

The Relationship between Economic Interdependence and Conflict Prevention: An Institutional Perspective

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INTERDEPENDENCE AND CONFLICT PREVENTION:
AN INSTITUTIONAL PERSPECTIVE**

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Abstract

This paper investigates the relationship between economic interdependence and conflict prevention. It will focus on the institutional dimensions of the relationship between economic interdependence and conflict prevention & management.

The early days of what has been dubbed the 'Arab Spring' raised some expectations about whether the region could see a new era of renewed regional cooperation and integration after several failed attempts. Instead, the unfolding of events across different countries has further weakened the Arab state system and has thus given rise to new transnational identities such as tribalism, sectarianism, and outright fundamentalism, rather than regional unity.

Regional institutions have played a limited role in entrenching economic integration and preventing or managing conflicts. The region has been historically a volatile region of instability and till today, it remains one of the least integrated and most unstable regions globally. While integration momentum was gaining pace before 2010, the instability associated with the Arab Spring moved the region one step behind.

The paper discusses the complex relationship between economic interdependence and conflict prevention/management from an institutional lens, and analyzes the main institutional factors influencing this relationship. It provides an account of the main functional regional institutions related to economic interdependence and conflict management in the Arab World and discusses their quality and effectiveness. The last section presents policy directions to enhance the role of institutions and allow for deeper integration and less conflict.

Keywords: Middle East, Arab Spring, Arab States, Economic Interdependence, Conflict Prevention, Conflict Management, Regional Integration, Private Sector, Trade, PAFTA, United Nations, ESCWA, UNDP, Gulf Cooperation Council, Arab Maghreb Union.

JEL Classifications: F.

Introduction

"Faulty design and implementation seems to plague most regional integration schemes in the developing world. Yet regional institutions are an important part of governance alongside domestic and global governance institutions. They have the potential to manage conflicts and buffer risks associated with instability, promote trade and investment, contribute to better political governance and enhance economic development."³

This paper is part of a 4-part paper series investigating the relationship between economic interdependence and conflict prevention. In order to complement the other papers in the series, this research will focus on the institutional dimensions of the relationship between economic interdependence and conflict prevention & management.

The Middle East is often viewed as an exceptional case than other regions across the world in its resistance to global trends of regionalist in an era of increased globalization⁴. There is a consensus in the literature that regionalism in the Middle East is not a strong phenomenon⁵. Almost all types of regional initiatives aiming conflict resolution or creating a common economic system or market have largely failed⁶.

The early days of what has been dubbed the 'Arab Spring' raised some expectations about whether the region could see a new era of renewed regional cooperation and integration. Instead, the unfolding of events across different countries has further weakened the Arab state system and has thus given rise to new transnational identities such as tribalism, sectarianism, and outright fundamentalism, rather than regional unity⁷.

Regional institutions have played a limited role in entrenching economic integration and preventing or managing conflicts. The region has been historically a volatile region of instability and till today, it remains one of the least integrated and most instable regions globally. While integration momentum was gaining pace before 2010, the instability associated with the Arab Spring moved the region one step behind.

This next section will present and discuss the complex relationship between economic interdependence and conflict prevention/management from an institutional lens, and analyze the

³ Khan, R. (2009) *Regional Trade Integration and Conflict Resolution* Page 238

⁴ Hazbun, W. (2012) "The Middle East through the Lens of Critical Geopolitics: Globalization, Terrorism, and the Iraq War"

⁵ Sever, A. (2018) "Globalism, Regionalism, and the Middle East"

⁶ Ibid

⁷ Ibid

main institutional factors influencing this relationship. The third section provides an account of the main functional regional institutions related to economic interdependence and conflict management in the Arab World and discusses their quality and effectiveness. The fourth section provides some key challenges, and the fifth and final section concludes through providing policy directions to enhance the role of institutions and allow for deeper integration and less conflict. The fourth section concludes and provides some key policy directions.

Relationship between Economic Interdependence and Conflict Management – An Institutional Perspective

The relationship between economic interdependence and conflict management is a debatable topic. During the advent of globalization in the 1990s, the academic literature indicated that increased economic interdependence may yield positive spillover effects including curtailing or preventing regional conflicts. In its simplest sense, trade relations and mutual interests act as a deterrence to conflict. The idea is that economic interdependence raises the opportunity costs associated with conflict, assuming that economic interdependence is indeed functioning. The literature references the EU experiences, and touts it as evidence for the conflict-prevention impact of regional integration.⁸ Regardless of its political success, it is widely believed that the EU system has been very successful as an internal conflict prevention mechanism⁹

