFTA	1 634.5	1 771.3	67.6	67.9
GCC countries	31.7	38.5	5.8	5.8
Arab countries**	96.5	119.2	11.2	11.3

Sources: ESCWA, based on IMF, *Direction of Trade Statistics Yearbook*, Database and Browser, July 2007, CD Rom.

Notes: * On 1 January 2007, the number of the European Union member States grew from 25 to 27 after Bulgaria and Romania joined it. But the 2005 and 2006 figures cover the 25 member states only.

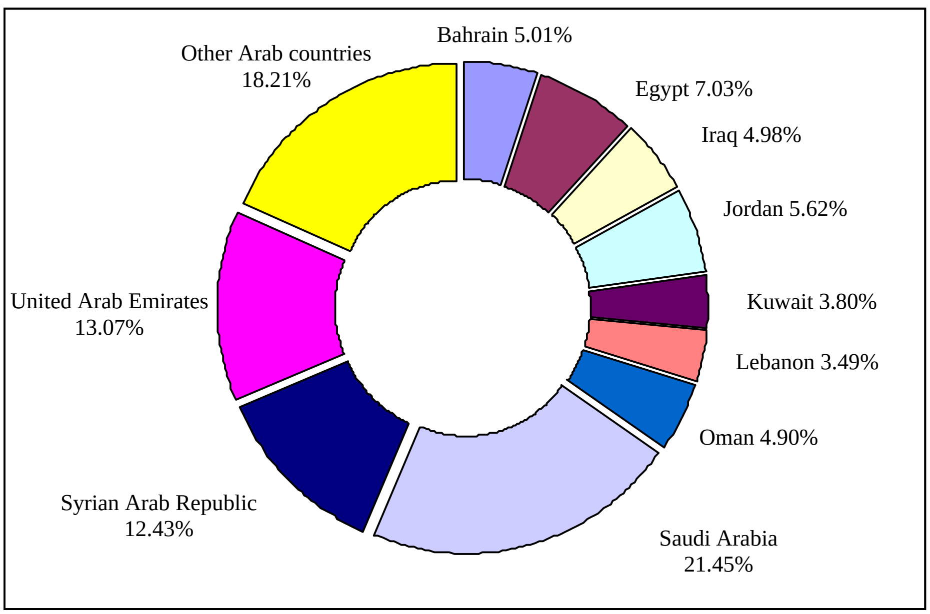
** Excluding the West Bank and Gaza Strip for lack of reliable data.

Figure 7. Ratio of intraregional trade to foreign trade in some regional blocs, 2005 and 2006



Source: Based on table 19.

Figure 8. Distribution of Arab intraregional trade in 2006



Source: ESCWA, based on IMF, *Direction of Trade Statistics Yearbook*, Database and Browser, July 2007, CD Rom.

1. *Ranking of Arab countries in terms of absolute and relative values*

As shown in table 20, in 2006 Saudi Arabia ranked first in terms of absolute value of Arab intraregional trade, followed by the United Arab Emirates and the Syrian Arab Republic in second and third place. In terms of relative value, the Syrian Arab Republic ranked first, Jordan second and Lebanon third. As long as the relative value in intraregional trade for the major oil-exporting countries continues to be modest, the weakness of

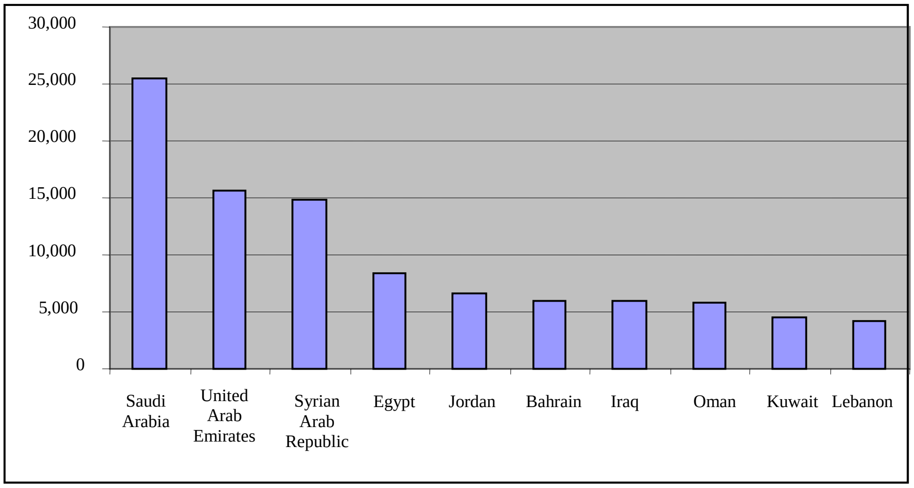
Arab intraregional trade relative to Arab foreign trade will last. Likewise, as long as intraregional trade relative to foreign trade in the countries of the Arab Maghreb remains weak, it will continue to affect adversely the overall Arab intraregional trade relative to Arab foreign trade.

TABLE 20. RANKING OF SOME ARAB COUNTRIES IN TERMS OF ABSOLUTE AND RELATIVE VALUES OF INTRAREGIONAL TRADE, 2004, 2005 AND 2006

Ranking in terms of absolute value						Ranking in terms of relative value					
2006		2005		2004		2006		2005		2004	
1	Saudi Arabia	1	Saudi Arabia	1	Saudi Arabia	1	Syrian Arab Republic	1	Syrian Arab Republic	1	Jordan
2	United Arab Emirates	2	United Arab Emirates	2	Syrian Arab Republic	2	Jordan	2	Jordan	2	Lebanon
3	Syrian Arab Republic	3	Syrian Arab Republic	3	United Arab Emirates	3	Lebanon	3	Lebanon	3	Yemen
4	Egypt	4	Egypt	4	Egypt	4	Yemen	4	Yemen	4	Syrian Arab Republic
5	Jordan	5	Jordan	5	Jordan	5	Bahrain	5	Bahrain	5	The Sudan
6	Bahrain	6	Oman	6	Iraq	6	The Sudan	6	The Sudan	6	Bahrain
7	Iraq	7	Iraq	7	Oman	7	Oman	7	Oman	7	Oman
8	Oman	8	Bahrain	8	Bahrain	8	Iraq	8	Iraq	8	Iraq
9	Kuwait	9	Kuwait	9	Kuwait	9	Egypt	9	Egypt	9	Egypt
10	Lebanon	10	Lebanon	10	Lebanon	10	Saudi Arabia	10	Saudi Arabia	10	Saudi Arabia
11	Qatar	11	Qatar	11	Qatar	11	Morocco	11	Morocco	11	Qatar
12	Algeria	12	Morocco	12	Morocco	12	Tunisia	12	Tunisia	12	Kuwait
13	Morocco	13	Yemen	13	Yemen	13	Kuwait	13	Qatar	13	Morocco
14	Yemen	14	The Sudan	14	Libyan Arab Jamahiriya	14	Qatar	14	Kuwait	14	United Arab Emirates
15	The Sudan	15	Libyan Arab Jamahiriya	15	Tunisia	15	United Arab Emirates	15	United Arab Emirates	15	Tunisia
16	Libyan Arab Jamahiriya	16	Tunisia	16	The Sudan	16	Libyan Arab Jamahiriya	16	Libyan Arab Jamahiriya	16	Libyan Arab Jamahiriya
17	Tunisia	17	Tunisia	17	Algeria	17	Algeria	17	Algeria	17	Algeria

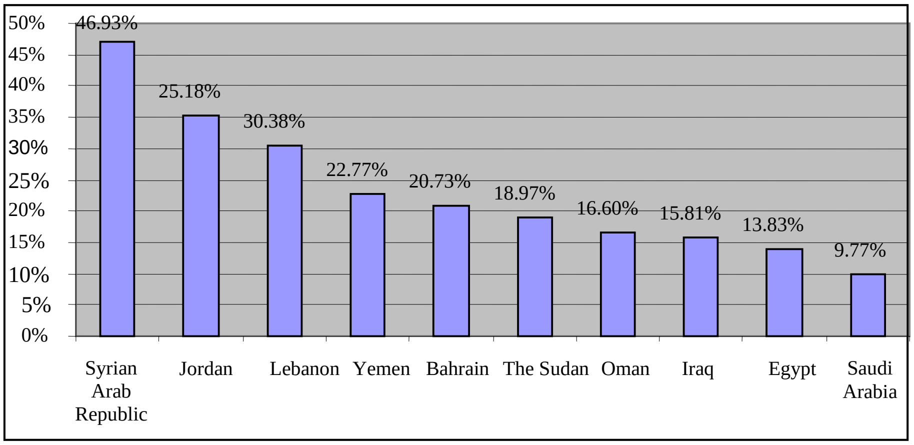
Sources: IMF, *Direction of Trade Statistics Yearbook 2005*; and IMF, *Direction of Trade Statistics Quarterly*, September 2006.

Figure 9. Top ten countries in terms of absolute values of Arab trade, 2006



Source: Based on table 20.

Figure 10. Top ten countries of the ratio of intraregional trade to foreign trade in the Arab world, 2006



Source: Based on table 20.

2. *Causes of weakness of Arab regional integration*

The continuing weakness of regional integration, notwithstanding the numerous agreements concluded in various economic areas, may be attributed to a number of objective factors, most important of which are the following:

(a) Lack or inadequacy of joint Arab regional projects;

(b) Lack of effective joint Arab regional companies;

(c) Lack of coordination among regional economic policies;

(d) Lack of regional agreements that support integration;

(e) Greater interest in concluding agreements with countries outside the Arab region and giving priority to implementing those agreements;

(f) Lack or weakness of the institutions concerned with Arab regional integration, resulting the weakness of the system of joint Arab action;

(g) Inadequate role of the private sector in Arab regional integration;

(h) Government control of action to achieve Arab regional integration;

(i) Lack of civil society and non-governmental institutions and organizations that support Arab regional integration;

(j) Lack of economic diversification and the dominating role of the oil sector in Arab foreign trade;

(k) Emphasis on financial and commercial cooperation;

(l) Lack of mechanisms to execute Arab regional agreements and lack of institutions for supervision, accountability and follow-up.

B. ARAB INTRAREGIONAL INVESTMENT

"Yemen ranks first among the Arab countries in terms of Arab intraregional investment as a percentage of FDI, and Egypt rank first in term of absolute value"

Actual Arab intraregional investment grew by 11.1 per cent from 10.3 per cent in 2005 to 11.5 per cent in 2006. But that increase did not occur in all the Arab countries. For Arab intraregional investment increased in five countries (Jordan, Tunisia, Libyan Arab Jamahiriya, Egypt and Yemen) and decreased in two others (Saudi Arabia and the Sudan) (table 21).

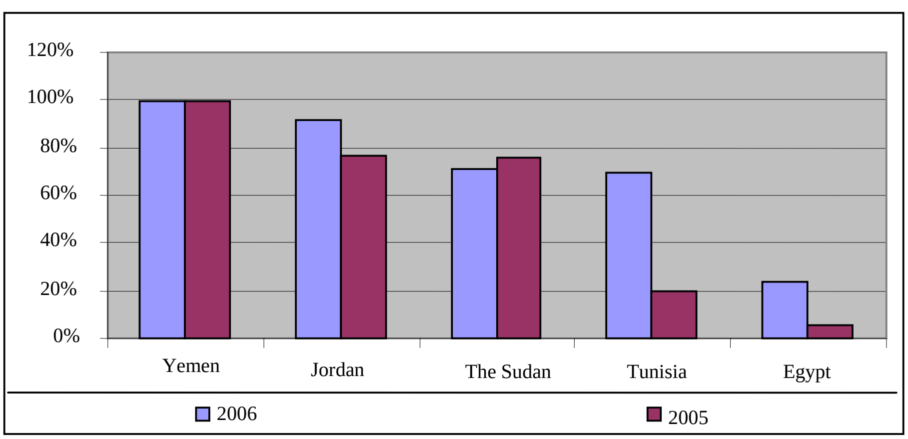
TABLE 21. ARAB INTRAREGIONAL INVESTMENT (AII) AS A PERCENTAGE OF TOTAL FDI IN SELECTED ARAB COUNTRIES, 2005 AND 2006

Country		2005	2006
Jordan	AII	299.4	1 097.6
	% of FDI	76.53	91.20
Tunisia	AII	153.8	2 366.8
	% of FDI	19.65	69.73
Algeria	AII	260.6	..
	% of FDI	24.14	..
Saudi Arabia	AII	5 775	1 649
	% of FDI	47.74	9.01
The Sudan	AII	2 455	2 002
	% of FDI	75.55	70.79
Oman	AII	573.25	..
	% of FDI	19.59	..
Libyan Arab Jamahiriya	AII	300.3	461.4
	% of FDI	10.33	17.80
Egypt	AII	363.3	3 097.6
	% of FDI	5.41	23.85
Yemen	AII	203.9	858.3
	% of FDI	99.27	99.49
Total Arab countries	AII	10 384.55	11 532.7
	% of FDI	34.21	27.35

Source: Calculated by ESCWA based on Inter-Arab Investment Guarantee Corporation, 2007.

In 2006, Yemen kept the leading place among Arab countries in terms of Arab intraregional investment as a percentage of FDI, registering 99 per cent. In other words, Yemen depends heavily on the inflows of Arab intraregional investment because of the weak inflow of FDI. In Jordan, Arab intraregional investment, as a percentage of FDI, grew from 79.6 per cent in 2005 to 91.2 per cent in 2006. In 2006, the Sudan came third at 70.8 per cent, followed by Tunisia at 69.7 per cent and Egypt at 23.9 per cent (figure 11). Those figures show that the Sudan and Yemen depend heavily on the inflows of Arab intraregional investment, primarily from the major Arab oil-exporting countries. In a word, Arab intraregional investment has become a significant component of FDI flows into those countries.

Figure 11. Top five countries ranked by inflows of Arab intraregional investment as a percentage of FDI



Source: Previous table.

Efforts to promote Inter-Arab Investment[26]

In 2006 and 2007, the promotion of the investment climate and opportunities saw increase and improvement in the Arab countries, which continued their efforts to enhance the investment environment by simplifying administrative procedures and reducing their number, cost and the time required for their completion; adopting transparency; and implementing privatization programmes in several Arab countries. Moreover, some Arab countries adopted programmes in support of e-government. For example, Saudi Arabia put to use e-government programmes to handle formalities; the Egyptian Stock Market Authority set the rules for electronic trading in the stock market; in the Syrian Arab Republic a list of all the services provided by the Ministry of Trade was published on the latter's website which was developed by the Investment Authority; Bahrain published CDs including an investment guide and developed a website for the Economic Development Council; and Yemen seeks to use a website to promote investment as part of its attempt to improve and update the website pages of the ministries.

The Arab countries intensified their efforts to promote investment opportunities and to introduce their investment climates to prospective investors; many of those countries participated in international conferences held to promote investment opportunities. They organized over 135 promotional activities, including conferences, seminars, gatherings, exhibitions, workshops, and other events. They also participated in over 227 promotional activities.

(a) *Country efforts*

The Arab countries passed, amended and approved laws and legislation in support of inter-Arab investment flows in particular and FDI in general. Following are some of those measures:

(i) The United Arab Emirates Ministry of Economy was asked to prepare a federal draft law to govern FDI. The Syrian Arab Republic passed a law creating an investment authority and amended the law on authority domestic and foreign investment as well as the law on income tax reduction and tax cuts;

(ii) Bahrain, Tunisia, Algeria, Egypt and Saudi Arabia passed new laws with a view to improving the investment climate by simplifying investment procedures – start and closure of enterprises; reducing obstacles and offering additional incentives to investment; combating dumping; regulating the labour market; protecting intellectual property; and facilitating investment disputes. It is to be noted that Egypt, according to the World Bank's Doing Business 2008, is among the top 10 States in facilitating business activity. Saudi Arabia is also among those States;

(iii) Qatar passed a law on free zones for investment and another on opening the Doha Stock Exchange to foreigners. The Sudan, Egypt, Saudi Arabia and Yemen developed industrial cities and free zones with a view to improve their performance, services and infrastructure as well as to expand their absorptive capacity;

(iv) Yemen passed an anti-corruption law and created an independent supervisory body to combat corruption. A similar body was established in Jordan. Algeria defined the powers of the National Council on Investment and the National Agency for the Development of Investment.

(b) *Regional efforts*

At the regional level, Arab countries signed agreements with other Arab or non-Arab countries to promote and protect investment. Following are some of those agreements:

(i) Saudi Arabia signed five bilateral agreements to prevent double taxation with Pakistan, China, Malaysia, Austria and India; five

[26] Inter-Arab Investment Guarantee Corporation, 2007.

bilateral agreements to promote and protect investment with Spain, Turkey, Singapore, Switzerland and India; two investment agreements with the Philippines and India; and one agreement with Greece for tax exemption of air transport services;

(ii) Algeria signed two bilateral agreements on double taxation and tax evasion with Russia, Korea and Lebanon;

(iii) The Sudan signed an agreement with Mauritania on the promotion and protection of investment, including guarantees against the risk of nationalization and expropriation;

(iv) Lebanon signed bilateral agreements on double taxation, promotion and protection of investment, support for the private sector, and the development of economic links with Jordan, Pakistan, Turkey, Algeria, Oman, Guinea, Qatar, South Korea, Mauritania, Yemen the European Bank, the ASEAN Free Trade Area (AFTA) and the United Nations;

(v) The Libyan Arab Jamahiriya signed bilateral agreements on the promotion and protection of investment with San Marino, South Korea and the Netherlands;

(vi) Egypt signed bilateral agreements on investment and free zones with Jordan, Italy, the Syrian Arab Republic, China and South Korea;

(vii) Yemen signed bilateral agreements on investment with Jordan, the Syrian Arab Republic, Oman and Egypt. It also signed agreements on the promotion and mutual protection of investment with Germany, Eritrea and Mauritania;

(viii) Oman signed agreements on enhancing the investment environment; it also ratified a free trade agreement with the United States and an agreement on double taxation with the Syrian Arab Republic;

(ix) The United Arab Emirates and Morocco signed at Casa Blanca eight joint investment agreements valued at US$ 9.15 billion to help increase inter-Arab investment in coming years.

C. ARAB INTRAREGIONAL TOURISM

“Arab intraregional tourism saw a drop in tourist arrivals to Lebanon and an increase in Jordan, Egypt and the GCC countries”

Tourism is influenced by the political situation of the host country. Tourism also depends on relevant infrastructure, namely, hotels, furnished apartments, and qualified human resources, not to mention good historical and political relations with geographically close countries and send tourists. The unstable political and security situation in some Arab countries led tourists from those countries, especially members of the GCC, to go to European and East Asian countries, with Malaysia and Thailand becoming the destination of families from the countries of the Gulf. As a result, the number of Arab intraregional tourist arrivals dropped from 22.5 million in 2004 to 21.8 million in 2005 and about 20 million in 2006.

The downturn of tourism and especially Arab intraregional tourism was felt most by Lebanon, with the latter falling by 16 per cent between 2004 and 2006. The number of Arab tourists arriving in Lebanon fell from 524,000 in 2004 to 439,000 in 2006 (table 22). Studies indicate that tourists from GCC countries who usually go to Lebanon are heading toward Egypt as a result of the political situation and unstable security in the former, a situation made worse by the Israeli attack on Lebanon in the summer of 2006 which mostly affected tourism. Early estimates show that this trend will continue in 2006 and 2007.

On the other hand, Arab intraregional tourism grew between 2004 and 2006 by 13 per cent in Jordan and 12 per cent in Egypt. The

GCC countries saw a similar growth, with Dubai and Abu Dhabi becoming the most important destinations. It is expected that Arab Intraregional and Intra-Gulf tourism will grow in the wake of signing by Bahrain and Qatar in 2006 of an agreement to build a bridge joining the two countries similar to the one between Saudi Arabia and Bahrain which plays a major role in increasing the flow of Saudi tourists to Bahrain.

TABLE 22. ARAB INTRAREGIONAL TOURISM, 2001-2006
(*Number of Arab tourists in thousands and as a percentage of tourism total*)

Host country		2001	2002	2003	2004	2005	2006
Jordan	Inter-Arab	963	1 131	1 044	1 915	2 024	2 164
	Percentage of total	65.17	69.75	66.42	67.11	67.76	67.10
United Arab Emirates	Inter-Arab	112 424	1 588	1 619	..	1 666	..
	Percentage of total	30.06	29.16	27.57	..	..	..
Bahrain	Inter-Arab	3 469	3 665	2 289	2 698	3 002	3 479
	Percentage of total	79.05	75.86	77.46	76.79	76.70	76.98
Tunisia	Inter-Arab	1 681	2 054	2 179	2 287	2 579	2 646
	Percentage of total	31.21	40.57	42.61	38.13	40.44	40.39
Algeria	Inter-Arab	45	62	101	83	104	..
	Percentage of total	5.14	6.26	8.66	6.69	7.21	..
Saudi Arabia	Inter-Arab	4 186	4 594	4 235	5 181	5 439	5 112
	Percentage of total	62.23	61.16	57.76	60.38	59.76	59.30
Syrian Arab Republic	Inter-Arab	2 497	3 165	3 399	4 837	2 685	3 431
	Percentage of total	73.66	74.07	77.46	78.6	76.71	77.59
Oman	Inter-Arab	157	168	207	..	363	..
	Percentage of total	27.89	27.90	32.89	..	..	..
Qatar	Inter-Arab	231	312	283	404	388	510
	Percentage of total	61.56	53.19	50.73	55.16	53.03	52.97
Lebanon	Inter-Arab	330	403	421	524	473	439
	Percentage of total	39.42	42.13	41.46	41.00	41.53	41.33
Egypt	Inter-Arab	922	1 068	1 259	1 591	1 699	1 783
	Percentage of total	19.84	20.58	20.83	20.42	20.61	20.62
Morocco	Inter-Arab	120	116	118	147	155	173
	Percentage of total	2.76	2.70	2.59	2.68	2.66	2.64
Yemen	Inter-Arab	37	65	105	167	219	247
	Percentage of total	48.58	66.20	68.07	60.95	65.07	64.70
Inter-Arab Tourism	Inter-Arab	18 070	19 197	19 678	22 542	21 785	19 983
	Percentage of total	44.59	45.35	48.62	53.27	50.87	44.14

Source: World Tourism Organization, *Tourism Market Trends, Middle East*, 2004 and 2005 Editions; Tourism Highlights, 2006 and 2007 Editions.

Note: 2005 data are based on ESCWA estimates.
Two dots (..) indicate that data are not available.

