

OECD FORUM 2006
BALANCING GLOBALISATION
22-23 May 2006, Paris

Regional integration and development in the Middle East

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Let me make 10 points relevant to regional integration of Middle East based on my experience elsewhere, especially in Europe, North America and Central Asia and then draw a few conclusions about the prospects of regional integration in the Middle East:

1. Integration is happening rapidly throughout the world – and much of it is regional in nature: transoceanic integration in post-WW2, North-South integration since 1970s, now a very swift trans-Eurasian integration.
2. Trans-Eurasian integration – the integration of the huge super-continental space anchored by the EU, Russia, China, Japan and India -- is a challenge and an opportunity for the Middle East: A challenge because of the increased competition from low-cost producers; an opportunity because of the potential for new markets, not only for oil, but also others (agriculture, tourism, certain types of manufacturing, etc.)
3. The Middle East is so far less integrated than much of rest of world in terms of trade, capital flows, etc., with the exception of oil; it is also less integrated within the region than many other regions. However, after 2001 there have been signs of increasing regional economic ties (trade, investment and tourism).
4. Gains from integration are very significant, as estimates for the Middle East show (for example the recent study by Allen Dennis of the World Bank), as well as elsewhere – recent estimates for Central Asia in the UNDP's Central Asia Human Development Report : Rapid regional integration could double GNP over 10 years for Central Asia.
5. Integration is not just a matter of trade policy reform; often it's more importantly a matter of improving cross-border transport and transit conditions, as well as behind the border measures of improved business climate, administrative effectiveness and good governance. As in Central Asia, transport and transit costs are notoriously high in the Middle East, and behind the border business climate, administrative and governance poor.
6. Regional and global integration are not mutually exclusive – contrary to some popular notions --, but can be complementary: reduction of transport costs, reduction of port handling fees, reductions of customs clearance costs and delays, openness to foreign investment, etc. all help regional and global integration alike. In this regard, universal membership of WTO of Middle Eastern countries, many of whom – like countries in the CIS – are not yet members, would help create the

rules-based economic environment for trade and investment in all countries of the region that would help economic integration world-wide and within the region.

7. Regional integration can be the driver of a country's better overall governance and world-wide integration. This was the case for Central European countries as they joined the EU, since the incentive of accession was a major factor in sustaining domestic reform momentum. Of course, it can also be the reverse: In Central Asia autocratic and corrupt regimes may reinforce each other with poor governance and limited economic reform. A similar risk could prevail in the Middle East.
8. The Middle East therefore appears to be subject to two opposing trends: the attraction of the EU may help openness and integration, as well as improvements in policy and governance as ME countries aim to integrate more closely with the EU; alternatively, the efforts to pull together under the roof of a regional organization of like-minded states with poor governance, relatively closed and unreformed economies, administrations and political systems may retard the progress of national reforms and world-wide integration.
9. The development of regional cooperative institutions appears to be critically driven by the initiative and interests of major regional powers: France and Germany were critical in the early stages of the EU, the US drove NAFTA, Russian and Chinese interests may drive the regional integration of Central Asia. The question is what if any major regional power would drive regional cooperation in the Middle East.
10. In any case, however, given the common political and institutional weaknesses in many countries of the developing world, regional political and institutional integration is not easy or likely to proceed quickly. Therefore Middle East is not an exception, when the Arab Human Development Report 2002 concludes: "While many Arab regional institutions exist, they are characterized by fragility and ineffectiveness, and national considerations take precedence over wider regional ones." World-wide there are very few regional cooperative institutions that function effectively due to the common unwillingness of governments to share sovereignty, due to rivalries and distrust among neighboring countries and their leaders, due to the weaknesses of the national administrative capacity and the over-weening interests of established elites that see their rents threatened by a more open and integrated regime.

Where does this leave us in terms of the prospects of regional integration for the Middle East:

1. We should not expect a lot of political and institutional integration to happen quickly within the region.
2. Economic integration can nonetheless proceed quite rapidly, as long as trade, transport and transit barriers are contained generally and conditions of security are maintained.
3. Integration with the rest of the world, especially by wider membership in the WTO and closer affiliation with the EU, but also increasing commercial ties with the rising economic powers of Eurasia, provides major opportunities for the Middle East.
4. It is essential that the countries of the Middle East grasp these opportunities if they are to create a hopeful future for its large population of young people, many of

whom currently see themselves disenfranchised, unemployed and excluded from economic opportunities.