Having said that, the EU experiment cannot be universally applied. Recent experiences of Arab countries, coupled with the de-globalization wave spreading through the globe with elected populist leaders, the relationship between economic interdependence and conflict prevention has been obscured. Indeed, history have illustrated that conflict can indeed arise between members of a regional trade agreement with the most recent example of the arising conflict and border clashes between Armenia and Azerbaijan, both of which are members of the Commonwealth of Independent States (CIS). Another example is the political and economic rift that occurred between Saudi Arabia and Qatar, both of which are members of the Gulf Cooperation Council (GCC). An earlier example includes wars among and within several African countries in the 1990s, all members of the Common Market for Eastern and Southern African (COMESA). These experiences provide evidence that simply being members of the same regional institution does not prevent conflict between two countries, especially if the conflict has wider social and political dimensions. Moreover, the strength of these institutions and the extent to which they have supranational authority greatly impacts this extent to which a deeper state of economic integration allows for prevention or management of conflict.

The obscurity of this relationship between economic interdependence and conflict prevention partly stems from the understated role that institutions play. In fact, without proper institutions in

⁸ Khan, R. (2009) *Regional Trade Integration and Conflict Resolution*

⁹ Stefanova, B. (2006) "Regional Integration as a System of Conflict Resolution"

place, regional integration between states of different sizes and incomes cannot work or can even widen inequalities and create tensions. According to the one study on the matter¹⁰, institutions have a large role to play in preventing conflict. According to this research, regionalism increases trade gains while conflicts disrupt bilateral trade, and therefore, a supranational authority with well-developed mechanisms for dispute settlement is needed in order to increase trust between political leaders and strengthen the positive effect that trade has on conflict mitigation. The study also argues that effective regional institutions can promote a sense of trust between political leaders of member states who would meet regularly to negotiate commitments related to regional institutions. *The paper concludes that peace and conflict prevention does not necessarily stem from economic integration per se, but rather, from institutional structures that accompany the regional integration process.*

What are institutions?

In the context of this paper, an institution refers to an agreed upon set of policies, rules, or shared understandings that govern actors' interactions with one another. It may also refer to an entity in which such policies and rules materialize. Therefore, and depending on the context, an institution in the context of this paper may refer to either a trade agreement, such as NAFTA, or may refer to an organisation that embodies shared rules and policies such as LAS.

In fact, political institutions also matter. Some research have pointed to the importance of political institutions to strengthen and cement economic institutions. For example, one study¹¹ found that strong political institutions at the regional level is a factor behind strong economic integration, suggesting that institutions help create a virtuous circle of a regional integration process. In this way, institutions have been described to provide for a dynamic integration process. *Another study¹² that examined the process of institutional building and economic integration in Europe and Latin America concluded that institutional integration and economic integration go hand in hand in lessening the probability of conflict, whereby political commitment, supported by institutional support and economic growth, has contributed to ensuring security and preventing conflict. In this way, economic integration has a positive relationship with conflict prevention, given the presence of reinforcing regional institutional integration.*

A conclusion drawn from a series of case studies from across the globe¹³ on this topic indicates that the design of institutions shapes the nature of regional relations and materializes the economic and political fruits of economic integration. In other words, regional institutions have the potential

¹⁰ Bearce (2003) "Grasping the Commercial Institutional Peace"

¹¹ Bonzom, P. & Sopenha, S. & Strauss-Kahn, M. (2005) "Interaction entre dimensions économique et institutionnelle de l'intégration régionale : l'expérience européenne"

¹² Dorrucci et al (2002) "European Integration: What Lessons for other regions? The case of Latin America"

¹³ Khan, R. (2009) *Regional Trade Integration and Conflict Resolution*

to greatly influence the relationship between economic interdependence and conflict prevention and management.

The MENA region consistently ranks as one of the poorest performing regions across the world in terms of governance, according to the World Bank Worldwide Governance Indicators (WGI). This has been often referred to as the Governance Gap in Arab countries¹⁴ or 'regional governance deficit'¹⁵, raising concerns about the fundamental qualities and capacities of institutions in the Arab World. An OECD report¹⁶ also found regional integration in the region has overall seen very little progress mainly due to factors that include weak institutions, lack of infrastructure and the existence of many state-owned enterprises which normally limit the role of the private sector. Therefore, a combination of weak institutions and poor governance has limited the role of integration in conflict prevention in the MENA region. This is to argue again that setting up institutions in isolation from proper mechanisms would undermine the expected role of the formal arrangements.