Ranked by importance of Arab intraregional tourism, the Arab countries may be divided into groups:

1. The first group considerably depends on inter-Arab tourism and includes Jordan (67 per cent of tourism total), Bahrain (77 per cent), the Syrian Arab Republic (77.6 per cent), Qatar (53 per cent), Saudi Arabia (59 per cent) and Yemen (64.7 per cent).

2. The second group receives a diversity of Arab and foreign tourists; it includes Tunisia with Arab tourists constituting 40 per cent of total and Lebanon with a corresponding percentage of 41.3 per cent.

3. The third group receives foreign tourists that significantly exceed the number of Arab tourists. It includes the United Arab Emirates, Algeria, Oman, Egypt and Morocco. Arab intraregional tourism represents 20.6 per cent of

total in Egypt and only 2.6 per cent of total in Morocco.

Arab intraregional tourists characteristically stay longer and spend more than foreign tourists; they make multiple visits of a family nature. Despite the drop in the number of Arab tourists, revenues from Arab intraregional tourism generally remained stable in 2005 and 2006; those revenues as a percentage of GDP did not grow, remaining in 2006 at the levels of earlier years (table 23).

TABLE 23. REVENUES FROM ARAB INTRAREGIONAL TOURISM, 2002-2006
(*In millions of dollars, as a percentage of total revenues, and as a percentage of GDP*)

Host country		2002	2003	2004	2005	2006
Jordan	Revenues from Arab intraregional tourism	249	471	892	1 042	954
	As a percentage of total revenues	23.76	44.39	67.12	72.30	58.07
	As a percentage of GDP	2.6	4.64	7.75	8.10	6.69
United Arab Emirates	Revenues from Arab intraregional tourism	389	397	440	552	..
	As a percentage of total revenues	29.16	57.57	27.60	24.72	..
	As a percentage of GDP	0.51	0.45	0.42	0.41	..
Bahrain	Revenues from Arab intraregional tourism	858	558	664	..	..
	As a percentage of total revenues	75.86	47.25	47.61	..	..
	As a percentage of GDP	10.16	5.81	6.00	..	..
Tunisia	Revenues from Arab intraregional tourism	618	673	752	..	..
	As a percentage of total revenues	40.57	42.60	38.13	..	..
	As a percentage of GDP	2.92	2.50	2.57	..	..
Algeria	Revenues from Arab intraregional tourism	6.86	9.72	11.89	..	..
	As a percentage of total revenues	2.26	8.68	6.69	..	..
	As a percentage of GDP	0.012	0.014	0.014	..	..
Saudi Arabia	Revenues from Arab intraregional tourism	3 537	3 265	3 937	4 113	3 700
	As a percentage of total revenues	61.16	57.76	60.25	67.31	74.58
	As a percentage of GDP	1.87	1.52	1.57	1.34	1.07
Syrian Arab Republic	Revenues from Arab intraregional tourism	1 070	942	2 873	3 693	3 672
	As a percentage of total revenues	74.07	77.46	78.6	..	..
	As a percentage of GDP	5.18	4.35	12.23	14.72	11.29
Oman	Revenues from Arab intraregional tourism	62	76	82	92	..
	As a percentage of total revenues	27.9	32.89	..	..	..
	As a percentage of GDP	0.31	0.35	0.33	0.31	..
Qatar	Revenues from Arab intraregional tourism	152	187	201	289	264
	As a percentage of total revenues	53.19	50.73	40.32	38.03	70.55
	As a percentage of GDP	0.77	0.79	0.71	0.85	0.50
Kuwait	Revenues from Arab intraregional tourism	1 732	1 896	3 523	4 315	..
	As a percentage of total revenues	60.63	58.33	58.34	26.32	..
	As a percentage of GDP	4.92	4.11	6.32	5.34	..
Lebanon	Revenues from Arab intraregional tourism	1 805	2 643	2 218	2 048	2 058
	As a percentage of total revenues	42.13	41.46	41.00	37.93	41.04
	As a percentage of GDP	10.39	14.58	11.23	9.29	8.84
Libyan Arab Jamahiriya	Revenues from Arab intraregional tourism	1 080	1 301	1 354	..	..
	As a percentage of total revenues	93.91	94.03	92.58	..	..
	As a percentage of GDP	5.33	7.18	4.9	..	..
Egypt	Revenues from Arab intraregional tourism	819	1 005	1 251	1 535	1 313
	As a percentage of total revenues	3.27	2.37	1.95	..	17.29
	As a percentage of GDP	0.97	1.23	1.59	1.72	1.22
Morocco	Revenues from Arab intraregional tourism	68.96	71.28	105.23	..	..
	As a percentage of total revenues	2.61	2.21	2.68	..	..
	As a percentage of GDP	0.19	0.16	0.21	..	..
Yemen	Revenues from Arab intraregional tourism	2	15	23	32	..
	As a percentage of total revenues	66.20	68.07	61.01	..	..
	As a percentage of GDP	0.024	0.13	0.18	0.20	..

Source: Calculated on the basis of World Tourism Organization, *Tourism Market Trends, Middle East,* 2004 and 2005 Editions.

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

Box 7. Travel and Tourism Competitiveness Index for the Arab countries

In accordance with the Travel and Tourism Competitiveness Index (TTCI), countries are ranked by their competitiveness, the efforts they make to support tourism, and the means they possess. The ranking covered 124 countries, including 10 Arab countries. TTCI has a score from 1 to 7; the higher the score the better. TTCI is based on three broad categories of variables:

(a) The regulatory framework which is composed of policy rules and regulations; environmental regulation; safety and security; health and hygiene; and prioritization of travel and tourism;

(b) The T and T business environment and infrastructure which includes air transport infrastructure, ground transport infrastructure, tourism infrastructure, information and communications technology (ICT) infrastructure, and price competitiveness;

(c) The T and T human, cultural, and natural resources which comprise the national tourism perception as well as the natural and cultural resources.

In terms of performance, the United Arab Emirates ranked first among the Arab countries and 18th worldwide; its performance was similar with regard to the five selected T and T competitiveness indicators. The United Arab Emirates is distinguished by its excellent safety and security, globally competitive ground and air transport, and a very good ICT infrastructure. The State has abundant resources needed for improving its ranking in the coming years. Tunisia ranked second among the Arab countries and 34th globally in terms of the competitiveness index. Tunisia enjoys numerous natural and cultural resources as well as one of the best regulatory framework of the world. It ranked first globally in terms of adopting strategies that provide T and T incentives; the Government devotes a high percentage of its budgetary allocations to this sector. Tunisia also enjoys competent human resources and well-equipped hotels. Qatar ranked third among the Arab countries and 36th globally, it has a reliable infrastructure, a favourable business environment, and a good regulatory framework.

Measured by TTIC, seven Arab countries fall within the top half of all assessed with regard to the T and T regulatory framework. Algeria, Kuwait and Mauritania lag behind in that respect. The Arab countries rank high in safety and security, except for Algeria because of the heavy presence of security officers and the great concern for tourist safety. The performance of the Arab countries was average in health and hygiene due to the scarcity of drinking water and the high ratio of people to doctors. In prioritization of T and T, Tunisia ranks first worldwide as it adopts policies favourable to tourism within its national strategies and carries out advertising campaigns. Algeria, Bahrain and Kuwait lag behind as they do not attach great importance to tourism.

With regard to the business environment and the tourism infrastructure, the Arab countries are divided into two groups: GCC member countries plus Egypt and Tunisia with great potential. The first group provides modern, innovative air and land transport; an advanced tourism infrastructure, with the largest network of hotels, a large number of car hire offices and automated cash machines; and a very advanced ICT infrastructure accessible to all. The second group continues to show weakness in its tourism infrastructure. In view of the relatively low fuel prices in general and low tax rates and passenger ticket prices in particular in most of Arab countries, the cost is reasonable, which account for the high ranking of those countries in the competitiveness of T and T prices. With the exception of Algeria, Kuwait and Mauritania, the Arab countries enjoy good natural resources and an environment that is favourable to tourism.

T&T Competitiveness Index for some Arab countries, 2006

	Overall Index		Regulatory framework		Safety and security		Business environment and infrastructure		Tourism and infrastructure		Natural and cultural resources	
Country	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
United Arab Emirates	18	5.09	18	5.28	10	5.83	19	4.68			24	5.31
Tunisia	34	4.76	12	5.34	14	5.64	47	3.77			37	5.15
Qatar	36	4.71	34	5.04	17	5.61	39	4.10			49	4.99
Jordan	46	4.52	30	5.09	19	5.33	54	3.65	49	3.56	58	4.82
Bahrain	47	4.45	61	4.24	61	4.55	34	4.24	31	4.18	54	4.86
Morocco	57	4.27	47	4.60	43	4.88	72	3.27	62	3.11	52	4.93
Egypt	58	4.24	50	4.52	64	4.54	60	3.51	85	2.39	68	4.70
Kuwait	67	4.08	71	4.07	22	5.38	50	3.71	52	3.49	86	4.46
Mauritania	92	3.71	95	3.68	54	4.71	97	2.80	72	2.71	74	4.67
Algeria	93	3.67	89	3.81	74	4.18	93	2.82	114	1.69	97	4.37

Source: "Assessing Travel & Tourism Competitiveness in the Arab World", Jennifer Balnake and Irene Mia.
Note: Countries are ranked according to TTCI. Scores are on a scale of 1 to 7, with the higher scores reflecting stronger performance.

D. ARAB INTRAREGIONAL LABOUR MIGRATION

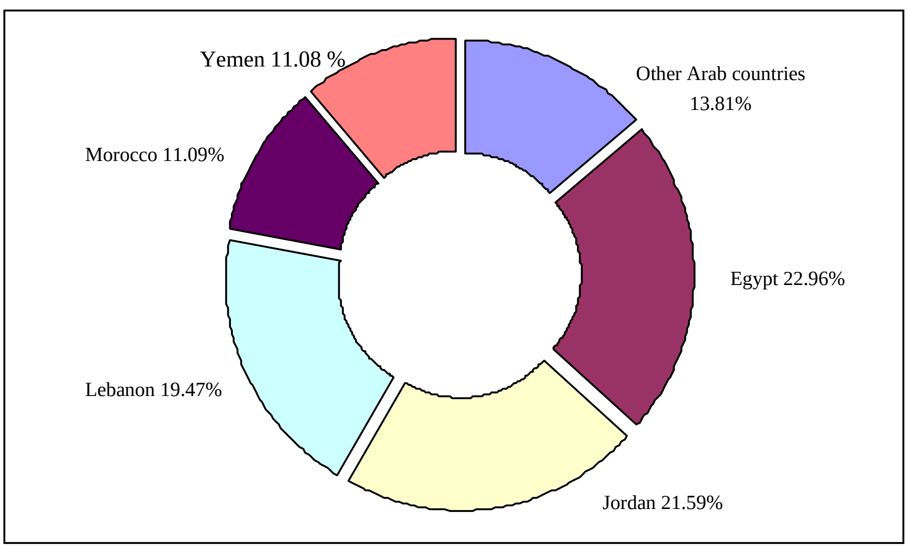
"Jordan, Lebanon, Egypt, Morocco and Yemen received the highest percentage of remittances from Arab intraregional migrant labour"

In 2005, remittances from Arab intraregional migrant labour remained at their 2006 level of US$ 9.8 billion, while those sent to Egypt increased by about 50 per cent, growing from US$ 1.5 billion in 2004 to approximately US$ 2.3 billion in 2005. It is expected that remittances to Egypt will continue to grow. According to some sources, remittances to Egypt from Egyptian migrant labour in the other Arab countries in 2006 were estimated at US$ 3.35 billion or 60 per cent of overall remittances (estimated at US$ 6 billion). As a source of remittances to Egypt, Saudi Arabia came first (nearly US$ 1,977 million), followed by Kuwait (US$ 241.8), and the United Arab Emirates (US$ 189.2 million).[27] On the other hand, Arab intraregional remittances fell to Tunisia, Algeria, Palestine and Lebanon, with a maximum drop of 37 per cent for Palestine and a minimum 13 per cent for Tunisia (table 23).

Five Arab countries continue to receive more than 86 per cent of total Arab intraregional migrant remittances. Egypt led the group (23 per cent), followed by Jordan (21.6 per cent), Lebanon (19.5 per cent), the Sudan (11.1 per cent) and Yemen (11.1 per cent) (figure 12).

Workers' remittances provide a great potential for development if properly channeled in such a manner as to help reduce poverty. Together with revenues from tourism, workers' remittances from an important source of hard currency as well as a stable source of foreign currencies, contrary to revenues from tourism and FDI which are greatly influenced by the internal situation and the general conditions of the host country. Furthermore, workers' remittances go directly to families and consequently make a significant contribution to the reduction of poverty. Estimates show that Arab migrant remittances from the GCC countries in the period 1993-2000 exceeded US$ 200 billion. The number of Arab migrant workers in the GCC countries was close to 5 million in 2005.[28]

Figure 12. Distribution of the Arab intraregional migrant remittance flows by host country, 2005



Source: Based on table 24 below.

[27] http://www.aljazeera.nt/News/aspx/print.htm, 1 March 2007.

[28] Henry Azzam, "Oil in a Week, effects of Arab migrant remittances on the home economies", *Al-Hayat*, 12 December 2006.

Workers' remittances constitute a sizeable portion of bank deposits in the major Arab labour sending countries. Workers' remittances as a percentage of total foreign exchange reserves are estimated at 58 per cent in the Sudan, 40 per cent in Jordan, 16 per cent in Lebanon and 11 per cent in Egypt for 2005; as well as at 18 per cent in Yemen for 2004.

In view of the fluctuation of FDI and ODA flows, total inter-Arab migrant labour remittances in 2000-2005 also underwent great fluctuations as a percentage of FDI flows into the Arab countries and of ODA received by those countries, which underscores the earlier statement that migrant worker remittances are more stable than the other flows. Inter-Arab workers' remittances as a percentage of total FDI flows into the Arab countries fell from 146.6 per cent in 2000 to 91.1 per cent in 2003, then rose to 104.2 per cent in 2004 to drop again to 57.2 per cent in 2005. Inter-Arab workers' remittances as a percentage of total ODA to the Arab countries fell from 211.5 per cent in 2000 to 195.2 per cent in 2003, then rose to 211.6 per cent in 2005 (table 24).

TABLE 24. INTRAREGIONAL MIGRANT WORKERS' REMITTANCES, 2000-2005
(*Millions of dollars and percentages*)

		2000	2001	2002	2003	2004	2005
Jordan	Value of remittances	1 568.3	1 709.4	1 821.6	1 870.9	1 980.5	2 125
	As percentage of GDP	18.54	19.05	19.05	18.41	17.20	16.52
	As percentage of FDI	199.3	1 709.4	2 846.2	429.1	318.9	138.7
	As percentage of ODA	283.9	380.7	339.3	149.9	329.4	341.6
	As percentage of imports	34.1	35.1	35.9	32.6	24.3	20.2
	As percentage of foreign exchange reserves				36.02	37.60	40.47
Tunisia	Value of remittances	79.6	92.7	107.1	125	143.2	124.2
	As percentage of GDP	0.41	0.46	0.46	0.46	0.49	0.43
	As percentage of FDI	10.2	19.1	13.1	21.4	22.4	15.9
	As percentage of ODA	59.7	41.0	67.4	70.0	72.9	55.0
	As percentage of imports	0.9	1.0	1.1	1.1	1.1	0.9
	As percentage of foreign exchange reserves				3.18	3.23	..
Algeria	Value of remittances	55.3	46.9	74.9	122.5	172.2	136.5
	As percentage of GDP	0.10	0.09	0.13	0.18	0.20	0.13
	As percentage of FDI	12.63	3.92	7.03	19.32	19.52	12.63
	As percentage of ODA	27.5	21.0	22.8	52.3	54.8	36.8
	As percentage of imports	0.61	0.48	0.63	0.80	0.83	0.58
	As percentage of foreign exchange reserves				0.37	0.40	0.24
The Sudan	Value of remittances	434.9	532.4	705.9	791.7	1 027	1 091.4
	As percentage of GDP	3.32	3.64	4.28	4.14	4.66	3.83
	As percentage of FDI	110.9	92.7	99.0	58.7	68.0	47.4
	As percentage of ODA	197.3	294.9	205.6	129.2	103.6	59.7
	As percentage of imports	29.9	28.6	32.6	29.2	25.1	16.3
	As percentage of foreign exchange reserves				149.53	76.76	58.41
Syrian Arab Republic	Value of remittances	426.4	424.5	396.5	439.4	555.75	535.0
	As percentage of GDP	2.25	2.10	1.92	2.03	2.36	2.13
	As percentage of FDI	157.9	385.9	88.5	244.1	308.8	77.3
	As percentage of ODA	270.0	277.6	518.4	374.0	519.7	687.2
	As percentage of imports	7.9	6.6	5.5	5.1	2.1	3.4
	As percentage of foreign exchange reserves				..	..	..
Palestine	Value of remittances	505.8	359.6	305.6	311.4	311.4	196.2
	As percentage of GDP	11.39	8.69	8.08	7.38	6.98	..
	As percentage of FDI	815.8	1979.8	6 111.0	..	635.5	417.5
	As percentage of ODA	..	..	..	..	..	..
	As percentage of imports	..	..	..	..	..	..
	As percentage of foreign exchange reserves				..	..	..

TABLE 24 (*continued*)

		2000	2001	2002	2003	2004	2005
Lebanon	Value of remittances	949.5	1 038.6	1 144.8	1 578.2	2 516.4	1 915.7
	As percentage of GDP	5.76	6.20	6.59	8.71	12.74	8.69
	As percentage of FDI	318.6	417.1	445.5	55.2	126.3	69.6
	As percentage of ODA	476.5	428.3	253.2	701.0	951.8	788.4
	As percentage of imports	15.3	16.3	18.3	20.7	27.1	19.9
	As percentage of foreign exchange reserves				12.61	21.44	16.12
Egypt	Value of remittances	1 283.4	1 310.0	1 301.9	1 332.5	1 503.5	2 259
	As percentage of GDP	1.31	1.45	1.52	1.64	1.92	2.53
	As percentage of FDI	103.92	256.85	201.21	562.22	69.70	42.02
	As percentage of ODA	96.5	104.0	105.0	135.0	103.0	244.0
	As percentage of imports	5.8	10.3	6.6	6.2	5.4	6.7
	As percentage of foreign exchange reserves				9.81	10.53	10.96
Morocco	Value of remittances	172.9	260.9	230.2	289.1	337.7	367.2
	As percentage of GDP	0.52	0.77	0.64	0.66	0.67	0.71
	As percentage of FDI	80.4	9.2	47.9	11.9	31.6	12.5
	As percentage of ODA	68.8	83.9	78.9	89.4	79.6	93.9
	As percentage of imports	1.5	2.3	2.0	2.0	1.9	1.8
	As percentage of foreign exchange reserves				2.09	2.07	2.27
Yemen	Value of remittances	1 094.8	1 100.8	1 099.9	1 079.5	1 090.6	1 090.6
	As percentage of GDP	11.51	11.40	10.69	9.58	8.45	6.69
	As percentage of FDI	18 246.7	809.4	1 078.3	17991.7	757.3	(361.1)
	As percentage of ODA	416.7	240.3	188.8	461.9	430.7	324.6
	As percentage of imports	47.1	44.6	39.6	24.5	27.4	22.7
	As percentage of foreign exchange reserves				19.06	17.83	..
Total	Value of remittances	6 570.8	6 875.5	7 188.2	7 940.1	9 638.1	9 840.6
	As percentage of GDP	2.97	3.15	3.22	3.35	3.83	3.58
	As percentage of FDI	146.6	110.8	138.6	91.1	104.2	57.2
	As percentage of ODA	211.5	209.6	195.2	202.3	224.2	211.6
	As percentage of imports	10.6	12.3	11.1	10.5	8.7	8.6
	As percentage of foreign exchange reserves				8.98	9.38	8.78

Source: ESCWA, based on *World Development Indicators* database, www.worldbank.org and ESCWA estimates.

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

As oil prices worldwide rose over the last four years and as GCC economies grew significantly, remittances are expected to grow in 2006 and 2007.

Box 8. Significance of temporary movement of labour in the ESCWA region

The temporary movement of labour between countries continues to face obstacles, notably current visa restrictions, the quota system adopted by many States for receiving foreign workers, the economic requirements regarding employing as contracting with foreigners, restrictions on recognition and equivalence of professional skills, policies of pay parity and social entitlements, conditions for joining trade unions and professional associations, etc. The temporary movement of labour across borders began to receive attention over the last few years as a result of the growing importance of international trade in services which produced new patterns of investment as well as exchange of qualified and skilled people across borders. Many countries sought to develop a framework to regulate the reception of skilled labour for a temporary stay to supply some services, thus allowing the reception of highly skilled persons, business visitors, and corporate managers. Other countries noticed the temporary movement of staff of foreign corporations. As a result, numerous States found in unilateral, bilateral or regional arrangements a means of regulating temporary movement.

At the global level, the General Agreement on Trade in Services (GATS) allows for member States to bold negotiations on obligations in this regard. GATS distinguished between four modes of supplying services. Mode 4 deals with the supply of a service by natural persons of one member State entering the territory of another member. Mode 4 at the present time only facilitates the movement of skilled labour, managers and others with high qualifications.

Box 8 (*continued*)

In the current negotiations, developing and least developed countries demand the expansion of obligations to include the remaining categories of the workforce, including unskilled labour. The negotiations will perhaps lead to greater liberalization in this area, notwithstanding the caution shown by the developing and the developed countries with regard to the movement of natural persons on account of its possible economic, social and security consequences.