Different institutional factors affect this relationship between economic interdependence and conflict prevention on a number of different levels. A review of the main factors presented is below:

- Authority & decision making

The degree of supranational authority by regional institutions greatly influences the extent to which these institutions are able to influence decision making in the region and work towards deeper economic interdependence, along with robust and functional dispute settlement mechanisms. As noted before, the literature indicates that a strong regional institution that has supranational authority over member states is a prerequisite for the positive direct relationship between economic interdependent and conflict prevention. A case in point is the EU where a strong regional institution has clear and direct supranational authority over member states¹⁷. And for the case of the EU, regionalism has been greatly successful in preventing conflict. Other research has shown how weak institutions can falter this positive relationship between economic interdependence and conflict. For example, a study on Southern Africa suggests that weak institutions, both at the domestic and regional level, obstruct economic integration in that region and even 'create fertile conditions for conflict'¹⁸.

¹⁴ Kaufmann, D. (2006) "The Governance Gap in the Arab Countries: What Does the Data Say?" IMF

¹⁵ Araji, S. & Sumpf, D. (2016) "Governance in the Arab Region: Addressing Challenges and Envisaging the Future"

¹⁶ OECD (2018) "Background Note: Trends in Trade and Investment Policies in the MENA Region"

¹⁷ Brown, O. , Qobo, M, Ruiz-Dana, R. (2008) "The Role of Regional Integration in Conflict Prevention"

¹⁸ Ibid

- Rules for conflict management

The integration of fair dispute settlement mechanisms in trade institutions is key to yield a positive relationship between economic interdependence and conflict prevention. There have been calls¹⁹ for clear dispute settlement mechanisms to increase conflict prevention function of regional institutions and increasing trust between leaders. Most of the literature indicate that the presence of clear, effective and enforceable dispute settlement mechanisms can enhance the role played by regional institutions in promoting peace and preventing conflict. Indeed, evidence shows that unresolved disputes prevent a real process of regional integration and therefore, it is essential to devise a dispute settlement framework to resolve the disputes standing in the way of integration. The more an institution defines and sets standards for conflict management in a fair and enforceable manner, the more effective it will be in managing conflict in a sustainable and institutional manner.

- Degree of inclusiveness

The extent to which institutions are inclusive of member states and various types of goods produced in the region greatly influences the degree of economic interdependence in a region, and therefore, its ability to prevent conflict. Functional and effective regional institutions allow a positive and productive space for negotiations and bargaining between member states, thereby ensuring a sense of inclusiveness. Similarly, the more inclusive regional institutions, such as free trade agreements, are in terms of goods covered, the more effective and fair is the process of economic interdependence and thus conflict prevention. Overall, the more inclusive a regional institution is in instituting common standards and commitments to member states, the stronger will be the state of economic integration, and therefore, conflict mitigation.

- Degree of political stability and compatible views and mutual strategic interests

Political instability greatly influences the functioning of institutions, thereby breaking down the link between economic interdependence and conflict prevention. Inevitably, regional agreements have a political motive since they contribute to a 'political rapprochement' among members²⁰. But if a regional institution is set up during times of political instability, it would be difficult for it to perform its function of integration and conflict prevention. Similarly, institutions functions more effectively when involved member countries have compatible views and mutual strategic interests, as it makes it easier for countries to agree on vital issues. As many research studies has concluded²¹, institutions are as much political as economic agreements, and the nature of economic connections between countries affects the evolution of their political relationship and vice versa. Case studies from various regions show that political stability and compatible views are a

¹⁹ For example, see Bearce (2003) "Grasping the Commercial Institutional Peace"

²⁰ Schiff & Winters (1998) "Regional Integration as Diplomacy" World Bank

²¹ For example, see: Brown, O. , Qobo, M, Ruiz-Dana, R. (2008) "The Role of Regional Integration in Conflict Prevention"

prerequisite to stable, formal trade relations. In this regards one can look at the recent GCC experience and the varying views about the definition of strategic threats and how to respond to that. While some countries such as Saudi Arabia views Iran at some points as a strategic threat, others such as Qatar or Oman have different views. This has resulted in a rift within the same block with serious implications on integration. Sometimes the story even get more complicated when the notion of strategic threat keeps changing, thus, hindering reaching a common understanding on how to formulate policies and adhere to that.

- Role of domestic Institutions

According to the literature, there needs to be stable and mature domestic institutions to effectively work towards economic integration. One study²² indicated that countries must have reached a certain level of institutional maturity and stability on the domestic level to even consider trade integration. Naturally, stable domestic institutions facilitate the establishment of strong institutions on the regional level. In few cases, immaturity results in compromising long term interests to favor a short term gains by incumbent stakeholders whom lack trust in their governments and their regional commitments. Moreover, such stakeholders some times are operating in un predictable or stable business environment.