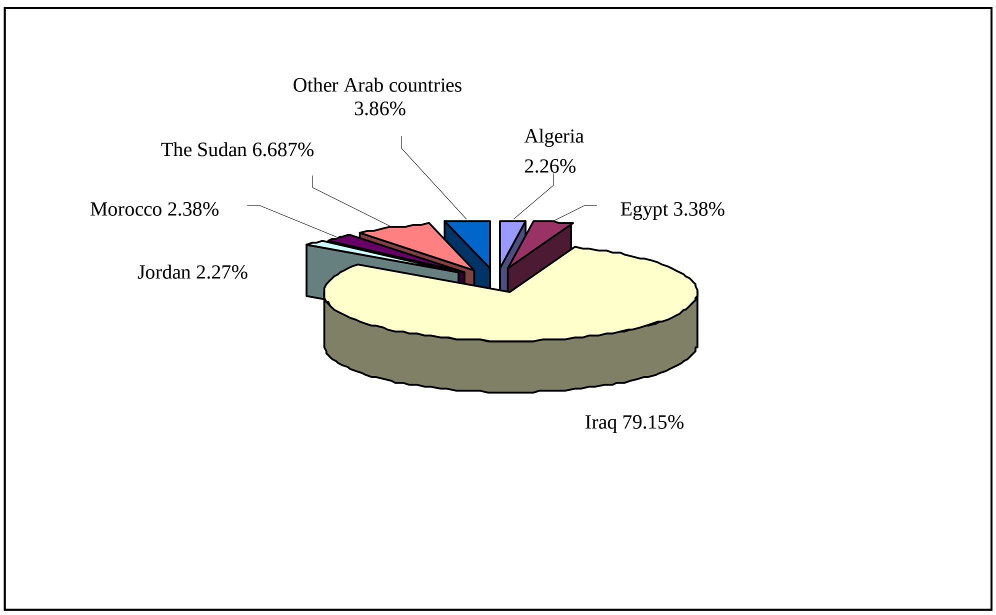
In view of the foregoing, ESCWA held a regional workshop on 5-6 September 2007, in cooperation with the Arab Labour Organization, to introduce Mode 4 of GATS for the supply of services, known as the movement of natural persons. The workshop also aimed at identifying the scope and magnitude of Mode 4, how it relates to regional and global labour migration and the perils involved. It described the current negotiations on the movement of natural persons, with particular emphasis on the obligations of the Arab States in this regard; it also identified the implications of the liberalization of the movement of natural persons for the labour market and the economy through two case studies of Egypt and the United Arab Emirates. The workshops provided an opportunity to hold a debate among officials from the ministries of labour and trade, immigration officials, representatives of employer employee organizations, professional associations and trade unions in order to come out with clear Arab positions on the liberalization of the temporary movement of labour within the framework of negotiations of GATS and to point out the social and economic costs and benefits of such liberalization.

E. INTRAREGIONAL ODA

"Iraq receives the lion's share of intraregional ODA"

Intraregional ODA grew significantly, rising by 376 per cent from US$ 5.9 billion in 2004 to more than US$ 16.4 billion in 2005. Iraq received the lion's share in 2005: 79 per cent of total intraregional ODA or nearly US$ 13 billion, which represents an increase of 566 per cent over 2004. The Sudan ranked second in 2005 in terms of intraregional ODA flows, receiving US$ 1.1 billion or 6.7 per cent of total intraregional ODA, which represents an increase of 84 per cent over 2004 (figure 13).

Figure 13. Distribution of inter-Arab ODA, 2005



Source: ESCWA, based on table 25 below.

Overall it should be noted that intraregional ODA grew in varying degrees in seven Arab countries covered by the survey (Algeria, Iraq, Jordan, the Libyan Arab Jamahiriya, the Sudan, Tunisia and Yemen), while it fell in four others (Egypt, Lebanon, Morocco and the Syrian Arab Republic) (table 25).

As a percentage of GDP, total intraregional ODA has continued to grow since 2000. Growth of intraregional ODA flows into the Arab countries in 2004 and 2005 was considerable as a percentage of GDP, rising from 1.51 per cent in 2004 to 3.64 per cent in 2005.

TABLE 25. INTRAREGIONAL ODA, 2000-2005
(*Millions of dollars and percentages*)

		2000	2001	2002	2003	2004	2005
Jordan	Amount of intraregional ODA	331	269	322	749	361	373
	As percentage of GDP	3.92	3.00	3.37	7.37	3.13	2.90
Tunisia	Amount of intraregional ODA	133	226	159	179	197	226
	As percentage of GDP	0.69	1.13	0.69	0.66	0.67	0.78
Algeria	Amount of intraregional ODA	201	224	328	324	314	371
	As percentage of GDP	0.37	0.41	0.58	0.34	0.37	0.36
The Sudan	Amount of remittances	132	108	206	368	595	1097
	As percentage of GDP	1.01	0.74	1.25	1.92	2.70	3.85
Syrian Arab Republic	Amount of remittances	95	92	46	70	64	47
	As percentage of GDP	0.50	0.45	0.22	0.33	0.27	0.19
Iraq	Amount of intraregional ODA	60	73	64	1350	2790	12992
	As percentage of GDP	0.18	0.25	0.24	6.78	8.28	40.96
Lebanon	Amount of remittances	120	145	271	135	159	146
	As percentage of GDP	0.72	0.87	1.56	0.75	0.80	0.66
Libyan Arab Jamahiriya	Amount of intraregional ODA	8	4	4	5	7	15
	As percentage of GDP	0.02	0.01	0.02	0.02	0.03	0.04
Egypt	Amount of remittances	798	756	744	592	876	556
	As percentage of GDP	0.82	0.84	0.87	0.73	1.12	0.62
Morocco	Amount of intraregional ODA	251	311	292	323	424	391
	As percentage of GDP	0.75	0.92	0.81	0.74	0.85	0.75
Yemen	Amount of remittances	158	275	350	140	152	202
	As percentage of GDP	1.66	2.85	3.40	1.24	1.18	1.24
Total	Amount of remittances	2287	2483	2786	4145	5939	16414
	As percentage of GDP	0.67	0.75	0.86	1.20	1.51	3.64

Sources: ESCWA, based on *World Development Indicators* database, www.worldbank.org; and ESCWA estimates.

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

ODA is expected to continue to grow in 2006 and 2007, particularly in view of the following developments: the deterioration of the political and economic crisis in Iraq; the Israeli attack on Lebanon in July-August 2006 and the resulting instability of the security and political situation which heavily burdened the Lebanese economy. Within the framework of the International Conference for Support to Lebanon (PARIS III), Saudi Arabia in 2007 extended to Lebanon a grant of US$ 500 million and made a deposit of US$ 1 billion in the Central Bank of Lebanon. Yemen convened in November 2006 in London a Donors' Conference sponsored by the GCC, at which countries pledged to extend assistance in the amount of US$ 5 billion in the form of grants and loans, including about US$ 3-4 billion (namely 67.5 per cent) in Arab intraregional assistance.

IV. INDEX OF REGIONAL INTEGRATION AND INTERRELATIONS AMONG ARAB SECURITIES MARKETS

A. INDEX OF REGIONAL INTEGRATION IN THE ARAB WORLD

"Jordan returned to first rank on the index of regional integration"

For the second year in a row, ESCWA constructs an index of regional integration on the basis of four fundamental variables opening up trade, investment, workers' remittances, and tourism (table 26). For 2006, the same weighting factors of the last Annual Review will be used: 38.22 for the trade variable, 12.82 for the investment variable, 34.07 for the workers' remittances variable, and 14.89 for the tourism variable.[29]

On the basis of the sources and the index of table 27, 16 Arab countries were ranked, using available data from 2006-2006. One of the variables of the index is the degree of opening up shown by one Arab country to another. The higher the rank the better the performance in terms of Arab regional integration.

In 2006, Jordan recovered the first rank it had occupied in 2003 and 2004, as Lebanon moved from first rank in 2005 to second rank in 2006. The most important reasons for that development are increasing intra-Arab trade, investment, and tourism in Jordan in 2006, while intra-Arab tourism declined in Lebanon as a result of the political situation in 2005 and the war of the summer of 2006.

TABLE 26. VARIABLES USED IN THE REGIONAL INTEGRATION INDEX

Variable	Description	Source
Intraregional trade	The sum of exports from all Arab States and imports into all Arab States as a proportion of GDP	(1) ESCWA, drawing from the IMF annual report, "Direction of Trade Statistics" (various editions); (2) Joint Arab Economic Report.
Intraregional investment	The sum of internal investment flows from all Arab sources and external investment flows to all Arab States as a proportion of GDP	(1) "Report on Investment Climate in the Arab Countries", 2005 and 2006, published by the Inter-Arab Investment Guarantee Corporation, Kuwait, June 2006 and 2007; (2) Joint Arab Economic Report.
Intraregional workers' remittances	Sum of flows of internal and external remittances among the Arab States as a proportion of GDP	(1) International Financial Statistics (IFS), Balance of Payment Statistics; (2) United Nations Expert Group Meeting on International Migration and Development in the Arab Region (Lebanon, 15-17 May 2006); (3) Joint Arab Economic Report: "Migration Workers' Remittances and Economic Development in the Arab States", 2006.
Intraregional tourism	Number of Arab tourists as a proportion of the Arab States' total population	World Tourism Organization, Tourism Market Trends, Middle East, 2004 and 2006 editions, and ESCWA reports.

[29] For the details of computation of the four variables, see chapter IV, "Annual Review of Development in Globalization and Regional Integration in the Arab Countries, 2006", (E/ESCWA/GRID/2006/3).

Yemen moved from 2nd rank in 2005 to 5th rank in 2006, while both Bahrain and Oman advanced as a result of improved intra-Arab trade and tourism in both countries, especially from Saudi Arabia.

Egypt and Saudi kept their previous rank in 2006, while Tunisia made a remarkable progress from 14th in 2005 to 9th in 2006, which is attributed to the growth of intra-Arab investment in Tunisia by 334 per cent.

In contrast, the Libyan Arab Jamahiriya, Algeria and Morocco ranked low, reflecting their low degree of dependence on the other Arab countries.

As mentioned in the last Annual Review, it can lastly be stated that the small countries continue to top the list, for they significantly depend on intra-Arab tourism, investment and remittances.

TABLE 27. RANKING OF ARAB COUNTRIES IN TERMS OF THE REGIONAL INTEGRATION INDEX, 2003-2006

	2006		2005*		2004		2003	
	Ranking	Index	Ranking	Index	Ranking	Index	Ranking	Index
Jordan	1	8.6849	3	4.8190	1	6.0676	1	7.4116
Lebanon	2	8.6518	1	5.3524	2	5.7334	3	5.1284
Bahrain	3	5.1860	4	3.8627	3	4.7914	2	5.9261
Syrian Arab Republic	4	5.4281	5	3.7489	4	4.5415	7	1.5900
Yemen	5	2.3161	2	5.1627	5	2.9530	4	4.0285
Oman	6	2.1113	9	0.9066	9	1.2212	5	2.0626
Qatar	7	2.0316	12	0.6307	11	0.8842	10	1.0925
Egypt	8	1.4534	8	1.0301	8	1.3038	13	0.8535
Tunisia	9	1.3075	14	0.4051	13	0.4668	14	0.6925
United Arab Emirates	10	1.2056	7	1.2187	7	1.3591	8	1.2873
Saudi Arabia	11	0.9517	11	0.7987	12	0.5441	11	1.0389
The Sudan	12	0.9404	6	1.7505	6	1.8204	6	2.0494
Kuwait	13	0.8266	10	0.8252	10	0.9381	12	0.9887
Libyan Arab Jamahiriya	14	0.6886	15	0.2270	15	0.3571	15	0.6245
Morocco	15	0.5056	13	0.4711	14	0.4182	16	0.6051
Algeria	16	0.2610	16	0.0445	16	0.0232	9	1.2826

Source: ESCWA, calculated on the basis of table 26.

* Data for 2006 are mainly based on approximate percentages.

The above table shows the varied performance of Arab countries. In general, it is noted that the countries of the Arab Maghreb depend more on foreign markets, particularly those of the European Union, than on Arab markets, especially for trade and workers' remittances. While oil accounts for most of the experts of the GCC countries, thus reducing their intra-Arab trade as a percentage of their overall trade, they continue, in absolute terms, to overtake the other Arab countries in this regard. Moreover, the GCC countries constitute a source of workers' remittances and intra-Arab investment. Countries on top of the list depend much on the economies of the other Arab countries for trade, investment or workers' remittances, thus they are considered more integrated than other Arab countries.

B. NETWORKING OF ARAB SECURITIES MARKETS

Since the end of the 1980s, most Arab countries have attached great importance to the role of securities markets and the private sector in achieving economic development goals. In the light of international events on the Arab region and the increasing globalization and financial liberalization, Arab economies rely on the role of stock markets to mobilize domestic and foreign savings as well as on the provision of medium- and long-term development projects in the various economic sectors.

As the pace of privatization increased in the Arab region, Arab securities markets became a reliable source of support for the successful privatization of public enterprises and their transformation into joint-stock companies through subscription and share trading. If managed well, securities markets can play an important role in improving the allocation of available resources as well as the efficiency of capital and productivity. Applied studies show that the development of securities markets can reduce extreme fluctuations of the macroeconomic variables, especially in the long-run.

The effective development and networking of Arab securities markets are needed as a prerequisite to recovering Arab capital to the region and attracting foreign investment. Statistics indicate that massive Arab capital to flow out of the region, notwithstanding the fact that the number of Arab securities markets grew from only four in 1970s to fifteen at present.[30] Investment outflows from the GCC countries in 2006-2006 totalled approximately US$ 482 billion, with the United States of America receiving US$ 300 billion, Europe US$ 100 billion, Middle East and Asia US$ 60 billion, and the other parts of the world US$ 22 billion.[31]

1. *Performance of Arab securities markets*

The Arab stock markets combined are relatively of small volume in comparison with the overall value of the global market, constituting about 1.7 per cent of the global market and approximately 2.3 per cent of global trading.[32] Arab securities markets witnessed steady growth over the last 12 months. As shown in figure 14, capitalization of the market from approximately US$ 73 billion in 1994 to about US$ 931 billion at the end of Q2 of the current year, namely at the rate of 1,175 per cent. During the period 1994-2007, the performance of the Arab stock markets was affected by the South East Asian financial crisis of 1997, with a growth rate of 5 per cent in 1997-2001.

During the past five years, Arab stock markets witnessed unprecedented growth rates; their market value jumped from US$ 152 billion at the end of 2001 to US$ 1,290 billion in 2005. The Saudi Arabian market ranked 15th on the list of the world's largest stock markets in 2005.[33] In the Global Financial Centers Index, Bahrain, Dubai and Oman were included on the list of the top 50 financial centres in the world.[34]

The good performance of the Arab securities markets is attributed to numerous factors, notably the high oil revenues of the GCC countries resulting from soaring oil prices, expanding public expenditure, increasing liquidity due to return of part of Arab capital from abroad, and the growing activity of the private sector.

Table 28 below shows that, in terms of market values, Saudi Arabia has the largest Arab securities market while Algeria has the smallest one. From 1994 to Q2 of 2007, the relative importance of the Saudi securities market in the capitalization of some securities markets fell from 53 per cent to about 32 per cent. It is to be noted that the market value of the Arab securities markets, with the exception of that of Saudi Arabia, falls below the average value of US$ 175 billion for the market value of the emerging markets.[35]

It is to be noted that the huge increase in the capitalization of Arab stock markets was not paralleled with a significant increase in the number of companies listed in the Arab securities markets, as the number such companies grew from 1,089 in 1994 to 1,613 at the end of Q4 of 2007, namely at a rate of 48 per cent (an average annual increase of nearly 4 per cent). If the Egyptian stock exchange which accounts for about 34 per cent of the relative significance of the total number of companies in the Arab stock markets is excluded, the average annual growth rate of the number of those companies will be close to 16 per cent.

[30] ESCWA, "Responding to Globalization: Stock market networking from regional integration in the ESCWA region, (E/ESCWA/GRID/2003/37), p. 7.

[31] www.zawya.com/printhistory.cfm?storyid=ZAWYA20070607082042&1=082000070607.

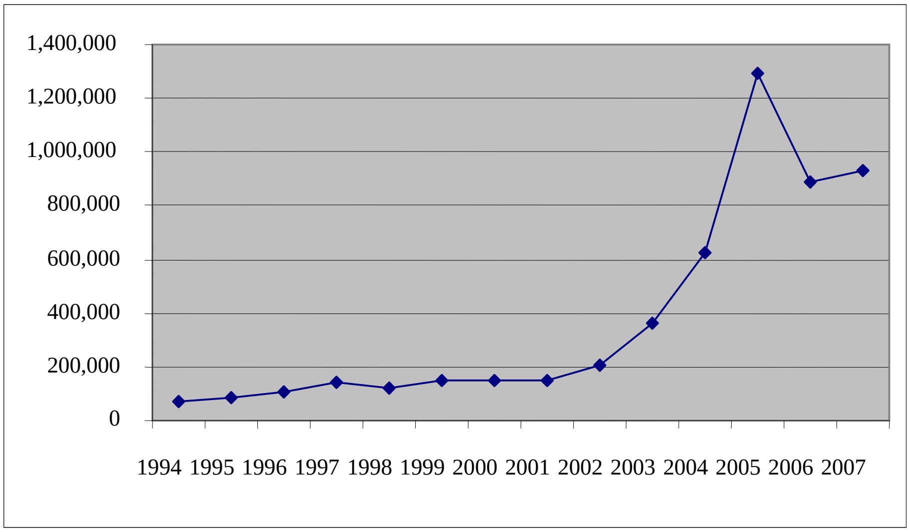
[32] Gihan Al-Misri, "Arab securities markets between modernization and economic opening up", Al-Sharq Al-Awsat, No. 10322, 3 March, 2007.

[33] *The Economist*, "Largest stock market capitalization", 22 August 2007.

[34] City of London, The Global Financial Centres Index, September 2007.

[35] Expert Group Meeting on the Role of Capital Markets in the Economic Development of the ESCWA member countries, 19-20 September 2006, Abu Dhabi, United Arab Emirates.

Figure 14. Market value of Arab securities markets, 1994-Q2 of 2007



Source: Arab Monetary Fund, www.amf.org.ae.

With the exception of the stock markets of Cairo, Alexandria and Amman, Arab stock markets are considered small in terms of the number of listed companies. The number of companies listed in each Arab securities market (excluding the Egyptian and Jordanian stock markets) averaged 63, which is lower than 597 in the stock markets of the emerging economies.[36]

The number of listed companies does not exceed 200 in any Arab securities market; in five of these markets the number is less than five for each and in 11 others it is less than 100 each. Joint listing in Arab stock exchanges continues to be weak. Although there are 1,613 companies listed in Arab securities markets today, only 28 are listed in two and five in three of those markets.[37]

In terms of the size of the economy, table 28 shows that the average market value of the Arab securities markets as a percentage of GDP exceeds that of the emerging economies, with the former approximately 79 per cent while the latter approaching 55 per cent.[38] The higher Arab average reflects the huge liquidity in Arab economies, especially the GCC countries as a result of the current high oil prices. Some experts attribute the massive increase in the market value of the Arab stock markets to the limited channels of investment in the Arab countries which are confined mostly to investment in real estate and in stock markets.

Table 29 below shows that Arab stock markets do not reflect the true significance of the various sectors of the economy. Although dominant in the GCC economies as a result of the oil industry, the industrial sector represents only a small percentage of the market value in all the GCC stock market, except for the securities market of Saudi Arabia where most of the oil companies are government-owned and not listed. In Egypt the communications sector forms 20 per cent of the market value of the stock market, although it represents less than 7 per cent of GDP.[39]

As shown in table 29, the banking and financial services sector represents the largest portion of the market value of a number of Arab stock markets, especially in the GCC countries; it also represents more than 80 per cent of the market value of the stock markets of Bahrain and Muscat as well as more than 60 per cent of those of Beirut and Tunisia. The Arab Bank represents 30 per cent of the market value of the Amman stock market.

[36] Ibid.

[37] See footnote 33 above.

[38] See footnote 36 above.

[39] ESCWA, Expert Group Meeting on the Role of Capital Markets in the Economic Development of the ESCWA member countries: Case of the Egyptian stock exchange, 19-20 September 2006, Abu Dhabi, United Arab Emirates.

TABLE 28. SELECTED INDICATORS FOR ARAB SECURITIES MARKETS

Market	Overall market value (US$ million)			Number of listed companies (end of period)			Relative volume of securities markets (percentage of overall market value)	Market value as a percentage of GDP
	2007	2002	1994	2007	2002	1994	2007	2006
Abu Dhabi Securities Exchange	96	20.00	-	64	24	-	10.3	49
Amman Stock Exchange	32	7.00	5.00	233	158	95	3.4	209
Bahrain Stock Exchange	23	8.00	5.00	50	40	34	2.4	133.8
Saudi Stock Market	297	75.00	39.00	95	68	62	31.8	94.2
Kuwait Stock Exchange	122	35.00	11.00	186	95	48	13.1	104
Casablanca Stock Exchange	60	9.00	4.50	65	55	61	6.4	75
Algeria Stock Exchange	0.1	-	-	2	-	-	0	0.08
Tunisia Stock Exchange	4.7	2.00	3.00	49	46	21	0.5	13.4
Dubai International Financial Exchange	96	9.00	-	51	12	-	10.3	52.7
Khartoum	4.1	-	-	52	-	-	0.4	10.5
Palestine Securities Exchange	2.4	-	-	36	-	-	0.3	-
Muscat Securities Market	15	5.00	2.00	123	140	68	1.6	36.6
Doha Securities Market	66	11.00	-	36	25	-	7.3	115.5
Beirut Stock Exchange	8.5	1.40	-	16	13	-	0.9	35.7
Cairo and Alexandria Stock Exchanges	106	26.00	4.00	555	1150	700	11.3	87.1
Total	933	208.40	73.50	1 613	1 826	1 089	100	79.2

Source: Arab Monetary Fund, Database of Arab Securities Markets, Quarterly Bulletin, Q2 of 2007, No. 50.

TABLE 29. COMPANIES LISTED ON ARAB SECURITIES MARKETS, BY SECTOR

Market	Sector					
	Banking and financial services	Industry	Services	Real estate	Communications	Other
Abu Dhabi Securities Exchange	44.7	15.4	0	23.95	8.68	7.27
Bahrain Stock Exchange	82.31	0.19	17.5	0	0	0
Saudi Stock Market	29.3	37.7	15	4.5	12.7	0.8
Kuwait Stock Exchange	49	9	20	16	0	6
Casablanca Stock Exchange	25.4	6	0	21.6	27.3	19.7
Tunisia Stock Exchange	62.3	15.7	0	0	0	18.4
Dubai Internal Financial Exchange	40.62	0	16.55	29.7	8.41	4.72
Muscat Securities Market	84.53	15.47	0	0	0	0
Beirut Stock Exchange	62.65	5.44	0	31.79	0	0.12
Cairo and Alexandria Stock Exchanges	17.9	13.2	14.2	27.9	19.7	7.1

Source: Compiled from the electronic sites of the above exchange markets and re-calculated by ESCWA.

Arab securities markets, like other emerging markets, lack many of the characteristics of advanced markets, including depth, openness, accountability, transparency, investor protection and low costs of transactions. Causes of weakness in those markets include poor institutional investment and the dominating role of speculation in most transactions. In most of those markets, trading continues to be limited mostly to residents, with restrictions imposed on foreign ownership of stocks which now represents less than 5 per cent of the capital of the GCC stock exchanges.[40]

[40] See footnote 33 above.

Box 9. Falling performance of stock markets in GCC countries in 2006

Several studies have shown that securities markets have come to play an important role in the Arab countries in particular, especially in 2003-2005. At the end of 2005, following the boom experienced by the securities markets of the GCC countries, those markets went into a period of corrections to bring share prices to normal levels. It was expected that the performance of those markets would decline after their great boom, according to the analysis of some indicators that had increased to astronomical levels. A significant such indicator is the growth rate of the securities markets which reached 628 per cent in the last five years (Kuwait, Saudi Arabia and the United Arab Emirates), in comparison with 19 per cent in the main stock markets of the world.[a/]

In 2006, the GCC region saw one of the best years of prosperity since 1982 in terms of economic performance, with the GDP growing at a rate of 18 per cent. On the other hand, statistics of the Arab Monetary Fund show that the market value of Arab securities markets fell by nearly 31-2 per cent from about US$ 1,291 billion in 2005 to approximately US$ 881.1 billion in 2006. Losses of the GCC securities markets are estimated at US$ 907.7 billion or 160 per cent of the GCC regions GDP of US$ 565.7 billion.[b/]

The decline in the performance of the Arab securities markets, especially those of the GCC countries, is attributed to a number structural imbalances, including weak institutional investment, which pushed the markets to make a deep corrective move. Most investors were individuals buying shares in speculation and in search of fast profit rather than investment, leading to a steep rise in stock prices of listed companies. Moreover, the great demand on new issue caused a decline in performance of the securities markets of the GCC countries, especially that investors did not give adequate attention to risks associated with new issue. Excessive lending by banks to finance new issue was one of the factors that caused the crash of the stock markets of the GCC countries. Losses resulting from falling stock prices in those markets were close to US$ 205 billion.[c/]

It follows from the above that correction is important, primarily in restoring stock prices to their normal levels. Correction also aims at reducing speculation, this is done by establishing tight rules of supervision, follow-up, and complete transparency in the operation of securities markets. In order to avoid what happened in 2003-2006 in Arab securities, especially in GCC countries, resulting particularly in the rising and falling prices, it is necessary to take some measures such as passing laws to regulate and supervise activity in those market to prevent sharp fluctuation from occurring in any of those markets.

a/ Al-Iqtisad wal-amal, “Stock Exchange Shock”, April 2006.

b/ Al-Hayat al-Iqtissadiyyah, “Gulf Stock Exchange losses in 2006: US$ 900 billion”, 11 December 2006, No. 15956.

c/ Ibid.

2. *Economic benefits of networking financial markets*

Networking financial markets usually enhances operational efficiency and increases market depth; for as the number of financial intermediation companies grows and their competition intensifies in their attempt to attract the largest possible number of investors, a reduction of costs and administrative fees occurs. Furthermore, intense competition drives financial intermediation companies to diversify their services and develop their financial products, thereby contributing to greater market depth and fewer risks to investors through diversifying investment portfolios.[41]

However, greater depth as a result of networking financial markets depends on the extent of similarity among the stock markets. The greater the similarity, the fewer the benefits of networking. For example, if the services sector receives the lion’s share of the market value of the networked markets, the expected benefits of diversifying the investment portfolios will be fewer. Therefore, it may be stated that greater diversity and fewer similarity among markets constitute a fundamental condition for successful networking.

[41] Muhammad bin Nasser Al-Jadid, “Integration of Arab Financial Markets”, the electronic al-Iqtisadiyyah, No. 4973, 24 May 2007.

In addition, networking financial markets helps listed companies reach a larger base of investors, which provides greater opportunities to get financing with better conditions. Networking stock exchanges also means lower costs of supervision and management of financial markets, namely a reduced financial burden of managing financial markets.

Some analysts underscore the common characteristics among networked financial markets of the GCC countries as a source of strength, for the performance of those markets is primarily influenced by the oil prices, not to mention political stability as another common aspect of those markets. Other analysts deny that relationship, citing the differences in the legislation and law governing each market; they also point out the lack of harmony in the orientation of the major investors in each market. Intra-regional investment in stock markets in the GCC countries continues to be limited and, therefore, the performance of each one of those markets depends on the orientation of the local investors.

Analytical studies have reached different conclusions regarding the correlation between Arab financial markets. An ESCWA study of the correlation matrix demonstrated that the stock markets of the seven GCC countries are strongly correlated, with a correlation coefficient ranging between 52 per cent and 95 per cent.[42] It is likely that the strong correlation between the stock market of the GCC countries in the result of the dominant position of the banking sector (table 28) in the following two indicators: market value and volume of trading.

According to the Egyptian "Stock Market Annual Report 2006", there has been a decline in the correlation between the Egyptian Stock Market and other Arab stock markets, the highest coefficient being 0.36 in the case of the Amman Stock Exchange, followed by Dubai International Financial Exchange at 0.32, Abu Dhabi Securities Exchange at 0.29, Saudi Stock Market at 0.27, and Kuwait Stock Exchange at 0.26. The Report further showed a low coefficient of the correlation between Amman Stock Exchange and the stock markets of the GCC countries, ranging between 0.06 and 0.12. On the other hand, the correlation coefficient for the stock markets of the GCC countries is relatively high, being 0.53 between the Saudi Stock Exchange and Abu Dhabi Securities Exchange; 0.50 between the former and Dubai International Financial Exchange.[43]

An ESCWA study came to similar results, notwithstanding the conduct of different statistical tests using Granger Causality Patterns.[44]

The study showed the existence of a relatively weak correlation between the stock markets of the ESCWA member countries as well as significant differences between those markets which underscore the importance of market networking to increase market depth and reduce risks in general.

The difference in performance in 2006 between the Arab stock markets also underscores the lack of a correlation between the stock markets of the GCC countries and the other active Arab stock markets. While the market value of the securities markets of the GCC countries (except for Bahrain and Muscat) fell significantly to 54 per cent, about 40 per cent and 30 per cent in Saudi Arabia and Dubai, Abu Dhabi and Doha respectively, the index of Casablanca Stock Exchange rose remarkably by 70 per cent; Tunisia Stock Exchange grew by about 40 per cent; and the Cairo and Alexandria Stock Exchanges grew by 6 per cent in the same period.

3. *Attempts to interlink Arab stock markets*

Interlinking attempts by Arab stock markets began in 1982, with early steps taken to establish the Arab Stock Market Union along with other securities bodies upon the recommendation made by the Conference of Governors of the Arab Central Banks and endorsed by the Arab Economic Council in 1978. The Secretariat General of the League of Arab States in 1981 invited the presidents of the Arab stock markets at the time to consider the creation of a union to

[42] See footnote 36 above.

[43] Cairo and Alexandria Stock Exchanges, Stock Market Annual Report 2006.

[44] ESCWA, Economic Trends and Impacts in the ESCWA Region, Issue No. 2 (E/ESCWA/EAD/2005/2), United Nations publication, Sales No. E.05.II.L.6.

encourage listing and trading in securities among Arab stock markets, establish a joint Arab financial market, and facilitate the movement of capital across the Arab States.[45]

The council of the union held its first meeting in 1982 in Tunis, at which it adopted the by-laws and plan of action of the secretariat-general which was formed to implement council resolutions. Membership of the Union was composed of the stock markets of Amman, Beirut, Casablanca and Tunis. In the first stage of the work of the Union to interlink Arab financial markets, several studies were conducted on the nature of the rules of listing applicable in the Arab stock markets, with a view to propose common listing rules for the various Arab markets.

The union confronted numerous difficulties which prevented the achievement of the goal of sharing the lists of securities registered in the various Arab stock markets. The difficulties included the variety of laws and regulations applicable in Arab stock markets; lack of financial institutions such as clearing companies to complement the role of the stock market; and the legal restrictions imposed on owning securities.[46]

In order to overcome the obstacles confronting it, the Union sought in the 1990s to interlink and coordinate the Arab financial markets by concluding bilateral and trilateral agreements among member stock markets. The early attempts at the multilateral interlinking of the Arab financial markets were initiated with an agreement concluded in April 1996 between the Egyptian Public Commission on the Financial Market and the Kuwait Stock Market; the agreement governs joint listing, trading, and method of capital movement. In September 1996, the Beirut Stock Exchange joined the agreement which stressed the need for all the parties to try jointly to coordinate the procedures regarding the issue of securities. The agreement went into force in January 1997, and subsequently a joint committee was formed and entrusted with drawing up the implementing rules required for the achievement of the goals of the agreement. Clearing and settlement agencies operating in the stock markets of Egypt, Kuwait and Lebanon signed a cooperation agreement to ensure all the rights of traders in any of the three markets; procedures and rules of payment, delivery and transfer were spelled out. In addition, a conference of financial brokers was held in December 1996 and concluded with the signature of an agreement on cooperation among brokers in the markets concerned.[47]

The effort to interlink the securities markets of Egypt, Kuwait and Lebanon led to the rise of various challenges in the face of investors, most importantly the difficulties of dealing with clearing/settlement agencies and brokerage firms as a result of which buying and selling orders were not executed as quickly as required, not to mention non-compliance by brokerage firms with the orders received.[48]

It is to be noted that the other Arab stock markets did not subsequently join the trilateral agreement although it was expected to become an organizational framework for the creation of a common Arab financial market. In 1997, Bahrain and Kuwait signed a bilateral agreement to share listing and set up a common settlement regime to facilitate transactions and reduce investments costs. In addition, there are agreements to share securities listing between Jordan, Bahrain and Oman as well as between Jordan and Kuwait. Moreover, the stock markets of Bahrain, Kuwait and Muscat have signed a trilateral agreement.

In March 2000, the heads of the stock markets of the GCC countries started meetings to consider ways to unify legislation, corporate frameworks, arrangements for settlements, deposit and transfer across those countries.[49] A committee made up of the heads of GCC stock markets and relevant bodies was formed in 2004 to create a coordination machinery for the GCC countries with a view to unify stock market policies with respect to common registration and listing; initial offerings and subscription; trading

[45] Sa'afaq al-Rukaibi, Paper on a Project for the Arab Stock Market, Sixth Forum on the Arab Business Community, 27-29 April 2002, Damascus.

[46] Ibid.

[47] ESCWA, Responding to Globalization: Stock Market Networking for Regional Integration in the ESCWA Region, (E/ESCWA/GRID/2003/37), op. cit., p. 7.

[48] Ibid., p. 8.

[49] Ibid.

controls; and settlement and clearing operations. The creation of a common GCC stock market still has a long way to go involving negotiations to coordinate financial legislation and securities regulations.[50]

In connection with the impact of bilateral and trilateral linking of Arab stock markets, experts emphatically view those efforts as formal steps with neither a positive nor a negative result; consequently they did not influence the volume of transactions in the financial markets involved.[51]

In view of the difficulties facing the enforcement of the linking agreements, especially those relating to settlement of transactions, the Arab Stock Market Union and financial market bodies sought to create a common Arab clearing and settlement institution to serve as an initial foundation for the formation of a common Arab financial market. The Union identified the following activities for that institution: (a) clearing and settlement of transactions of the various Arab financial markets; (b) serving as depository and central registry for securities; and (c) facilitate listing and trading of the securities of Arab companies. Experience with linking stock markets has demonstrated that the weak volume of cross-border transactions related to the paucity of information available to Arab investors about the other Arab stock markets. Therefore, the network of Arab stock markets was established in September 2001 to enable investors to obtain adequate information on the status of companies listed for trading, share prices, and Arab stock market indices. The network also enables investors to obtain detailed information on stock market rules and regulations, financial research and analysis into stock market performance. This phase was completed with the creation of an electronic site for the network of Arab financial markets; the site operated for several years.

The project to create an Arab common stock market is considered the latest attempt by the Arab Stock Market Union to link Arab stock markets. The idea behind the project called for the creation of an electronic Arab stock market through the Internet to enable any investor, Arab or foreigner, to trade in it. The traded companies from all sectors were selected from those registered in Arab stock markets. The law of the Arab Unified Stock Market allows foreign investors to buy and sell securities. The Arab Unified Stock Market was scheduled to become operational in 2005, with its management entrusted to a council made up of a number of stock market chairmen and securities bodies. The volume of trading was expected to reach US$ 400 million in the first year, and to grow to US$ 2 billion within five years. Market capital was expected to grow from US$ 10 billion in the first five years of operation of the Arab Unified Stock Market.

A study entitled "Toward an Arab Financial Market" and published by the Arab Organization for Administrative Development demonstrated that the establishment of an Arab Unified Stock Market calls for meeting numerous conditions, the most important of which are the following: harmony between legislations governing the joint listing in Arab stock markets; presence of joint Arab investment banks entrusted with managing the issue of new securities, covering subscription, and producing Arab stock markets; creation of a brokerage firm and finance houses with effective presence in all the Arab stock markets; and founding stock market institutions to control any imbalance in the supply and demand machinery. The crash of the GCC stock markets underscores the extent to which Arab stock markets need for the effective presence of the leaders of the market. In addition, the study demonstrated that the successful creation of the Arab Unified Stock Market is related to the quality of Arab investors involved and the regulations of the stock market which provide for full disclosure of available investment opportunities.

The study also pointed out the main obstacles to the creation of an Arab unified financial market, which may be summarized as follows: application of different laws, legislations, rules of trading and clearance in the Arab financial markets; lack of political will; preference by some countries for bilateral cooperation; differences between Arab economic

[50] Tujudelin Abdul-Khaliq, "GCC countries close to creating a machinery to coordinate their stock markets and harmonize their financial legislation", Al-Sharq al-Awsat, No. 10256, 27 December 2006.

[51] Maghawry Shalabi, "The Common Arab Stock Market, difficult birth!", www.islamonline.net/arabic/economics/2001/05/article4.shtml.

structures and level of economic development; and differences in performance and depth of Arab stock markets.

However, the project to create an Arab Unified Stock Market was not implemented, notwithstanding the hopes and ambitions associated with it as an important step towards Arab economic integration. It is believed that the main cause for not implementing the project is lack of support on the part of the Arab stock markets for the idea of a unified stock market for fear of a negative impact on their activities. For the Arab Unified Stock Market aims at listing the leading and most traded Arab companies, which would reduce the volume of trading in existing local stock markets basically dependent on the circulation of their shares, hence their view of the unified market as a competitive rather than a complementary market.

In brief, despite the positive institutional and legislation development over the last two decades, as numerous Arab countries continued their efforts to amend and improve investment law, Arab stock markets in fact clearly show that the management and organization of stock markets, listing and disclosure requirements, as well as pricing are so different that each one of those markets has its unique nature and characteristics. In addition, stock markets are quite different in terms of their level of development and each market has its own machinery, which makes regional linking extremely difficult.[52]

It should be noted that linking Arab stock markets is not a goal in itself for linking, as mentioned earlier, aims at bringing a number of economic benefits to all those trading in the stock market. Companies listed in it may obtain better financing conditions in view of the larger number of investors. Furthermore, investors may reduce their financial risks by the ability to diversify investment portfolios and to spread risks over a larger number of securities. Linking financial markets also enhances the efficiency of brokerage firms by virtue of greater competition.

[52] ESCWA, Responding to Globalization, op. cit. (see footnote 31 above), p. 14.

At present, it is possible to link Arab stock markets and achieve all the goals mentioned earlier, with each stock market keeping its distinguishing characteristics without having to change the relevant law and legislation. Achieving all that depends on a three-pronged strategy:

(a) *Freedom of regional stock trading*

Regional investors should be allowed to trade in all the Arab stock markets. Despite persistent efforts by Arab States to improve the investment environment, legal constraints continue to limit the flow of Arab investment capital to Arab stock markets. However, it should be noted that Algeria, Egypt, Jordan, Lebanon and Morocco do not restrict FDI in securities, while Tunisia and the GCC countries do in varying degrees. Most Gulf companies continue to be closed to non-citizens.[53]

In Bahrain, citizens of GCC countries may have 100 per cent ownership of Bahraini companies listed in Bahrain Stock Exchange. Other foreigners, including other Arabs, may own only 49 per cent of the shares of Bahraini companies. Foreign residents of the United Arab Emirates may own 20-49 per cent of the shares of 32 companies in the Abu Dhabi Stock Exchange, while they may own 15-49 per cent of the shares of 18 companies in the Dubai Financial Market. In Saudi Arabia, the Saudi Market Authority recently allowed citizens of other GCC countries to own 100 per cent of the shares of companies listed in the Saudi Stock Market. As to non-citizens of GCC countries, only foreign residents of those countries may trade in shares of Saudi companies. In Muscat Stock Exchange, non-citizens may own up to 70 per cent of the shares of listed companies, in comparison with a corresponding percentage of 25 per cent in Doha and Kuwait stock exchanges.[54] Foreigners (Arab or non-Arab) may own up to 50 per cent of the shares of listed companies. In Tunisia, any

[53] ESCWA, The Role of Arab Financial Markets in Regional Development, op. cit. (see footnote 36 above), p. 28.

[54] Ibid., pp. 28-29.

buying of shares above this ceiling is subject to the approval of Higher Board of Investment.[55]

In the Cairo and Alexandria Stock Exchanges, foreigners are allowed according to Capital Market Law No. 95/1992, to invest in Egyptian shares and bonds with no restriction, save for those of the companies specified by provisions of company law. Since law No. 95/1992 came into force, foreign investment in the Egyptian Stock Market, as a percentage of total trading, has reached 16.5 per cent in 1997, 22.2 per cent in 1999, and 40 per cent in 2006.[56] In 2006, Arab investors accounted for 14 per cent of all the transactions of the Egyptian Stock Market.[57] In the stock exchanges of Casablanca, Beirut and Amman, foreigners (Arab or non-Arab) may freely own and trade shared of listed companies. In Amman Stock Exchange, foreign ownership of the capital of listed companies accounted for 45 per cent of total at the end of 2005.[58]

(b) *E-trading through the Internet*

In order for the decision of allowing the regional investor to trade in all the Arab stock markets to have a positive influence on trading, the investor from one country (for example, Saudi Arabia) should have the means to trade in a particular stock market (for example, Amman Stock Exchange) from his place of residence directly without having to seal sell or buy orders to brokerage firm (in Jordan); in addition, sell or buy operations should be settled quickly so as to increase the volume of transactions. The huge technical advancement in the contemporary world has produced new means of trading in stock markets, namely the use of the Internet to perform sell and buy operations of shares of listed companies. Stock trading through the Internet began several years ago involving few hundred investors; with the increasing use of the Internet the number of such investors approximated 20 million by the end of 2005. Today electronic trading accounts for nearly 80 percent of trading activities by individuals through the Internet in the United States and other developed countries.

As individuals are not allowed to trade directly in stock markets, they take their first step toward electronic trading by opening an account with a stock brokerage firm accredited by the financial market authority. The account is often opened free of charge after signing a contract between the investor and the financial brokerage firm, which specifies commissions to be charged by the firm. The investor transfers funds to be invested from his bank account to the account of the firm; the firm assigns him a password to access his account with it through its site on the Internet to enable him to buy and sell shares of listed companies. Electronic trading in stocks involves the following risks:

(i) Possible failure and sudden breakdown of the e-trading system. Therefore investors should rely entirely on the Internet for trading and should ensure the existence of alternative means of trading when needed, including call centers which receive by phone the orders and requests of investors and execute them immediately;

(ii) Absence of complete security of the electronic sites of brokerage firms, which leaves open the possibility of hackers intruding on computer programs and systems. Therefore, it is preferable to deal with major brokerage firms because they are capable of providing better services and protection for the trading system.

At present, electronic trading is not an obstacle to Arab investment. In most of the active Arab stock exchanges (Bahrain, Egypt, Jordan, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates), investors were able to do remote trading with a need for a physical platform. Authorized brokers and their clients were able to trade shares of listed companies from where they may be present. Electronic trading in Amman Stock Exchange began in March 2000, it was

[55] www.tunisia.com/Tunis/Business/Business-Incentives.

[56] ESCWA, Responding to Globalization, op. cit. (see footnote 36 above), p. 26.

[57] Cairo and Alexandria Stock Exchanges, Stock Market Annual Report 2006, p. 30.

[58] ESCWA, the Role of Arab Capital Markets in Economic Development: Case Study of Amman Stock Exchange, Expert Group Meeting, 19-20 September 2006, Abu Dhabi.

activated in the Egyptian stock market in July 2006. From that time until March 2007, trading volume approached 211,000 buying and selling transactions. Electronic trading is expected to amount to 10 per cent of trading volume in the Egyptian Stock Market by the end of this year. It is also expected to range between 15 and 20 per cent of the trading by individual in the United Arab Emirates in comparison with 50 per cent in Saudi Arabia.[59]

(c) *Need for regional financial intermediaries*

Facilitating simultaneous trading in more than one Arab stock exchange requires that the investor have an account with a regional financial intermediary present in more than one Arab stock market. Investors can instantly monitor the price movement of shares of companies listed in Arab stock exchanges through the sites of financial intermediaries; at the same time, investors can trade shares through their account with a regional financial intermediary without having to deal with more than one intermediary and without the need to open several accounts.

Recently some regional financial intermediary companies came into existence in the Arab world, characterized by credit worthiness and a high degree of professionalism. For example, the financial group Hermes, headquartered in Cairo, provides its clients with several financial services, including stock trading through the Internet. A client can inquire about his share and cash balance with the company as well as trade in the Dubai Financial Market, Abu Dhabi Stock Exchange and both the Cairo and Alexandria Stock Exchanges. Early this year, Hermes launched its activities in the Saudi Stock Market. It is expected to start trading in the Doha Stock Exchange. Moreover, clients of Kuwait and Middle East Financial Investment Company (KMEFIC) can trade electronically in four Gulf financial markets (Kuwait, Oman, Saudi Arabia and the United Arab Emirates,) with the financial market of Egypt and Jordan to be linked to them in early 2008.

Numerous Arab companies that have recently came into existence, such as Zawya in Dubai and Moubasher in Saudi Arabia, electronically provide investors in Arab stock markets with instant information; they also publish periodic reports on performance of companies listed in those markets, economic sectors and Arab economies. Investors can review all the financial reports and analyses electronically. Some Arab banks send short messages to their clients to help them follow domestic share prices by mobile telephones.

[59] Alwsaq al-Arabiyah, "Hermes: 20 per cent of United Arab Emirates stock trading through Internet", http://www.alaswaq.net/save_print.php?print=1&cont_id=2541.

V. SECTORAL APPROACH TO ARAB INTEGRATION

A. Developments in the maritime transport sector

Numerous development projects are underway in the seaport sector in the ESCWA region, involving the building of new ports or the expansion and development of infrastructure, especially container terminals. Most ports of the region develop and modernize their operational methods by utilizing ICT systems in the operation of container terminals in particular as well as in other areas such as management and accounting. In this connection, it should be noted that by the end of 2007 ESCWA will publish a study currently underway entitled "Goal practices in information and communication technology – applications in seaports in ESCWA member States", with a view to acquainting ESCWA member countries with the latest ICT used in the ports of the region and worldwide. In addition, the study points out the uses, benefits and solutions that enhance operational efficiency and improve management.

In addition to mega and modern ports recently completed, such as the El-Sokhna port in Egypt, Dubai Ports Authority completed the first two parts of the first stage of the construction of the second container terminal (Megamax) in Jebel Ali Port, as part of an ambitious plan being implemented by DP World to build a huge container terminal in stages, it is expected to be completed by 2030. The plan includes building a 40 km-long quay covering an area of 2,300 hectares to receive a new generation of super containerships that hold about 13,000 standard containers, which is beyond the capacity of other ports of the region.[60]

Dubai ports have been ranked 8th Top Container Port Worldwide having handled 8.92 million TEUs in 2006 (Jebel Ali and Rashid), with an increase of 17.1 per cent in throughout over 2005. Dubai ports are the third top terminal operator in the world, while Jeddah Islamic Port ranked 27th worldwide having handled more than 40 million tons of good, representing an increase of 2 per cent over 2005, in addition to handling about 3 million standards containers.[61]

In 2006, maritime transport in the region saw several activities aimed at developing maritime transport in the Arab world. For example, the Arab Summit Conference held in Khartoum in March 2006 adopted a resolution on upgrading security and safety of maritime transport; activities undertaken by the Union of Arab Ports jointly with ESCWA and the Arab Academy for Science and Technology and Maritime Transport, with a view to enhancing the performance of Arab countries in maritime transport, especially with regard to maritime security and safety; Arab countries joined the Memorandum of Understanding on Maritime Transport in the Arab Mashreq prepared by ESCWA; draft Convention on Multimodal Transport; studies on modernizing and developing Arab seaports; and enhancing the performance of women in Arab maritime activities.

As to the merchant fleet of ships of deadweight of 300 tons and over in the ESCWA member countries, its total deadweight has fallen by 2.82 per cent in five years from its level on 1 January 2002 to its level on 1 July 2006 (table 30).

The relatively large ships that have 1,000 tons deadweight in the maritime merchant fleets of the ESCWA member countries increased by 27.5 per cent in deadweight and by 44.9 per cent in number from 1 July 2000 to 1 July 2005.

It should be noted that revenues from the Suez Canal, one of the most important arteries of international shipping, rose to US$ 1.8 billion in the period January-May 2007 from US$ 1.5 billion in the corresponding period in 2006, with an increase of US$ 304.3 million. A total of 8,143 ships passed through the Canal carrying a total of 335.2 tons in 2007, with an increase of 692 ships or 9.2 per cent over 2006. Revenues from ships passing through the Canal brought to the Egyptian Treasury US$ 50.9 billion by the end of 2006 over a period of 32 years.[62]

[60] Al-Khaleej al-iqtisadi, 5 August 2007.

[61] International Review 2007 and http://www.dpa.co.ae.

[62] International Review, July-August 2007.

TABLE 30. TOTAL NUMBER AND DEADWEIGHT OF SHIPS (300 TONS AND OVER DEADWEIGHT) IN THE MARITIME MERCHANT FLEET OF ESCWA COUNTRIES ON 1 JANUARY 2002 AND 1 JULY 2006

	2002		2006			2006
Country	Number of ships	Deadweight tonnage (thousands)	Number of ships	Deadweight tonnage (thousands)	Increase in number of ships (percentage)	Global ranking
Jordan	6	44	27	503	1043.18	74
United Arab Emirates	107	831	115	935	12.51	59
Bahrain	14	411	14	344	-16.30	80
Saudi Arabia	81	1 339	73	1 076	-19.64	56
Syrian Arab Republic	195	709	143	605	-14.66	72
Iraq	24	275	16	105	-61.81	98
Oman	8	14	4	7	50	137
Qatar	26	1 022	24	1 178	15.26	53
Kuwait	49	3 615	51	4 002	10.70	35
Lebanon	89	467	59	204	-56.31	90
Egypt	174	1 933	110	1 490	22.91	46
Yemen	7	115	6	22	-80.86	121
Total ESCWA member countries	780	10 775	642	10 471	-2.82	

Source: Shipping Statistics and Market Review, volume 50, Institute of Shipping Economics and Logistics (ISL).

B. DEVELOPMENTS IN TRANSPORT IN THE ARAB WORLD, ESPECIALLY AIR TRANSPORT, IN 2006-2007

1. *Major developments in the transport sector in 2006-2007*

(a) The Agreement on International Roads in the Arab Mashreq came into force on 19 October 2003; it was ratified by Bahrain, Palestine and Kuwait in 2006 as well as by Iraq in 2007, thus bringing the total number of States that have ratified the Agreement to 11;

(b) The Agreement on International Railways in the Arab Mashreq came into force on 23 May 2005 and was ratified by Bahrain, Palestine and Saudi Arabia in 2007, brining the total number of ratifications to seven;

(c) The Memorandum of Understanding on Cooperation in Maritime Transport in the Arab Mashreq came into force in September 2006, and was ratified by the Syrian Arab Republic and Saudi Arabia in 2006, bringing the total number of ratifications to five;

(d) National committees on the facilitation of trade were established by decisions of the councils of ministers in each of Egypt, Iraq, Jordan, Lebanon, Oman, Palestine, Saudi Arabia, Syrian Arab Republic and Yemen. In addition, ESCWA prepared a final draft of the Agreement on Multimodal Transport of Goods in the Arab Mashreq, which is scheduled to be presented for approval to the Transport Committee at its ninth session to be held in February 2008 as a step towards its submission to the ESCWA session which will convene in April 2008.

In cooperation with the five regional commissions participating in the United Nations project entitled: "Capacity Building through Cooperation in Developing Inter-Regional Land and Land-Sea Transport Linkages", ESCWA prepared the first draft of the Geographical Information System (GIS) maps of the inter-regional land and land-sea transport linkages, databases, and application software of GIS, which were discussed at the Inter-regional Seminar on the Economic Assessment of International Transport Linkages and on Transport Facilitation, which was held in Cairo, 26-28 June 2007. Upon the recommendation of the Seminar, ESCWA prepared a second draft of the GIS maps, databases, and application software, taking into consideration the observation of the regional commissions and states participating in the project. The second draft was reviewed at the "Final Seminar of the Inter-regional Transport Linkages Project", which was held in Abu Dhabi in 23-25 October 2007. Agreement was reached on the final changes to be introduced into the draft before issuing the final version at the conclusion of the project on 31 December 2007.

2. *Air transport*

The Arab world is strategically located at the intersection of Europe, Asia and Africa. Continuous economic growth, progress in tourism, liberalization of air transport services, acquisition of modern air fleets, today characterize most Arab countries, especially in the Gulf region which is witnessing heavy investment in airline companies and airport infrastructure.

In the air transport sector in the Arab countries, revenue passenger kilometres (RPK) grew by 15.4 per cent in 2006, compared with 5.9 per cent in the world as a whole;[63] freight ton kilometres grew by 16 per cent, compared with 2.7 per cent worldwide. This growth continued through the first half of 2007 as follows: 16.2 per cent and 5.3 per cent for the former; 11.1 per cent and 4.9 per cent for the latter.[64] It is expected to continue to be high for the next 20 years, but most in the GCC countries.

Due to the spreading optimism in the air transport industry, it is expected that the total volume of the air fleets of the Arab countries will increase by 50 per cent, namely from 599 in September 2007 to 900 operating aircraft.[65]

On the other hand, a new phenomenon emerged in the air transport industry in the Arab countries, namely low-cost air transport. "Air Arabia" was the first low-cost airline in this respect; it was established in 2003 in Sharjah, United Arab Emirates. Soon after that, five other similar companies were established: Jazeera Airways (Kuwait), Sama Airways (Saudi Arabia), RAK Airways (Ras Al-Khaimah, United Arab Emirates) and Kang Pacific (Fujairah, United Arab Emirates). Low cost travel has proven to be so effective and successful as to lead to the creation of new such airlines. In fact, low cost travel created a new vision of new national airlines in the Arab world with work plans, new markets to be opened and new economic opportunities.

Most Arab air transport companies are owned 100 per cent by their Governments. Nevertheless, a change is occurring, though slowly. For example, the Saudi Airlines, the largest carrier in the Arab world, started in 2007 to privatize its non-essential activities.

Passenger traffic in the Arab airports grew by 10 per cent from 144.5 million in 2006 to 158 million in 2007. Consistent with current growth in the air transport sector, the Arab countries have felt a need to expand the capacity and services of their airports in which they invested about US$ 30 billion, thus increasing the capacity of those airports to handle passengers from 170 million to 480 million per year.

Most Arab airports are owned and managed by their Governments. Recognizing market needs, domestic authorities allowed the private sector to have a role in this field through management contracts to enhance performance efficiency or through construction contracts to build and operate new airports. At the same time, members of the Arab Civil Aviation Commission in 1998 concluded a multilateral agreement on the liberalization of air transport in the Arab world. The agreement went into force on 18 February 2007 upon its ratification by five Arab countries, namely, Jordan, Lebanon, Palestine, Syrian Arab Republic and Yemen. It was later ratified by the United Arab Emirates.

[63] International Air Transport Association (IATA) Facts and Figures, http://www.iata.orgpressroom/facts_figures/traffic_results/2007-01-29-01.

[64] IATA Half year traffic results, http://www.iata.org/pressroom/facts_figures/traffic_results/2007-07-30-01.

[65] "Allow more private airlines to operate in the region", Gulf News 12 September 2007.

Box 10. Maritime Transport in Yemen

In view of the great importance it attaches to maritime transport, the Government of Yemen has allocated huge investment funds to enhance and strengthen port capacity, whether in terms of infrastructure (construction of new ports and berths; expansion and deepening of existing berths) or the various equipment, machinery and tools needed to deal with all kinds of ships or to handle all kinds of goods. Similarly, the Government is interested in maritime transport and its development on several scientific basis, taking into consideration the country's needs for economic and social development in the foreseeable future. The Ministry of Transportation has set as a priority the conduct of a strategic study on the development of Yemeni seaports over the next 25 years, with a view to achieving the following objectives: review and update the general plans for existing seaports; determine the location and function of each planned new seaport; upgrade the level of efficiency and effectiveness of the services provided by seaports by reviewing and updating the organization structure, administrative rules and financial regulations of seaports (including computer use); review and upgrade the tariffs and fees of services and facilities; and draw up training and preparation plans and programs for a seaport employees.

In a related area, the third Five-Year-Plan for Development and the Reduction of Poverty 2006-2009, currently under preparation, includes anticipated policies, indicators, and investment funds for the maritime transport sector in Yemen.

Regarding policies, the draft Five-Year-Plan includes the following goals and procedures required for their implementation:

1. Developing the capacity and possibility of existing seaports to receive a larger number of ships and providing them with the best maritime services and facilities.

2. Conducting a study on seaport development until 2025 and completing special technical studies on building some new seaports, berths and marine ships.

3. Attracting the private sector to take part as an effective contributor and partner in the various maritime transport activities and services, and providing the facilities required for such partnership.

4. Enhancing the competitiveness of Yemeni seaports in order to improve their regional position and to attract a larger number of ships and shipping lines by adopting measures to serve that purpose.

5. Seeking to build a national commercial maritime fleet to serve the external trade of Yemen.

6. Improving management and increasing productivity.

7. Strengthening the role of Yemen in international maritime shipping.

Following are some of the developments in the air transport sector in the Arab countries:[66]

(a) *Jordan*

Jordan was one of the first five countries to ratify the Multilateral agreement on the Liberalization of Arab Air Transport; those were the five ratification required for entry into force of the Agreement, which began on 20 February 2007. In 1996, Jordan became the first Arab country to sign an Open Skies agreement with the United States. The Government of Jordan set up a project to expand and develop Queen Alia International Airport in Amman to accommodate 9 million passengers instead of 3.5 million at present. For this purpose, the Paris Airports Company was granted a 25-year contract.

Royal Jordanian won the Merit Award for the CAPA Airline Turnaround of the Year 2006 and became an official member of the One World Association on 1 April 2007. Royal Jordanian is the only international carrier to operate regular flights to Iraq, totaling 25 weekly flights to Baghdad, Basrah, Irbil and Sulaymaniah. Royal Jordanian carried in August 2007 a record number of 256,000 passengers, the highest ever in the airlines history, marking an increase of 16 per cent over the number carried in the same month of 2006.[67]

[66] Unless otherwise stated, the information provided is taken from: The Middle East Aviation Outlook by the Centre for Asia Pacific Aviation (http://www.centreforaviation.com/aviation/).

[67] Royal Jordanian press release, 3 September 2007 (http://www.rja.com.jo/tabid/59/locale/en-US/default.aspx?itemid=91).

Furthermore, the Jordanian Government which now owns Royal Jordanian Airlines 100 per cent announced its intention to reduce its ownership to 26 per cent either through a strategic partnership or through offering stock shares for subscription, while keeping 51 per cent for Jordanian citizens.

(b) *United Arab Emirates*

As in other areas, the United Arab Emirates is distinguished by the fast growth of its air transport industry, headquartering the following airlines: two international airlines – Emirates (Dubai) and Etihad (Abu Dhabi); the first low-cost airline in the region – Air Arabia; and two new low cost airlines – which became operational in 2007 in Ras Al Khaimah and Fujairah. The United Arab Emirates is investing US$ 30 billion in new airport facilities to provide capacity to serve 250 million passengers per year within the next decade. Etihad Airways was established in 2003 as an international carrier; in 2006 it served 2.8 million passengers on 31 large aircraft and it is expected to carry 4.5 million passengers in 2007 on board eight new wide-body planes as well as on board 12 other planes on order. The company expects to make profit in 2010.

In order to keep up with growing demand on air transport, the Government of Abu Dhabi has invested US$ 6.8 billion in the construction of new passenger terminals; in the first stage of construction, the terminals will accommodate 20 million passengers in 2010 at full capacity, compared with 5 million passengers in 2007; in the final stage the terminals will have an absorptive capacity of 40 million passengers per year.

In March 2006, the Government of Abu Dhabi established the Abu Dhabi Airports Company (ADAC) as a joint stock company, which in September 2006 took control of two major airports – Abu Dhabi and Al-Ayn. In December 2006, ADAC granted an 18-month renewable bid to Singapore Changi International Airport to construct and mange the new passenger terminals.

Since the start of its operations in October 1985, Emirates has become one of the largest, fastest-growing and most profit-making airline companies, carrying 14.5 million passengers in 2006, which represents an increase of about 16 per cent over the previous year. At present the company owns 101 superjumbos and will double that number by 2010 with the addition of 112 new superjumbos. Emirates Airlines is now the largest single buyer of Airbus A 380, the largest passenger aircraft with a range of 15,400 km. It ordered 55 A 380s, the first of which will be received in 2007.

Dubai International Airport received 29 million passengers in 2006, representing an increase of 16 per cent over 2005; it handled 1.4 million tons of cargo, with an increase of 6 per cent over 2005. It ranked 10th worldwide in terms of number of passengers. The airport continues to grow; in the first six months of 2007, it registered an 18 per cent increase in number of passengers and a 10 per cent increase in cargo handling.[68] The Dubai International Airport (DIA) is one of the major free air transport facilities in the world, serving 77 airlines. At present, the Dubai International Airports is investing US$ 5.4 million to expand the absorptive capacity in 2010. In addition, at a distance of 40 km away from DIA a new airport is being built – Dubai World Central International Airport – to handle 120 million passengers and 12 million tons of cargo annually. The airport is expected to be completed in 2017 at a cost of US$ 81 billion; it is located in Jebel Ali near the free zone and the port that will serve as one free zone subject to a common customs regime for both air and maritime transport, thus constituting the first truly multimodal logistical area.

(c) *Bahrain*

Bahrain is one of the leading states of the region in air transport liberalization. It was the second State after the United Arab Emirates to sign an open skies agreement with the United States in May 2005.[69] Bahrain is the hub for Gulf Air which was established in 1974 when the Governments of Abu Dhabi, Bahrain, Oman and Qatar each acquired 25 per cent shareholding in

[68] Dubai International Airport website: http://www.dubaiairport.com/dia/englishhome/.

[69] US Office of International Aviation, http://www.ostpxweb.dot.gov/aviation/X-40%20Role_Files/bilatosagreement.htm.

Gulf Aviation which was then rebranded Gulf Air. Qatar withdrew from Gulf Air in 2002, followed by Abu Dhabi in 2005. In May 2007, Oman sold its shares to the Government of Bahrain which consequently became the sole owner of Gulf Air.

Despite the underperformance of Gulf Air, both passenger and cargo traffic in 2006 at Bahrain International Airport at Manama grew in comparison with 2005, the former by 21 per cent (6.1 million passengers) and the latter by 6 per cent (320,000 tons).[70] Moreover, the Civil Aviation Authority of Bahrain drafted a development plan for the Bahrain International Airport with the aim of expanding the absorptive capacity of the airport to accommodate 15 million passengers in 2015 and 22 million passengers in 2020.

(d) *Tunisia*

Most of the shares of Tunisair, the flag carrier airline of Tunisia, are carried by the Government of Tunisia. The Tunisair fleet consists of 30 civilian aircrafts with an average aircraft age of 11.6 years (according to the figures of October 2007). Tunisair serves 49 destinations with regularly scheduled flights and 80 destinations with charter flight service.[71]

(d) *Algeria*

Air Algérie is fully Government-owned. The fourth-largest airline in Africa, it is based in Algiers and carries about 3.5 million passengers annually. Its fleet mainly consists of: five Boeing 737-600, 12 Boeing 737-800, and three Boeing 767-300. Air Algérie operates flights to Europe, West Africa, the Middle East and the Gulf region. It serves about 3 million passengers annually. It is an active member of the Arab Air Carriers Union.[72]

(e) *Syrian Arab Republic*

The US Syria Accountability Act which prohibits companies of the United States from undertaking any business transactions with the Syrian Arab Republic has deprived Syrian Arab Airlines of the scheduled acquisition of Airbus aircraft to be added to its fleet. On the other hand, Syrian Arab Airlines has planned to buy Russian aircraft and is holding talks with Moscow to establish in Damascus a regional maintenance facility for Russian aircraft. But this is not an ideal situation as Russian aircraft are less fuel efficient than either Boeing or Airbus aircraft. Even with such a facility it would be difficult to maintain or resell Russian aircraft.

(g) *Iraq*

Baghdad International Airport has been under civilian control since 25 August 2004. Iraqi Airways and Royal Jordanian Airlines operate regular flights to Amman, Jordan. DHL conducts civilian air cargo operations. In February 2006, the National Civil Aviation Authority of Iraq announced that US$ 2 billion would be invested in the rehabilitation of Baghdad International Airport. It anticipated that passenger traffic at the airport would approach 15 million passengers annually in the year 2010.[73]

(h) *Oman*

In May 2007, the Government of Oman announced its withdrawal from the Bahrain-based Gulf Air and increased to 83 per cent its share of ownership of its national airline, Oman Air. In 2002, the main airport of Oman, Seeb International Airport in Muscat, was privatized and a contract was concluded with Oman Airports Management Company (OAMC) to manage the airport for a period of 25 years during which it would received 20 per cent of revenues. OAMC's failure to fulfill its contractual obligation of invest US$ 325 million to rehabilitate the airport, the Government annulled the contract in November 2004 and took over the management of the airport.

The Government encourages private sector participation in air transport; it awarded bids to the National Engineering Services of Pakistan and to Paris Airports to provide management services to the one-billion dollar project to expand the

[70] Bahrain Airport Statistics, http://bahrainairport.com/air_stati/air_stati_2006_nov.htm.

[71] http://en.wikipedia.org/wiki/Tunisair.

[72] http://en.wikipedia.org/wiki/Air_alg%C3/A9rie.

[73] "Renovation of Baghdad airport to start net month", Gulf News, 9 February 2006.

Seeb International Airport and the Salalah International Airport, which would enable the former to handle 12 million passengers in 2010 and to increase its capacity to absorb 48 million passengers as needed.

Oman is particularly important to the tourism industry, which will grow, according to the World Travel and Tourism Council, at 12.6 per cent in 2007, generating an estimated US$ 5.4 billion. It will continue to grow, in real terms, by 6.2 per cent per annum between 2008 and 2017. To aid its rapid expansion, Oman Air signed an agreement with India's Spice Jet to provide the Omani carrier with pilots until it is ready to provide its own trained pilots. Electronic tickets represented 60 per cent of the total number of tickets issued by Oman Air, thus achieving the second highest percentage in the Arab region in this regard.[74]

(i) *Palestine*

The Palestinian National Authority owns the Yasser Arafat International Airport which serves as the home airport for Palestinian Airlines. According to Wikipidia, between its opening in 1998 and its closure in 2001 as a result of its destruction in attacks by Israeli forces, the airport had the capacity to handle 700,000 passengers annually and to operate 24 hours per day throughout the year. During the Israeli war on Lebanon in the summer of 2006, Israeli forces attacked its main terminal which is currently open to looters.[75]

Palestinian Airlines is the Palestinian national airline based in Gaza. It was established on 1 January 1995 to be grounded in October 2000 in the wake of Al-Aqsa Intifada and then to be forced to move to El Arish International Airport in Egypt in December 2001 following the destruction of its base, namely Yasser Arafat International Airport. The Palestinian Authority has 100 per cent ownership of the airline.[76]

(j) *Qatar*

Qatar dedicates considerable investments to the air transport which it views as a means of expanding its economy making it less dependent on the oil industry. It assigned this important mission to the chairman of the Board of Directors of Qatar Airways who also heads the Civil Aviation Authority as well as Qatar Tourism Authority. Qatar Airways operates the Doha International Airport.

Doha International Airport was expanded as to have the capacity to handle 4.2-7.5 million passengers annually, which is still limited in view of the fast growth of air transport. A new airport is currently under construction in two stages; in the first one, which is expected to be completed in 2008, it will have a capacity to handle 24 million passengers; in the second stage, which is expected to be completed in 2015 at a cost of US$ 5.5 billion, it will have the capacity to handle 50 million passengers.

Qatar Airways is growing fast at a rate of approximately 40 per cent per annum. It now has a fleet of 58 aircraft and 113 others on order. It is expected to have more than double the current fleet by 2017 when it will have a fleet of 120 aircraft.[77] The airline hopes to generate profits between 2011 and 2012, at which time it will consider privatization. The Government now owns 50 per cent of the shares of the company; the other half is held by undeclared owners from the private sector.

(k) *Kuwait*

Kuwait became the regional pioneer of air transport liberalization; it signed open skies agreements with 78 countries. It was the first Arab State to authorize the establishment of a private sector airline, namely Jazeera Airways which is the second low-fare air carrier in the Arab States.[78] After its first full year in operation, Jazeera Airways reported a profit of US$ 8.7 million in 2006, having carried 600,000

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[74] "Oman Flying High" Oxford Business Group, 12 July 2007.

[75] Wikipedia, http://en.wikipedia.org/wiki/Yasser_Arafat_Inernational_Airport.

[76] Wikipedia, http://en.wikipedia.org/wiki/Palestine_Airlines.

[77] Qatar Airways Fact Sheet, http://www.qatarairways.com/corp_facsheets.html?linkdes.h_5*2.

[78] Al Jazeera press release, 12 September 2005, http://www.jazeeraairways.com/.

passengers.[79] In February 2007, the carrier established a base in Dubai and plans to create other bases in the region.

The Government of Kuwait continues to wholly own (100 per cent) its national airline, Kuwait Airways, which has reported losses in 15 of its 16 years of operation. It has drafted a plan to renew its aircraft, which includes an order made in November 2006 for six Airbus A320s and another in June 2007 for 12 Boeing B787s. The airline is making efforts to increase passenger traffic from 2.5 million to 7 million by 2012.

A second passenger terminal to accommodate 8 million passengers is under construction and is expected to be ready by the end of 2007. The present terminal is handling a number of passengers beyond its capacity (6 million).

(l) *Lebanon*

With Lebanon as the fifth signatory to accede to it, the multilateral Arab Air Transport Liberalization Agreement came into force on 18 February 2007. Moreover, Lebanon was one of the first States to adopt an open skies policy; its air transport sector is affected by the political crises it is experiencing. Statistics show that the number of passengers who passed through Beirut International Airport fell from 3.3 million in 2004 and in 2005 to about 1.8 million in 2006.[80] Activity at the airport ceased for several weeks in the summer of 2006 as a result of the war.

Middle East Airlines, the Lebanese national airline owned by the Central Bank of Lebanon, undertook successful restructuring; it reduced the number of its employees by 40 per cent and launched new air routes, thus realizing profits of US$ 50 million in 2004 and US$ 20 million in 2006 notwithstanding the war. Its shares were supposed to be offered on the Beirut Stock Exchange but that was postponed to 2008.

[79] Al Jazeera press release, 15 April 2007, http://www.jazeeraairways.com/.

[80] Reported in the Bank Audi Lebanon Weekly Monitor week 37, September 10-15, 2007.

(m) *Libyan Arab Jamahiriya*

Libyan Arab Airlines is the wholly Government-owned national carrier of the Libyan Arab Jamahiriya with two hubs: Tripoli International Airport and Benina International Airport. It flies to over 20 international and domestic destinations.

In 2007, the company had a fleet of 28 civilian aircraft, including 18 still on order. In 2006, it inaugurated new air routes to Europe, including two weekly flights to Milano, Italy, starting 18 November 2006. It is currently planning flights to Paris and Lyon in France as well as to Madrid, Spain. It also launched an electronic booking system in September 2007.[81]

(n) *Egypt*

The Government of Egypt has been liberalizing the air transport sector since 2002. For example, the Government allocated to the Alexandria International Airport 20 per cent of the air traffic of EgyptAir; this action which is subject to the regulations governing the exchange of shares between the Cairo and Alexandria Exchanges will be completed in 2007.

The Egyptian Government welcomed participation by the private sector in running airports and in 2004 it signed a contract with Fraport, a German company, to manage operations at Cairo International Airport for a period of eight years. In the same year, it signed a six-year contract with the French company ADPM to manage the following airports: Hurghada International Airport, Sharm El Sheikh International Airport, Abu Simbel Airport, Luxor International Airport, and Aswan International Airport. In addition, the Government awarded, subject to its supervision 40-year to 50-year build-operate-transfer (BOT) contracts to construct new airports in Mersa Alam, Alan'ein, Bahariya, El Farafra and Ain Sokhna. However, Mersa Alam Airport is practically equipped.

(o) *Morocco*

The Moroccan Government owns 95.95 per cent of the shares of its national airline –

[81] http://en.wikipedia.org/wiki/Libyan_Airlines.

Royal Air Maroc – and Air France 2.86 per cent only. The Government intends to partially privatize the airline through the sale of a 25 per cent holding to the public. Royal Air Maroc is considered the third largest airline in Africa after South African Airways and EgyptAir. In late 2005, the Government of Morocco and the European Union signed an Open-Sky agreement, which means that Royal Air Maroc will have to face tough competition from low cost carriers operating flights between Europe and Africa.[82]

(p) *Saudi Arabia*

In the past few years, Saudi Arabia took significant steps towards the liberalization of the air transport industry. In August 2006, the Government gave green light to Saudi Arabian Airlines to privatize catering, cargo ground service, pilot training, and technical services by turning them over to five independent companies, an action considered as an attempt to privatize the parent company itself. It was announced, in September 2007, that Strategic Catering Company Ltd. (SCC) won 49 per cent of Saudi Catering, which represents privatization of one of the five major divisions of Saudi Arabian Airlines, to be followed by cargo, ground services, and finally maintenance.[83] It is anticipated that the shares of Saudi Arabian Airlines will be offered for sale before 2009.

The Presidency of Civil Aviation was transformed in March 2004 into the General Authority of Civil Aviation (GACA), an independent agency run by representatives of both the public and private sectors. Two low-cost air transport companies started domestic operations: Riyadh-based Nas Air launched its first flight on 25 February 2007; and Sama Airlines launched its first flight in March 2007 out of its base in Dammam, Eastern Province, home of the petrochemical industry.

In order to absorb the anticipated increase in air transport, the Government launched a project to expand Jeddah International Airport at a cost of US$ 1.5 billion, with a view to increasing its absorptive capacity from 13 to 30 million passengers by the year 2011 and in two subsequent phases to 60 million and 80 million passengers per year respectively. The private sector was invited in 2006 to participate in building air transport infrastructure through BOT contracts within the framework of the project to expand the pilgrims' terminal at Jeddah international airport at a cost of US$ 250 million, the completion of which is scheduled for 2008.

(q) *Yemen*

The Government of Yemen announced a project to develop and expand Sana'a International Airport at a cost of US$ 300 million in order to increase its capacity from 1.5 million to 5 million passengers per year. In addition, Yemenia (Yemen Airways) which is jointly owned by the Governments of Yemen and Saudi Arabia has ordered six A350s in March 2006, reserving the option to buy four more aircrafts to develop its long-haul traffic. In December 2006, Yemenia issued its first e-ticket and reported that it was to meet the IATA deadline of 31 May 2008 for having 100 per cent e-ticketing.

C. 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 2006-2007 is presented below.[84]

[82] http://en.wikipedia.org/wiki/Royal_Air_Maroc.

[83] "SCC buys 49% of Saudi Catering" Arab News, 24 September 2007.

[84] Seventh Session of the Council of Arab Ministers Responsible far Electricity, Report and Resolutions, Headquarters of the League of Arab States, Cairo, 25-26 April 2007.

1. *Electricity grid interconnection projects*

Arab countries have made significant efforts to develop their installed electricity-generating capacity to meet the growing demand for electricity. In 2006, total installed generating capacity in the Arab countries amounted to 136 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 108 GW, the total amount of electric power generated to 622,000 gigawatt hour (GWh) and the total amount of power consumed to 517,000 GWh.[85]

Following is a review of the most important developments in interconnecting electrical grids among Arab countries in 2006-2007:

(a) *The Seven Countries Interconnection Project*

The Seven Countries Interconnection Project (SCIP) involves the electrical networks of Jordan, Turkey, Syrian Arab Republic, Libyan Arab Jamahiriya, Iraq, Lebanon and Egypt by 400/500 kv lines. At the eleventh ministerial meeting of the seven countries, held on 16 January 2007, important results were achieved, including approval in principle of Palestine as a member of the project with observer status until it meets all the technical and legal conditions. Following is a brief review of the project:

(i) Egypt-Jordan-Syrian Arab Republic: The three-country Planning Committee on Electricity Networks Interconnection follows up the project and is currently preparing a study on integrated planning of the electrical networks of the three countries. The Egyptian-Jordanian and Jordanian-Syrian contracts to share electrical power have been renewed until the end of 2007;

(ii) Syrian Arab Republic-Turkey: All work on the Syrian-Turkish 400 kv line was completed inside both countries. The line will become operational after the Union for the Coordination of Transmission of Electricity (UCTE) admits to its membership the seven countries of the project, which is expected to happen in mid-2008. Furthermore, a technical and commercial agreement between the Syrian Arab Republic and Turkey was signed in October 2006 to transmit electricity via a 400 kv line from Turkey to the Syrian Arab Republic;

(iii) Syrian Arab Republic-Lebanon: The Syrian-Lebanese 400 kv interconnection line is expected to come into operation by the end of 2007, after the completion of the requisite modifications to the Ksara generating plant on the Lebanese side and the preparation of the operational studies required for the project. In a related development, the implementation of the project to construct a national control centre began in March 2006;

(iv) Syrian Arab Republic-Iraq: The Syrian and Iraqi sides expressed their desire to start the implementation of the project to interconnect the substations of Alqaim in Iraq and of Tayem in the Syrian Arab Republic. The required construction of a 400 kv transmission line over a distance of 160 km is expected to be completed in mid-2008;

(v) Turkey-Iraq: The 154 kv interconnection line linking Turkey and Iraq to provide electrical power to some areas in the interior of Iraq separately from the rest of the Iraqi network has been operational since September 2003. Another 400 kv line will be constructed to increase the mutual capacity of the two sides. It is expected that the Iraqi-Turkish interconnection line will come into operation simultaneously with UCTE

[85] Arab Union of Procedures, Transmitters and Distributors of Electricity, Statistical Bulletin 2006, No. 15.

approval of admission to its membership of the seven countries of SCIP;

(vi) Syrian Arab Republic-Turkey-Iraq: Interconnection work is expected to begin when the requisite operational studies have been undertaken and UCTE approval has been obtained;

(vii) Libyan Arab Jamahiriya-Egypt: Both sides are developing exchange between them in support of the economic aspects of the electrical interconnection line; the two sides signed a contract to exchange electrical power in 2004-2007, which is subject to annual review and update.

(b) *Electrical Interconnection Project of GCC Countries*

The Electrical Interconnection Authority for the GCC Countries, with its headquarters in the Saudi Arabian city of Dammam, was established for the project to interconnect the electric networks of the six GCC countries in order to form a common grid to be built in three stages: (1) interconnecting the networks of Bahrain, Kuwait, Qatar and Saudi Arabia; (2) interconnecting the networks of the United Arab Emirates and Oman; (3) interconnecting the grids of the countries covered by the first and second stages after the completion of those grids. The six countries share the costs of the first and third stages. Significant progress was made in the implementation of the project:

(i) Contracts were awarded for the execution of the first stage of the project to interconnect the electric networks of Bahrain, Kuwait, Qatar and Saudi Arabia;

(ii) By the end of March 2007, 21 per cent of the first stage was completed. Some of the materials and equipment imported by the contractors arrived at the entry points of the countries covered by the first stage. The Board of Directors of the Electric Interconnection Authority for the GCC Countries took the initiative to invite the United Arab Emirates and Oman to enter the second phase of the project in order to complete the GCC-wide interconnection network. In principle, the two States indicated their desire to join the common network, and the Authority is awaiting their final approval. In the meantime, the administrative structure was adopted as well as the administrative and financial rules and regulations to govern the operational and maintenance phase.

In view of the importance of legal agreements to regulate relations among participating states, of setting the principles for power exchange and trading among them, and of indicating the criteria to be observed and applied to meet the requirements of electrical interconnection, contracts were signed with a consulting firm to draft three agreements: (a) a shareholders agreement; (b) a power exchange and trading agreement; (c) and a transmission code.

(c) *Arab Maghreb countries electric networks interconnection project*

(i) Tunisia-Libyan Arab Jamahiriya: Tests of the synchronous operation with UCTE were completed. For technical operational reasons, it was decided to repeat the tests before the end of this year after the completion of some 400 kv reinforcing lines between Algeria, Morocco and Tunisia to ensure successful operation;

(ii) Tunisia-Algeria-Morocco: These three countries are interconnected by a 220 kv line which is being upgraded to 400 kv. The electrical interconnection line between Algeria and Morocco is expected to come into operation soon. The 400 kv line between Tunisia and Algeria is under construction. The three countries are interconnected with the European network by a 400 kv submarine cable between Spain and Morocco. The construction of the new overhead line between Tunisia and Algeria was recently completed and will initially be operational at 220 kv and at 400 kv. The overhead line between Algeria and Morocco is about to be completed and is expected to come into operation soon;

(iii) A feasibility study on strengthening the interconnections between Algeria, Egypt, the Libyan Arab Jamahiriya, Morocco and Tunisia on 400-500 kv was completed. Moreover, Algeria and the Libyan Arab Jamahiriya recently agreed to conduct a feasibility study of interconnecting the two countries on 400 kv between the areas of Ghadami in the Libyan Arab Jamahiriya and Hasi Barkin in Algeria along a distance of 250 km.

(d) *Completion of feasibility study on electric interconnection between Saudi Arabia and Yemen*

The best option was adopted: the interconnection between Bani Hashish (Sana'a, Yemen) and Kadmi (Sabya, Saudi Arabia). Plans are in place to construct a 250-MVA transfer station in Kadmi; a 400-kv line between Bani Hashish and Kadni in 2009; and another 250-MVA transfer station in Kadmi in 2013. The study concluded that the electric interconnection between the two countries brings great technical and economic benefits. The interconnection requires the implementation of an ambitious generation plan in Yemen, after which it will be possible to start the electric interconnection work.

(e) *Electric interconnection between the Sudan and Egypt*

Feasibility studies are under way regarding the interconnection between the electric networks of the Eastern Nile countries, namely Egypt; Ethiopia and the Sudan the studies fall within the framework of the Nile Basin Initiative which is financed in the form of technical assistance from the African Development Bank.

(f) *Project of electric interconnection between Palestine and Egypt*

Agreement was reached between the two sides to implement the project to link the electric networks of Palestine and Egypt. Officials pointed out that the aim of the project is to meet the demand in Gaza for electric power. The Egyptian side is preparing technical specifications, designs and invitation-to-tender documentation for all project requirements. A joint taskforce was established to promote implementation and completion of the interconnection work within one year.

(g) *Arab-European Electric Network Interconnection Project*

The Seven-country Interconnection Network are being linked with Europe at 400 kv: in the east, via Turkey upon completion of the Turkey-Syrian Arab Republic interconnection; in the west, from Spain to Morocco through a link now strengthened by the addition of another line (submarine line) in 2007 to increase the exchange capacity; and in the centre, a study is ready regarding interconnection between Italy and Tunisia through a 150-km submarine cable linking Tunisia with Sicily as well as Algeria with Spain through a submarine cable to provide the latter with electricity generated by the use of Algerian natural gas. Another study concerns a link between Italy and Algeria. A third study is under way on linking the Libyan Arab Jamahiriya with Italy by the use of direct current. At present, preparations are under way to implement a new study on the expansion and strengthening the interconnection networks of the Mediterranean Basin (MEDRING).

(h) *Updating Arab Electric Interconnection Maps*

The Arab Union of Electricity Procedures, Transmitters and Distributors will update the electric interconnection maps.

(i) *Start of study on Arab electric interconnection and assessment of exploiting natural gas for electricity export*

Pursuant to resolution 88 of the seventh session of the Council of Arab Ministers Responsible for Electricity (Cairo, 25 April 2007), the Working Group on the Review of the Terms of Reference of the Study of the Arab Electric Interconnection and the Assessment of the Exploitation of Natural Gas for Electricity Exports held its fourth meeting (Cairo, 14-15 August 2007) to determine the time period needed to complete the study, which is estimated at 120 weeks from the date of signature of contract awarded to the successful bidder consultant. The meeting reviewed the terms of reference of the study which were prepared jointly with ESCWA; it also addressed the observations made. The cost of the study was estimated at US$ 5 million to be shared by the Arab countries in proportion to their installed capacities in 2006. It was agreed to start immediately the collection of relevant documents, studies and data to be provided to the consultant awarded the contract. It was also recommended that a working group made up of persons from Arab member States of the Executive Bureau of the Council be formed to undertake the technical, financial and legal evaluation of the study.

(j) *Creation of a centre for coordinated monitoring of electric power exchanges between the countries of the seven countries interconnection project and the countries of the Arab Maghreb*

A committee of experts from members of the SCIP and the Maghreb Interconnection countries was set up to expedite the establishment of a centre for coordinated monitoring for the already interconnected countries. At the seventh session of the Council of Arab Ministers Responsible for Electricity (Cairo, 25 April 2007), it was agreed to form a working group made up of the Arab Union of Producers, Transmitters and Distributors of Electricity, the GCC Interconnection Authority, SCIP, the Maghreb Interconnection and the secretariat of the Council. The working group was entrusted with providing a clear vision for the creation of a union for the coordination and operation of the Arab interconnected electric networks, modeled on UCTE. The proposed union would cover all the technical, legal and regulatory aspects and would take as the nucleus of its work the study being conducted by GCC Interconnection Authority. The required vision would have to be ready by the time of completion of the Arab electric interconnection projects.

2. *Joint oil and natural gas projects among the Arab countries*[86]

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 which can increase cooperation among Arab countries. 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 significant concentration of reserves in a relatively small number of producer countries. For 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 6.4 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 emissions harmful to the environment, 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 2006-2007 are presented below.

D. WATER SECTOR

Arab countries made some progress in strengthening cooperation among themselves in the management of water resources, mainly at two levels: (a) sharing expertise and technical cooperation in the integrated water resources management (IWRM); (b) technical and

[86] 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, Jordan, 14-17 May 2006.

institutional cooperation as well as conclusion of agreements regarding the allocation and management of shared surface water and ground water resources.

1. *Sharing expertise and technical cooperation among sectors regarding water*

Population growth and continuous urbanization place great pressure on water resources in the Arab region which from the beginning has suffered from water scarcity because of its arid or semi-arid climate. At present, there is accelerated population growth in most countries of the region; with an average growth rate of 2.65 per cent it is one of the highest in the world. Such a pattern of population growth will lead to a drop in the average share of renewable water per person in the region from 992 m^3 per capita per annum in 2000 to 576 m^3 per capita per annum in 2025. The problem of increasing demand on water resources is made worse by the growth rate of the population of urban areas. For example, Sana'a, Riyadh and Dubai had a growth rate of 6.1 per cent, 4.8 per cent and 4.6 per cent respectively. Urban population growth leads to greater demand on drinking water and sanitation services which constitutes a financial, administrative and technical burden for those cities to handle, notwithstanding their often limited capabilities.[87]

In most Arab countries, institutions, legislation and planning related to water management are in a state of imbalance. Institutional competences overlap in a notable manner, urgently requiring coordination among water sectors, especially those concerned with planning economic and social development. Many development policies rely on the intensive use of water, especially in the agricultural sector; such policies are inconsistent with the critical water situation of the region. Moreover, the region does not suffer so much from lack of legislation as from lack of execution machinery for the existing laws and regulations and compliance therewith. In addition, there is a lack comprehensive integrated planning for water basins that may be transboundary basins.

As a result of the deteriorating water pressures, most of those countries revised and developed their water strategies and policies by adopting a set of institutional, legislative and economic measures to optimize water resource management, with a view to implementing the resolutions of the Johannesburg Plan of Implementation (JPOI) regarding the preparation of national plans for IWRM and meeting the Millennium Development Goals (MDGs) on sustainable development.

A study undertaken by ESCWA shows that all countries of the ESCWA region have either drawn up national IWRM plans or adopted an approach consistent with those principles and policies, although discrepancies exist between those countries in terms of their progress and strategic priorities in the development and management of their water resources. It is to be noted that most of those countries attach particular importance on how to develop and update their legal framework to apply to the management of water quality and environment protection; control and rationalization of consumption; and the creation of local and regional authorities to manage and provide water and sanitation services. The study points to the extent of the interrelationship between water policies pursued in those countries and the directions of their economic and social development. Those directions include support for decentralization and privatization programmes as well as enhancing the role of municipalities and local authorities, which promote the need to provide an environment favourable to the design and adoption of an integrated management of water resources at all levels. Such an achievement would be a fundamental factor in judging the success or failure of the implementation of the adopted national strategy. However, the greatest challenge lies in enforcing the institutional and legal frameworks to manage the water resources sector in accordance with the principles and goals of IWRM; it also lies in forming active public-private partnerships (PPPs) and in how to build capabilities to manage water resources.

The preceding considerations prompted ESCWA member countries to seek effective

[87] ESCWA, National Policies for the Application of the Integrated Water Resource Management in the ESCWA Region, (E/ESCWA/SDPD/2007/IG.2/3(Part I)).

means of cooperation among themselves, share each other's experiences, expertise and lessons learned in order to reinforce PPP in areas of providing water and sanitation services using the following: management, lease, BOT, and build-operate-own (BOO) contract; cost recovery; definition of criteria and responsibilities; control; tariffication and billing. In fact, a number of such public-private partnerships were made operational in several countries of the region such as the GCC members, Jordan, Lebanon, Morocco, Palestine, Tunisia and Yemen. International initiatives such as JPOI resolutions and MDGs regarding sustainable development served as incentives for States to adopt criteria contained in the IWRM toolbox[88] and the MDGs, especially Goal 7 on environmental sustainability. It is to be noted that a number of studies pointed out the need clarifying and correcting the criteria contained in the MDGs and the IWRM toolbox in order to adapt them to the specific needs of the Arab region. Compatibility of reports and data facilitated the approaches used and the comparisons made although those comparisons sometimes involved the possibility of raising sensitive issues, a matter calling for extreme care in handling information and data. In this context, the phenomenon of knowledge networks developed and spread in a number of the countries of the region, constituting an institutional machinery to enhance cooperation and sharing of experience at the regional level. Following are two examples: the Arab Integrated Water Resources Management Network (AWARENET) and the Arab Countries Water Utilities Association (ACWUA).

[88] The toolbox includes about 50 indicators for the development IWRM plans, divided into three major categories: (a) the enabling environment (policies; legislative framework; financing and incentive structures); (b) institutional roles (organizational framework; institutional capacity-building); (c) management instruments (water resources assessment; plans for IWRM; demand management; social change instruments; conflict resolution; regulatory instruments; economic instruments; information management and exchange). For a detailed description of these indicators, see: ESCWA, the Optimization of Water Resource Management in the ESCWA Countries: A Survey of Measures Taken by the ESCWA Countries during the 1990s for the Optimization of Water Resource Management and Capacity-Building in the Water Sector, 2004, table 1, pp. 3-4.

2. *Sharing experience and technical cooperation in IWRM*

AWARENET was established within the framework of an initiative advanced by professionals and researchers from the Arab region working in the field of water resources. Since its creation in March 2002, AWARENET membership has expanded to include close to 120 research and training institutes and some non-governmental organizations (NGOs) from 14 Arab countries. The aim of AWARENET is the establishment of a regional base through which to share experiences and hold consultations regarding water problems in the region; to make all possible efforts to find appropriate solutions to those problems by improving and disseminating knowledge relating to IWRM for the purposes of sustainable development; and to establish firmly the foundations of regional cooperation among training and research institutions dealing with IWRM issues in the Arab countries. AWARENET is considered an effective means to exchange information, experiences, and best practices relating to sustainable water management in member countries.

AWARENET members took numerous collective initiatives to make preparations for training programmes, seminars and research covering various aspects of the application of IWRM at the national and local levels, with a view to promoting the culture of cooperation and collective action conducive to the achievement of sustainable management of the water sector. For example, a consultative meeting was held in July 2006 in Beirut, in cooperation with the Gender and Water Alliance (GWA), to plan for the preparation of a Training of Trainers Manual to strengthen the capacity of trainers to mainstream gender in IWRM in the Arab region. Case studies from the region were reviewed. Tools and techniques required for training were addressed and defined. In 2006, AWARENET members also participated in a regional expert group meeting held in Amman by the United Nations University to help MENA countries to address the water crisis by improving the performance of water management leaders in the region. The meeting also addressed the most important elements of leadership in IWRM by reviewing the main challenges that confront leaders in their effort to adopt the sound water resource policy and by presenting the best practices of the region. One AWARENET member was given support to attend a training course on IWRM economic and financial tools, offered in May 2007 in Mexico. Preparations are now under way by AWARENET members to offer training courses such as the one for water and municipal authorities in North Lebanon on the use of IWRM tools.

AWARENET members have started preparations to establish national chapters; ESCWA held a coordination meeting with the AWARENET members in Lebanon to review their activities in that country. It was agreed to draw up a plan of action to establish a national chapter for AWARENET in Lebanon. Similarly, ESCWA is currently in contact with AWARENET members in Jordan, Oman and Palestine to find out ways to establish national chapters as institutions in those countries, including registration, foundation and host country. An AWARENET electronic site was established (www.awarenet.org) to present the main achievements of AWARENET and its members; provide a medium for communication between members, donors, regional and international organizations; and to share information and expertise in IWRM.

3. *Sharing of expertise and technical cooperation in the field of drinking water and sanitation*

In the context of supporting policies and projects aimed at improving drinking water and sanitation services, countries of the Arab Region expanded their activities directed to capacity-building in terms of building PPPs, private sector participation (PSP). In addition, those countries considered how to manage, control and follow-up the operations carried out by private operators, in view of the importance regional cooperation, sharing experiences, and increasing the efficiency of agencies and institutions concerned with drinking water and sanitation. In cooperation with the German Agency for Technical Cooperation (GTZ), ESCWA formed ACWUA for the purpose of facilitating and supporting communication among officials in charge of the various water utilities at the regional level. ACWUA is expected to be self-sustaining; to form strong communications network for water utilities; to assist Arab countries to improve the efficiency and level of services; to benefit from setting performance standards; to develop modern technical criteria; to build capacities; and to improve the management of large investment projects in the field of providing drinking water and sanitation services in the region. The ACWUA is also expected to serve as an effective machinery for its members to exchange experiences, hold positive consultations, and constructively interact with Governments, the private sector, and donor international organizations for the common benefit of all the parties.

The idea of founding ACWUA was proposed on 6 September 2006 at a consultative meeting attended by participants from 10 Arab countries as well as by representatives from the German Association for Water, Wastewater and Waste (DWA) and the European Water Association (EWA). The meeting was held following exploratory visits by the Working Group to the head management offices of water utilities to closely know those offices and communicate with their officials regarding the founding of ACWUA. Several meetings of the Founding Committee were held in Germany and Bahrain to discuss and adopt the draft statute of ACWUA, which was officially launched on 23 April 2007 in the presence of officials of over 40 Arab water utilities from Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Palestine, United Arab Emirates and Yemen. It was agreed that ACWUA activities should include the formation of seven regional working groups to deal with the following tasks: developments of capacity and training; standardization of performance criteria; recycling wastewater; reduction of poverty; private sector involvement; management of water resources; and management of water utilities (maintenance and operation).

4. *Promotion of cooperation for the management of shared water resources*

Most of the surface water and groundwater resources in the Arab region are shared between Arab countries or by a combination of Arab and non-Arab countries, as 78 per cent of the renewable water resources of the region flow into it from neighbouring areas. Several countries in the region have a high ratio of dependency on water resources from across their borders. Such a situation renders planning and optimal development of those resources a difficult task for the ESCWA member countries of the region, because for that purpose they need to strengthen bilateral and regional cooperation with the other riparian countries for the effective and constructive management of their shared water resources. It is worth noting that Governments of the region have not given adequate priority to sharing water resources, although those resources form a possible source of conflict between Arab countries themselves as well as between those countries and some of their neighbours.

In the regional situation of shared water resources, countries of the region oscillate between, on the one hand, adaptation to the existing conditions, in which case the downstream countries forego opportunities to prepare development projects that rely on border-crossing water resources, and, on the other hand, action to avert conflict, which may lead to a greater number of bilateral passing crises between coriparians that end with ephemeral solutions. Therefore, there is a need to develop an effective framework for regional cooperation to ensure the effective utilization of surface water and groundwater resources; promoting such cooperation requires confidence building. It is necessary to have plans to develop shared water resources and to allocate them to the various sectors, while ensuring a quantitative and qualitative management of those resources. For the basic and final objective for the management of the shared basins in the implementation of a comprehensive multilateral plan involving measures to ensure the rationalization of their utilization and the protection of water resources, while taking into consideration the main socio-economic factors in the countries concerned.

The Arab region has five major rivers: the River Nile is shared by Egypt and nine other countries, Arab and African; the Tigris and the Euphrates flow in the Syrian Arab Republic and Iraq; An-Nahr Al-Kabir Al-Janoubi is shared by the Syrian Arab Republic and Lebanon; the Jordan River is shared by Jordan and Palestine. As for groundwater, the Arab region has four major shared aquifers: the Basalt Aquifer between the Syrian Arab Republic and Jordan; the alluvial aquifer shared by the United Arab Emirates and Oman; the Disi sandstone aquifer between Jordan and Saudi Arabia; and the Nubian sandstone aquifer shared by Chad, the Libyan Arab Jamahiriya, the Sudan and Egypt.

ESCWA attaches great importance to encouraging member States to pay greater attention to regional cooperation in the management of shared surface water and groundwater resources. Efforts made in this connection focus on urging member States to establish effective mechanisms to enhance regional cooperation in managing shared water resources, building capacities, and developing the negotiating skills of managers, decision makers and professionals involved in the management of shared water resources. Further elaboration is provided in the following section.

5. *Mechanisms for enhancing regional cooperation in the management of shared water resources*

Among the countries of the region, Egypt has the most notable record in regional cooperation in the management of shared cooperation in the management of shared surface-water resources. For despite rival needs and demands regarding the waters of the River Nile, the countries of the Nile Basin have acknowledged their need for cooperation; the resulting understanding led to the emergence of a long-term framework for the development of management of the waters of the River Nile, known as the Nile Basin Initiative. The Initiative was the outcome of long years of negotiations, exchange of information, and confidence-building measures among the 10 countries of the Nile Basin. Agreement was reached through participation in preparing the framework for the development of the waters of the River Nile on the basis of mutual benefits and incentives to be provided by the Basin development projects. Negotiations were successful by virtue of the agreed principles of cooperation, participation and equitable utilization of the waters of the River Nile.

An-Nahr Al-Kabir Al-Janoubi which is shared by the Syrian Arab Republic and Lebanon derives its importance from its delineation of the northern border between those two countries, which makes it necessary for both countries to cooperate for the integrated management of the river. Because of the deterioration of water resources and population growth in the region, cooperation became necessary for building a dam to provide water for the agriculture development of the basin areas, which would contribute to the desired economic progress. Negotiations between the two countries were easy and culminated with an agreement based on the 1997 United Nations Convention on the Law of Non-navigational Uses of International Water Courses. However, implementation of the agreement still needs much work, for the construction of the dam continues to be held back for administrative and financial considerations. In view of the lack of coordination and cooperation between the two States, the areas adjacent to the river continue to be exposed to floods and their concomitant change. It is therefore a must that the agreement be implemented on the basis of the concept of integrated management of water resources.

Agreements between Turkey, the Syrian Arab Republic and Iraq on cooperation in the management of the Tigris-Euphrates Basin were concluded in the wake of conflicts over water use, with the aim of preserving common interests on the basis of the principle of equitable utilization. Historically, the Treaty of Friendship and Nighbourly Relations between Turkey and Iraq laid down the foundations for the development of a framework for the management of the Basin, but failed to achieve that because of the conflict that arose around the issue of the construction by Turkey of claims on the Tigris and Euphrates. Moreover, the current situation in Iraq hinders efforts aimed at reaching an agreement regarding the Basin.

Jordan is undertaking joint projects with Israel and Palestine which may help the three countries to confront the problem of water shortage. Among the most important of those projects is the one to build a 325 km-long canal to connect the Dead Sea to the Red Sea; It is a very costly project involving the installation of a hydro electrical generation plant and a desalination plant to supply the three countries with 850 m^3 of drinking water annually. But the project faces a number of political and economic obstacles such as the high cost estimated at about US$ 3 billion and it being contingent on the success of the Middle East peace process.

As far as the Basalt Aquifer shared by Jordan and the Syrian Arab Republic is concerned, the two countries have a cooperation initiative aimed at improving the management of the aquifer and maximizing the use of its water resources. The two countries have reached an agreement on the principles for their cooperation in the management of those water resources and on the required mechanisms of implementation. ESCWA will help Jordan and Syrian Arab Republic to build their capacities in this connection, in accordance with a memorandum of understanding still a draft under study, awaiting signature and finalization.

The Disi sandstone aquifer shared by Jordan and Saudi Arabia is a non-renewable basin currently being depleted by its use for agricultural purposes because of the absence of an agreement or common strategy for cooperation between the two sides in the management of the basin, which leads to the continuous fall of the level of the upper aquifer system and the volume of water stored therein and to the consequent deterioration of water quality as a result of salination or even pollution.

In order to prevent the occurrence of such a condition, Jordan launched a US$ 600 million project to pump water from the Disi Aquifer within the framework of a new strategy currently adopted by the Ministry of Water and Irrigation to meet the challenges that will face the Kingdom in the next 10 years. The new strategy involves action to reduce water loss to the lowest possible level and to convey water by a 320-km pipeline from the Disi aquifer to Amman for domestic use. The pipeline will have four major outlets to help the southern governorates in emergency cases. The project will be executed by a Turkish company under a BOT contract, whereby the Turkish company will sell water to Jordan for 40 years before handling the project over to the Jordanian Government.

6. *Enhancing negotiating skills for IWRM*

It has become necessary to build the capacity of experts and practitioners in areas related to the technical, consultative, and negotiating dialogue on achieving IWRM in the Arab countries, with a view to facilitating dialogue between riparian countries or countries with shared rivers and aquifers. In this connection, capacity-building workshops on negotiating skills and conflict resolutions were organized, the last of which was held in June 2007 in Jordan to encourage that country to develop a clear, comprehensive and strategic vision for international negotiations on shared water resources. The workshop introduced participants to international law, resolutions and standards relating to shared water resources; trained them on actual negotiation; and reviewed with them several studies of successful cases in negotiations.

The importance of those activities lies in their focusing on water problems and experiences in the region, with a view to deriving benefits from practical and actual cases. It goes without saying that other steps are required for establishing cooperation among the Arab countries on firm grounds; such steps include the development and promotion of cooperation initiatives in preparation for the conclusion of agreements on the joint management of shared basins.

It is possible to develop a clearer and more comprehensive view of how to cooperate in the management of shared waters and of water resources in general to meet the growing challenge, especially given that climate change may cause greater water scarcity and unanticipated variability in seasons, floods and drought waves. This phenomenon is expected to have a greater impact on the Arab countries because they depend significantly on water originating outside their borders. Such a problem can only be dealt with a long-term conception of national and regional water policies to be the subject of continuous deliberation and discussion by the interested parties in the countries of the region, with the participation of the public sector, civil society, and local authorities.

E. INFORMATION AND COMMUNICATIONS TECHNOLOGY

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

In 2006, the region continued to make progress in expanding ICT services and developing the sector. However, considerable efforts are still necessary to catch up with other parts of the world in that area.

Table 31 presents selected ICT indicators for Arab countries, comparing them with the averages of Arab, ESCWA and other countries of the world. A comparison of the number of telephone landlines per 100 inhabitants with the global average, namely Bahrain, Qatar and the United Arab Emirates, but comparison with the Arab average brings the number of those countries up to 11, adding Egypt, Jordan, Kuwait, Lebanon, Oman, Saudi Arabia, Syrian Arab Republic and Tunisia. A comparison of the number of mobile phones per 100 inhabitants with the global average shows that 11 Arab countries were above the global average and that 12 exceeded the Arab average, namely, Algeria, Bahrain, Jordan, Kuwait, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Tunisia and the United Arab Emirates. On the other hand, Mauritania exceeded the Arab average but remained below the global average.

In terms of the number of personal computers per 100 inhabitants, six countries exceeded the global average, namely, the United Arab Emirates, Bahrain, Kuwait, Lebanon, Qatar, Saudi Arabia. In addition, Jordan, Oman, the Sudan, Palestine, Egypt and Saudi Arabia exceeded the Arab average. In terms of broadband subscriptions per 100 inhabitants, four Arab countries exceeded the global average, namely, the United Arab Emirates, Bahrain, Qatar and Lebanon, which were joined, in exceeding the Arab average, by Jordan, Algeria, Oman, Kuwait, Morocco and Saudi Arabia.

Jordan has sought to attract Arab and foreign capital for investment in the Jordanian ICT sector in an attempt to promote the full development and liberalization of the sector and to turn it into a genuine industry contributing its revenues to GDP directly. In this context, the Ministry of Information and Communication Technology, in collaboration with the Jordan Investment Board, has promoted investment in the development of an Arabic content, one of the most significant ICT areas of investment in Jordan and the Arab region. The low rate of Internet penetration of the Arab world is partly attributable to the absence of an adequate Arabic digital content on the Internet. An area of about 750 dunums in the vicinity of Irbid, with the requisite high-quality specifications was allocated for the purpose of attracting many domestic, regional and global corporations and of opening the door to regional integration among them in order to build technological complexes for the development and production of the Arab digital content. It is an initiative that is expected to create about 13,000 new job opportunities and to increase the revenues from the ICT sector.[89]

In a related development, the Egyptian Government committed itself to the provision of the enabling environment required for the transition to a knowledge-based economy. It made great efforts to provide incentives such tax reduction, liberalization of the telecommunications sector, and launching Government initiatives. Those measures bore fruit.

[89] ICT sector in Jordan, http: www.ict.gov.jo.

TABLE 31. SELECTED ICT INDICATORS, 2006

Country	Number of landlines per 100 inhabitants	Number of mobile phones per 100 inhabitants	Number of Internet subscribers per 100 inhabitants	Number of Internet users per 10,000 inhabitants	Number of broadband subscribers per 100 inhabitants
Algeria	8.52	62.95	…	7.38	0.59
Bahrain	26.18	121.71	8.06	21.3	5.23
Comoros	2.12	2.01	0.13	2.56	…
Djibouti	1.56	6.37	0.5	1.36	0.01
Egypt	14.33	23.86	2.65	7.95	0.27
Iraq	4	2.22	0.06	0.14	…
Jordan	10.52	74.4	3.52	13.65	0.83
Kuwait	18.99	88.57	10.54	29.53	0.93
Lebanon	18.85	30.53	8.59	26.32	4.7
Libyan Arab Jamahiriya	8.09	65.81	1.38	3.96	…
Mauritania	1.1	33.57	0.11	3.17	0.02
Morocco	4.12	52.07	1.3	19.85	1.27
Oman	10.65	69.59	2.44	12.22	0.58
Palestine	…	…	2.4	7.19	…
Qatar	27.21	109.6	8.36	34.55	5.57
Saudi Arabia	15.68	78.05	7.14	18.66	0.87
Somalia	1.22	6.08	0.11	1.11	…
The Sudan	1.72	12.66	2.3	9.46	0.01
Syrian Arab Republic	16.62	23.96	1.58	7.69	0.03
Tunisia	12.42	71.88	1.76	12.68	0.43
United Arab Emirates	28.12	118.51	14.67	36.69	5.17
Yemen	4.62	9.54	0.36	1.25	…
Arab countries	9.39[a/]	35.73[a/]	2.3[b/]	9.69	0.5[c/]
ESCWA	12.25[a/]	31.68[a/]	3.05	9.09	0.52
World	19.4	40.76	6.65	29.57	4.3

Source: International Telecommunication Union (ITU), 2006.

Notes: a/ Excluding Palestine.
b/ Excluding Algeria.
c/ Excluding Comoros, Libyan Arab Jamahiriya, Somalia, Iraq, Palestine and Yemen.

(…) indicates zero or close to zero.

Following the 2006 growth by 41 per cent in the number of mobile phone subscribers over 2005,[90] reaching 17.7 million, Etisalat of the United Arab Emirates, an operator with regional presence, was granted the rights to operate and invest in Egypt's third mobile network and thus came to compete with Mobinil and Vodafone.[91] It is the first network using third-generation technology (3G) in North Africa; it allows its subscriber to video-call, watch live TV on their mobile phones, and have access to a fast Internet connection and download. Those services pave the way to building the information society and bridging the digital gap in the region by ensuring fast access to information, cultural exchange, and the dissemination of knowledge. The mobile phone sector in Egypt is likely to grow, given its current penetration level of no more than 20 per cent[92] in a country of 80 million inhabitants. The sector's revenues exceeded US$ 2.4 million in 2006.

Saudi Arabia took steps to encourage the use and dissemination of information technology in order to effect transformation into an information society and digital economy. It

[90] Arab Advisors Group, Strategic Research Service, 4 April 2007.

[91] http://www.zawya.com/cm/profile.cfm?company id=1004760.

[92] Pyramid Research, http://www.pyr.com/mbl_nov9_egypt.htm?sc=CW11A.

continued to implement programmes aimed at the full liberalization of the ICT sector, the opening up of markets, and ending monopolies, with a view to attracting Arab and foreign capital and facilitating of telecommunication networks in the region. Such steps have had a positive impact on the mobile phone sector, leading to an increase in regional investment; for example, a consortium of Arab companies headed by Kuwait's Mobile Telecommunications Company (MTC), which later became Zain,[93] won Saudi Arabia's third mobile license in severe competition with seven regional Arab companies and some other foreign companies. MTC Group paid about US$ 6.1 billion for the license in a deal that will move the Saudi mobile phone market into a new phase of development and growth which will positively affect the quality, competitiveness and rate of dissemination of the services it provides.

Morocco took action to provide the infrastructure needed to encourage the ICT sector; the National Agency for Telecommunications Regulation (ANRT) has prepared the regulatory framework required for local loop unbundling, a necessary step to end monopoly in the communications sector, which in turn, leads to attracting local and foreign capital as well as facilitating the process of full regional and international integration of the communications networks in the region. Local loop unbundling is the process by which Maroc Telecom allows other service providers to buy or lease parts of its network as local loops that serve subscribers. It is a process that constitutes an incentive for competition in the broadband Internet market and that leads to high rates of dissemination for Internet services.

In this context, the number of Internet subscribers approximated 477,000 by the end of the second quarter of 2007; Internet broadband subscribers constitute 93 per cent of that number. In spite of this growth of Internet services, Internet penetration remains low in Morocco in comparison with the other countries of the Arab region, reaching 1.6 per cent at the end of the second quarter of 2007.[94]

[93] http://www.zain.com.

[94] Arab Advisors Group, Strategic Research, April-August 2007.

Investment in the ICT sector also plays a significant role in promoting regional and international integration because of its major impact on all aspects of daily life. Development of the ICT sector boots growth rates, limits traditional barriers such as time and distance, and stimulates 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.

2. *Expenditure by countries of the region on ICT technology and exports*

Table 32 shows ICT expenditures in 2004 and 2005 by selected Arab countries both as a dollar amount and as a percentage of GDP; it also shows the same for Iran, Ireland, Turkey, India and the world, for comparison purposes.

A comparison of ICT expenditures shows that Turkey's 2005 expenditure (US$ 28,517 million) exceeded the total ICT expenditures of Jordan, United Arab Emirates, Tunisia, Algeria, Kuwait, Egypt, Morocco and Saudi Arabia combined. Still the ICT expenditure gap is many times larger between India and the selected Arab countries.

Table 33 shows the value of exports of computer, information, and communication services in 2004 and 2005 in United States dollar amounts and as a percentage of the total value of commercial service exports of selected Arab countries and, for comparative purposes, of Ireland, Turkey and the world. Comparison shows that the value of the exports of Ireland (US$ 35,100 million) is three times greater than the value of the total exports of the selected Arab countries combined.

The value of Egypt's exports of ICT services fell by 30 per cent from US$ 3,792 million in 2004 to US$ 2,657 million in 2005, constituting 18.4 per cent of total commercial service exports of US$ 14,449 million. Egypt remained among the top 10 developing countries in terms of commercial service exports in 2005, but it moved down from sixth place in 2004 to tenth place in 2005.

Box 11. Top ten telecommunication companies in the Arab countries, 2006

The 2005 ranking for the top ten telecommunications companies in the Arab countries witnessed some changes in 2006 in terms of the number of subscribers. While the top four companies in 2005 kept the same ranking in 2006, still led by the Egyptian Telecommunications Holding Company Orascom, National Mobile Telecommunications moved from sixth rank in 2005 to fifth rank in 2006. The Egyptian company for Mobile Services (MobiNil) retreated from fifth rank in 2005 to sixth rank in 2006. Etihad Itisalat surpassed Emirates Telecom-Etisalat in 2006 by replacing it in eight rank on the list, up from ninth rank in 2005. It is noteworthy that Qatar Telecom Q-tel which was in tenth rank in 2005 exited the list to be replaced by Syriatel of the Syrian Arab Republic in 2006. The ranking of the top 10 companies is based on number of subscribers and market capitalization. The top three companies in terms of the number of subscribers controlled 60.7 per cent of total market capitalization.

In terms of market capitalization, Saudi Telecom remained in first rank, followed by Emirates Telecom-Etisalat and National Mobile Telecommunications in second and third rank respectively. In terms of projects, Saudi Telecom ranked first, with US$ 3.4 billion, followed by Emirates Telecom-Etisalat with US$ 1.5 billion. Gulf companies reaped most of the profits, namely 69.2 per cent of total recorded profits, and dominated in terms of number of subscribers with nearly 43.5 per cent of the total. In 2006, Gulf companies represented about 73.1 per cent of market capitalization of Arab companies.

	Ranking		Number of subscribers		Market capitalization (millions of dollars)
Company	2006	2005	2006	2005	2006
Orascom	1	1	51.7	30.4	14.469
Mobile Telecommunications	2	2	27	14	14.485
Saudi Telecom	3	3	13.8	11.0	44.266
Maroc Telecom	4	4	10.7	8.8	13.222
National Mobile Telecommunications	5	5	10.0	6.4	3.992
Egyptian Company for Mobile Services	6	6	9.3	6.7	313
Vodafone Egypt Telecommunications	7	7	8.4	5.9	3.884
Etihad Itisalat	8	9	6.0	2.3	6.900
Emirates Telecom - Etisalat	9	8	5.5	4.5	21.018
Syriatel	10	..	2.5	..	..

Source: Al-Iqtisad wal-A'mal, special issue, July 2007.

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

TABLE 32. ICT EXPENDITURES IN DOLLAR AMOUNTS AND AS A PERCENTAGE OF GDP, 2004 AND 2005

	GDP		ICT expenditures in US dollars and as a percentage of GDP			
	(Millions of US dollars)		Amount (In millions of US dollars)		Percentage	
Country/region/world	2004	2005	2004	2005	2004	2005
Algeria	85 014	102 256	2 192	2 503	2.6	2.4
Egypt	78 845	89 369	1 043	1 324	1.3	1.5
Jordan	11 397	12 712	982	1 067	8.6	8.4
Kuwait	59 267	80 781	930	1 109	1.6	1.4
Morocco	50 031	51 621	2 972	3 267	5.9	6.3
Saudi Arabia	250 339	309 778	6 083	6 992	2.4	2.3
Tunisia	28 129	28 683	1 547	1 672	5.5	5.8
United Arab Emirates	104 598	129 702	1 732	4 658	3.6	3.6
India	695 856	805 714	36 164	46 438	5.2	5.8
Iran	163 227	189 784	3 883	4 694	2.4	2.5
Ireland	184 451	201 817	8 230	8 848	4.5	4.4
Turkey	302 786	362 502	23 651	28 517	7.8	7.9
World	41 462 018	446 645 437	2 823 988	3 042 828	6.8	6.8

Source: 2007 World Development Indicators, tables 4.2 and 5.11.

TABLE 33. EXPORTS OF COMPUTER AND ICT SERVICES AS A PERCENTAGE OF COMMERCIAL SERVICE EXPORTS, 2004 AND 2005

Country/world	Commercial service exports (Millions of US dollars)		Computer and ICT service exports in volume and as a percentage of commercial service exports			
			Amount (In millions of US dollars)		Percentage	
	2004	2005	2004	2005	2004	2005
Bahrain	1 558	1 662	54	60	3.4	3.6
Egypt	14 046	14 449	3 793	2 657	27.0	18.4
Jordan	2 036	2 188	280	278	13.8	12.7
Kuwait	2 487	3 790	506	1 295	20.3	34.2
Lebanon	9 681	10 740	3 570	4 622	36.9	43.0
Libyan Arab Jamahiriya	351	419	10	10	2.8	2.4
Mauritania	1 449	1 604	196	329	13.5	20.5
Morocco	1 304	7 570	1 262	1 588	20.0	21.0
Oman	726	822	21	36	2.9	4.4
The Sudan	35	101	3	4	9.5	3.9
Syrian Arab Republic	2 374	2 827	337	380	14.2	13.4
Tunisia	3 520	3 884	549	525	15.6	13.5
Yemen	292	285	107	59	36.7	20.6
Ireland	52 213	56 768	30 463	35 109	58.3	61.8
Turkey*	22 706	25 552	2 989	2 705	13.2	10.6
World	2 225 686	2 459 852	907 842	1 020 520	40.8	41.5

Source: World Development Indicators 2007, Economy, table 4.6.

* 2004 figures differ between the database of 2007 and that of 2006 for the World Development Indicators.

TABLE 34. HIGH TECHNOLOGY EXPORTS OF SOME ESCWA COUNTRIES COMPARED WITH OTHER COUNTRIES AND THE WORLD, 2004 AND 2005

Country/world	High technology exports as a percentage of total industrial exports			
	Millions of US dollars		Percentage	
	2004	2005	2004	2005
Bahrain	21	13	2.7	2.0
Egypt	15	15	0.6	1.0
Jordan	147	160	5.3	5.2
Mauritania	61	298	4.5	21.3
Morocco	696	702	10.2	10.1
Oman	22	25	1.3	2.2
Qatar	18	22	0.7	1.2
Saudi Arabia	113	215	0.8	1.3
Syrian Arab Republic	6	6	1.0	1.0
Yemen	17	11	13.0	5.3
Iran	98	98	2.6	3.0
Turkey	1 064	906	2.0	1.5
World	269 586*	1 243 114*	21.3	21.5

Source: World Development Indicators 2007.

* 2004 figures were taken for the database of the World Development Indicators 2006 on the Internet, table 5.11; 2005 figures were taken from the World Development Report 2007, table 5.12.

Table 34 show the value of high technology exports in United States dollar amounts and as a percentage of total industrial exports of selected Arab countries, Iran, Turkey, India, and the world as a whole. High technology experts require intensive research and a high level of development. Comparatively speaking, the value high technology exports of Turkey in 2005, which amounted to US$ 9.6 million, exceeded the combined value of the corresponding exports of Bahrain, Egypt, Jordan, Mauritania, Oman, Qatar, Saudi Arabia, Syrian Arab Republic and Yemen.

3. *Working Group on Arab ICT Strategy*

The Arab Council of Ministers Responsible for ICT at its latest conference held in Damascus from 1 to 3 July 2007 adopted the Arab General ICT Strategy; the Working Group was established by a decision of the council of Ministers Responsible for Communications in 2003 with a view to developing and updating the Arab ICT strategy, drawing up implementation plans selecting appropriate regional projects, and following up the implementation of those projects.

The Arab General ICT Strategy defined "Building the Information Society, 2007-2012", the basic vision for the Arab Information Society in 2012, as follows: "Building an integrated Arab information society through maximizing the utilization of ICT and creating the relevant Arab industry to support sustainable socio-economic development".

The Strategy set three main goals for building the Arab Information Society:

(a) Creating a competitive market for the Arab Information society as a part of the Global Information Society;

(b) Achieving universal penetration and improving service quality for the Arab individual by using ICT;

(c) Developing the ICT industry, with a view to creating new job opportunities and qualifying its products and services for export to the world market.

Box 12. ESCWA workshop on e-government policies and strategies of ESCWA member countries

The workshop, which was held in Cairo, from 15 January to 12 March 2007, aimed at contributing to methodologies to develop and implement strategies for e-government in the ESCWA region, in accordance with the recommendations of the World Summit on Information Society. It also aimed at reviewing the status of e-government in the region, discuss the challenges facing its development, and identifying the best practice and successful experiences in this field.

ESCWA prepared a special study on e-government polices and strategies in the ESCWA region. The study included a review and analysis of the methodologies of e-government polices and strategies in the countries of the ESCWA region as well as the progress made in the implementation of e-government policies and programmes. ESCWA dedicated a special Internet site to this workshop including all of its discussions (http://www.escwa.org.lb/division/ictd/workshop/forum/default.asp).

The workshop introduced a number of recommendations, most importantly the need for the creation of a national body to supervise e-government programmes vested with the powers it needs to carry out its tasks; the allocation of funds required for activating its programmes; and the need for effective cooperation and coordination among Government institutions, with a view to implementing e-government programmes. It was also recommended that an e-government national strategy be developed along with the indicators needed to measure the progress made in the implementation of this strategy and its programmes. Another recommendation referred to the importance of international cooperation and of adopting the global best practice in the development of e-government. Discussion revealed the existence of controversial opinions regarding the importance of sharing experiences at the regional Arab level, but those discussions underscored the need to develop regional indicators for e-government, taking into account the particular character of the Arab region, the need to move from information dissemination services to more advanced stages, and the need for Arab cooperation in this field.

The Strategy pointed out the need for action in 13 areas to achieve its goals; those areas are consistent with the lines of action indicated in the outputs of the World Summit on the Information Society. The Working Group drafted a plan of action for the Arab General ICT Strategy, which included indicators for following up and monitoring implementation. The Working Group follows up the implementation of regional projects for building the Information Society, particularly those adopted by the council of Arab Ministers Responsible for Telecommunications and Information. Following are the main regional projects:

(a) Project to Arabize domain names;

(b) ICT indicators and building the capacity for their measurement;

(c) Arab World Memory for the digital documentation of the Arab heritage and making it accessible on the Internet;

(d) Arabization of ICT terminology;

(e) Developing an Arabic language search engine on the Internet;

(f) Drafting advisory ICT regulations.

Work on those projects and cooperation for their implementation already started. Numerous stages of the project of Arabization of domain names and of the project to develop ICT indicators and build the capacity to measure those indicators have been completed by ministries responsible for ICT and by international organizations operating in the region such as ESCWA; other projects are still in the initial stages of implementation.

4. *Arabic Internet domain names and Internet governance*

Issues of domain names and Internet governance are considered among the most important issues of globalization and regional integration as well as among the core issues of the ICT sector.

In 2007, a number of meetings were held on those issues, the last two of those meetings were the seventh meeting of the Arab Working Group on Domain Names and the second meeting of the Arab Working Group on Preparations for the World Forum on Internet Governance (Cairo, 10-12 September 2007). The two meetings were attended by experts representing 12 Arab countries (Jordan, Tunisia, Libyan Arab Jamahiriya, Syrian Arab Republic, the Sudan, Iraq, Qatar, Kuwait, Egypt, Morocco, Saudi Arabia and Yemen). In view of the interrelationship between the issues it was decided to merge the Arab Working Group on Preparations for the World Forum on Internet Governance under a new name: the Arab Working Group for Internet Affairs. ESCWA took part in setting the tasks and the strategic goals of the new unified Arab working group.

At the Arab level, the Jordanian proposal regarding the creation of an Arab body for the top-level Internet domain names, modeled on similar ones in other regions of the world, is currently under discussion, following its welcome reception by the Arab Working Group on Domain names and in the wake of the creation of a virtual group with Jordan as its chair, and the Syrian Arab Republic, the Sudan, Egypt, ICANN, and ESCWA as members, to draft an information memorandum for the proposed body.

5. *Development of Arabic digital content*

The Arab countries continue their efforts to support the expansion of the Arabic digital content on the Internet, yet those efforts are considered inadequate in comparison with past and current efforts by other peoples in the area. The number of Arabic-language Internet users has grown significantly in comparison with the number Internet users through other languages,[93] reaching 988 per cent in the period 2000-2007, compared with 158 per cent for the English language and 385 per cent for the French language.

Some Arab countries became aware of the importance of the digital content in preserving the Arab heritage and expanding the scope of Internet services. Programmes and initiatives were launched to provide incentive to broaden the Arab digital content and increase digitization of the cultural, educational or heritage-related content. In Egypt, the Ministry of Communications and Information Technology sponsored the creation of an electronic national documentation centre dedicated to the cultural and natural heritage; the centre has published a large part of that heritage on the Internet in the Arabic language. Moreover, the Ministry of Education published in Arabic on the Internet preparatory school curricula and a significant part of the primary and secondary school curricula. In May 2005, the digital Arab content initiative was launched and a protocol of cooperation was signed by the Ministry of Communications and Information Technology, the Egyptian Publishers Union, thereby forming an active partnership between those three parties.

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[93] Internet World Stats, www.internetworldstats.com/stats7.htm.

Box 13. ESCWA contributions in the area of Arabic Internet Domain names

Following the establishment in mid-2003 by ESCWA of an Arabic Domain Names Task Force (ADN-TF), as the only regional mechanism at the time to revive, coordinate and stimulate Arab efforts in that area, and subsequent to the development by the Task force of a strategy to build a globally integrated and interactive system capable of performing the desired function, ESCWA developed the first document in the area of domain names worldwide,[*] which it later published as a draft on the Internet Engineering Task Force (IETF) site on the Internet. The draft had a tangible impact in the region, promoting dynamic action on Arabic domain names in Arab countries, and particularly in the League of Arab States.

In continuation of its efforts regarding Arabic domain names and subsequent to the establishment by the League of Arab States of the Arab Working Group on Domain names, ESCWA made significant contributions to all the meetings of that Working Group which adopted the content of the Internet draft prepared by ESCWA. The Working Group referred the draft to the Council of Arab Ministers of Communications and Information Technology for adoption.

In early 2007, ESCWA provided, through its Trust Fund, additional funds for the domain names project to enable it to undertake, in cooperation with the League of Arab States and the relevant international organizations, a number of activities regarding the Arabic Domain Names System and Internet governance/management. Those activities included:

1. Evaluation of the regional pilot project initiated in 2005 by the League of Arab States to develop an Arabic Domain Names System based on the technical guidelines developed by ESCWA. The aim of the evaluation is to move the project to the sphere of large-scale implementation.

2. Cooperation with the United Nations Educational, Scientific and Cultural Organization (UNESCO) with a view to preparing a preliminary draft of a regional project to be presented to the Arabic Domain Names Task Force.

3. Signature of a memorandum of understanding with ICANN in 2007 for cooperation in domain names and Internet governance to make progress in both areas.

[*] Guidelines for the Development of an Arabic Domain Names Systems (English).

The Ministry of Communications and Information Technology provides US$ 13 million to a three-year project for digital transformation and for the creation of an Arab portal for available Arabic books covering various areas. The portal was launched in May 2007.[96]

In Saudi Arabia, the development of digital content is considered one of the principal objectives of the National Information and Communications Technology Plan (NICTP). The Ministry of Communications and Information Technology has, together with the Communications and Information Technology Commission (CITC), undertaken several activities to support of the Arabic digital content and to encourage the formation of partnerships with educational institutions, with a view to disseminating the educational content and improving skills in electronic publishing. In 2005, the Digital Excellence Award was launched in Saudi Arabia, with the following branches: e-Culture, e-Education, e-Government, e-Health and e-Business. The Ministry of Foreign Affairs won the Award in 2005 and 2006 for its site which provides distinguished electronic services.[97]

Bahrain continued its efforts to disseminate the Arabic content on the Internet; the Ministry of Information has published cultural magazines on the Internet and the Bahrain Centre for Studies and Research[98] made its e-Library accessible to a large number of subscribers. Sites dedicated to exchange and improving the status of women in health, business and education constitute important examples of the digital content.[99]

The Information of All Programme (IFAP) in Jordan (implemented by the National IT Centre) launched a project to establish an electronic site for each university professor,[100] with a view to enriching the Arabic digital content for publishing scientific and academic works on the Internet so that academic researchers, scholars and university students may benefit there from.

[96] www.mcit.gov.eg.

[97] www.mcit.gov.sa.

[98] www.bcsr.gov.bh.

[99] www.womengateway.com.

[100] www.ifap.org.jo.

Box 14. Virtual Workshop on Strengthening the Arabic Digital Content Industry in the ESCWA region*

The Virtual Workshop was held from 30 January to 10 March 2007, with the aim of encouraging the development of the Arabic digital content industry in the region by suggesting strategic orientations and practical mechanisms required for building the Arabic digital content industry in the Arab region. Participants discussed the challenges facing the development of that industry; the importance of national and regional strategies for such development; and enhancing skills and human capabilities needed in that industry. The Workshop also addressed the importance of developing the Arab software industry and electronic applications in various vital fields as well as the need for mechanisms to finance Arabic digital content projects. ESCWA dedicated a special site on the Internet to the Workshop, including its discussions: http://www.escwa.org.lb/divisions/ictd/workshop/forum_a/.

Following its discussion, the Workshop made a number of recommendations, including the following ones:

1. Provision of support to the rise of an Arabic content industry dealing with the Arabic digital content and the Arabic non-digital content that should be digitized as well as with the foreign content needed for educational, cultural and scientific development.

2. Conduct of a comprehensive review of the regional, subregional, and country strategies for the development of informatics from the perspective of the content industry, with a greater emphasis on innovation and production than on use and consumption.

3. Observation of the principle of common Arab action, sharing of resources and allocation of roles; seeking guidance from the European Union experience in building Arabic content industry and in the assignment of roles to the various Arab countries.

4. Development of models for feasibility studies and business enterprises models for the digital content industry, with a view to encouraging SMEs to contribute to the development of an Arabic digital content industry; and the creation of business models of PPPs for the development of the digital content industry.

5. Initiation of effective dialogue with Arab banks and funds with a view to urging them to finance the Arabic digital content industry and to establish funds for risk capital.

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* E/ESCWA/ICTD/2007/7.

VI. SUMMARY AND RECOMMENDATIONS

A. SUMMARY

The conclusions of the sixth edition of the Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2007, may be summarized as follows:

1. The Arab countries witnessed significant growth in FDI inflows, which rose by 59 per cent, from nearly US$ 39 billion in 2005 to about US$ 62 billion in 2006. As a result, those countries' share of global FDI flows increased from 3.8 per cent in 2005 to 4.8 per cent in 2006. Similarly, their share of international trade grew from 3.92 per cent in 2005 to 4.11 per cent in 2006. Arab tourism also grew by 0.4 per cent and consequently its share of world tourism increased from 5.36 per cent in 2005 to 5.38 per cent in 2006.

2. No significant progress in regional integration was reported in 2006, except for some improvement in Arab intraregional trade as a percentage of total foreign trade, which grew from 11.2 per cent in 2005 to 11.30 per cent in 2006. Arab intraregional tourism declined from 50.73 per cent in 2005 to 44.14 per cent in 2006. In the same period, Arab intraregional investment as a percentage of overall FDI fell from 34.21 per cent to 27.35 per cent.

3. Jordan moved from third place in 2005 to first place in 2006 on the regional integration index. Lebanon came in second – down from first place in 2005 – due to the drop in its share of Arab intraregional trade which itself was a result of the political situation in the country and of the July 2006 war with Israel.

4. In 2006, no progress was made in the WTO negotiations on the Doha Development Agenda, which still suffer from the deadlock that followed the failure of the Cancún Conference of 2003 and which get further complicated whenever negotiations approach the substantive issues, particularly the question of agriculture.

5. Participation of the Arab countries in the current WTO negotiations on trade facilitation has not reached the required level. Yet those countries have taken numerous actions that have led to the improvement and facilitation of trade, including the conclusion of bilateral and regional agreements dealing with trade facilitation. Moreover, Arab countries made great efforts to facilitate and improve the business environment, including the improvement of cross-border trade. Countries that have made significant progress in that area include the GCC countries, Jordan and Egypt.

6. Although the past two decades have witnessed positive institutional and legislative developments in Arab financial markets, as numerous Arab countries have continued their efforts to amend and develop their investment laws, the actual situation of those markets clearly shows the existence of differing systems of management and organization as well as a variety of requirements for listing, disclosure, trading and pricing in stock exchanges, so much as that each stock market has its unique nature and characteristics. Financial markets vary widely in their levels of development and each market has its own mechanism, which render regional interlinking extremely difficult.

7. Arab countries exerted great efforts in response to the increasing demand for electricity, including the implementation of a number projects for interconnecting electrical networks, most importantly the Seven-country Electrical Interconnection Project and the GCC Electrical Interconnection Project. In March 2007, 21 per cent of Phase I of the GCC Project was completed.

8. In the water sector, population growth led to a reduction in per capita share of renewable water resources in the region. Therefore, effective regional cooperation in the utilization of surface-water and groundwater resources is inevitable.

9. Three Arab countries succeeded in exceeding the global average number of telephone lines per 100 individuals, namely, Bahrain, Qatar and the United Arab Emirates. With regard to mobile phones, 11 Arab countries exceeded the global average number of telephones per 100 individuals. In terms of number of Internet subscribers per 100 individuals, six Arab countries surpassed the global average, namely

Bahrain, Kuwait, Lebanon, Qatar, Saudi Arabia and United Arab Emirates.

B. RECOMMENDATIONS

In order to keep pace with globalization, bolster the position of the Arab countries in the global economy, and support Arab regional integration, the following recommendations to decision makers in the Arab countries are suggested:

1. Review of investment policies is needed to determine the degree of their success in achieving set goals and correct any mistakes or shortcomings in those policies. Arab countries need to undertake detailed studies based on field surveys to determine the impact of FDI on the economies of those countries.

2. Policies need to be adopted to link domestic enterprises with FDI companies in order to maximize the benefits for the domestic economy of FDI flows, as the success of FDI policies is attributed mainly to the extent of their success in establishing that link and in the interaction between domestic and FDI companies.

3. Heavy dependence on incentives, facilities, and exemptions as fundamental elements of the investment policy aimed at attracting FDI must be avoided because foreign investors, as shown by experience, do not give priority to those elements in making their investment decision; the cost of those elements to the country concerned may exceed the benefits of FDI flows.

4. Part of FDI need to be directed to the industrial sector in view of its importance in the transfer of technology and exports as well as to the agricultural sector, especially in countries with a comparative advantage in agriculture.

5. Arab countries must coordinate their positions in WTO talks by holding consultative meetings for high-level trade officials in those countries in preparation for the various rounds of WTO negotiations; Arab countries should be urged to sign and accede to all the economic and trade agreements of the League of Arab States.

6. A strategy for linking Arab financial markets needs to be drafted on the basis of free cross-border trading, electronic trading, and creation of regional financial intermediation companies.

7. A national supervisory body for e-government must be created, vested with the powers required for the performance of its functions and provided with the funds needed for the effective operation of its programmes.

8. Effective cooperation and coordination at the international level as well as the exchange of experiences at the Arab regional level should be ensured in order to benefit from the best practice in the world in the development of e-government. Regional indicators for e-government should be developed, taking into consideration the specific nature of the Arab region.

9. Arab aviation companies should be invited to form strong alliances among themselves and Arab Governments should be called upon to implement more effectively the Arab Air Transport Liberalization Agreement, which entered into force at the beginning of 2007.

10. Arab countries need to adhere to the principle of joining forces to support the creation of an Arab content industry to deal with the Arabic content of the Internet, share resources and allocate roles. The experience of the European Union should serve as a guide in building the Arab content industry and allocating roles to the various Arab countries. Arab banks and funds should be urged to finance that industry and to establish funds for risk capital.

11. Arab countries must coordinate their environmental policies and their positions in international environmental forum to avoid adverse effects on economic development.