- Role of Private Sector

Given that it is the private sector, not countries, that trade and invest, efforts of the private sector and their perspective is central when looking at regional integration²³. In situations of conflict, the private sector can act as a peace maker, providing the necessary pressure to promote peace and political stability²⁴. Therefore, the role of the private sector is vital in enhancing economic interdependence and mitigating conflict. In specific, Regional Economic Communities have sprung up in different regions in the world utilizing Regional Value Chains and thereby accelerating the economic integration process²⁵. In addition, the role of the private sector is even more relevant in regions where the capacity of governments' to invest and stimulate continued growth is limited, such as the case of the Arab World.

This section will provide an overview of relevant regional institutions that influence the relationship between economic interdependence and conflict prevention/management in the Middle East.

²² ibid

²³ Charalambides, N. (2005) "The Private Sector's Perspective, Priorities, and Role in Regional Integration and Implications for Regional Trade arrangements"

²⁴ ESCWA (2007) "Fostering Partnerships between International and Regional Private Sector Institutions and their Counterparts in Crisis Stricken Countries: Towards a More Resilience Private Sector" Expert Group Meeting

²⁵ Elitcha, K. (2018) "The Private Sector and Regional Integration in Southern Africa: Accelerating Opportunities for Investment and Growth"

League of Arab States

Founded in 1945, the League of Arab States, formerly known as the Arab League, was the Middle East's first attempt at regional integration, stemming from wave of pan Arabism that was sweeping through the region at the time. But over the following the years, state sovereignties were consolidated thereby hindering any consolidation of supranational organizations in the region and diluting the authority of LAS with minimal influence on state sovereignty²⁶. According to a number of studies done with this regard, the role of the LAS has shifted to act more of a intergovernmental negotiating framework and less as a supranational organization in the region. For example, one of the most important objectives of LAS was to establish an Arab Common Market along with an Arab Customs Union, but until today, these remain unaccomplished. Ultimately, LAS remains until today an intergovernmental secretariat with an absence of any supranational power on the decision making process of its members.

A number of different factors have limited the effectiveness of LAS as a supranational regional organization, and thus, its effectiveness in strengthening economic interdependence in the region, and thus lead to more effective conflict management and prevention. A main factor mentioned in the literature is the *structural disparities* among countries of the region which add to the complexity of realizing regional integration. Such structural disparities in the region are represented by different regime types (ranging from conservative monarchies to modernist republics), different economic types (e.g. in terms of level of liberalization) and disparities in wealth and population densities. Furthermore, various foreign alliances and external influences make it even harder for regional integration to materialize, as will be discussed under 'challenges' in the next section.

Conflict Resolution

In terms of conflict resolution or management, the case is similar, where history has shown an ineffective conflict resolution in some experiences in the region. For example, the 1990-91 Gulf war, and the Libyan civil war (2011), Arab states opted to bypass by the LAS and resort to the UN Security Council to settle the conflict, as it was difficult for member states to achieve a common position.²⁷ A main factor behind the insufficient role played by LAS in conflict management/prevention is its *absence of effective settlement dispute mechanisms*.

While the Charter of the Arab League stressed on the principle of peaceful settlement of disputes among Arab countries and the inadmissibility of the use of force, the Charter does not include any special mediation mechanisms or mechanisms designed solely for the objective of achieving a

²⁶ Legrenzi, M. & Calculli, M. (2013) "Regionalism and Regionalization in the Middle East: Options and Challenges"

²⁷ *ibid*

peaceful settlement of disputes²⁸. The Charter only makes reference to the League Council when referring to the settlement of disputes, and does not refer to any role for the Secretary General or individual member-states; each member state has a single vote in the League Council, and is generally represented by Ministers of Foreign Affairs. Furthermore, chapter 5 of the Charter stipulates that the decision of the League Council is enforceable only when the case does not concern a state's independence, sovereignty, or territorial integrity, and if parties to the dispute have recourse to the Council for the settlement of a the dispute.²⁹ A factor behind these shortcoming is the fact that the charter was drafted in 1945, a time when member states were in the process of gaining their independence.

The interpretations of these provisions by the various Arab League Summits and other mechanisms, and by the Secretariat of the League, have been very flexible. This meant that the LAS was more active in some regional conflicts than others. It also meant that the LAS went beyond the legality of the charter in being actively involved in a number of conflicts, some of which had unfavorable outcomes.

In the absence of an effective legal dispute settlement mechanism, LAS is trying to advance its capacity in conflict resolution through a number of ways, including the formation of special working groups and the initiating of a number of activities and projects including a crisis-management platform and a deep self assessment of its role in conflict management/ resolution.

Ultimately, the intentions of the LAS are genuine in that its main concern is to realize the interest of the people in the conflicts in question, but the regional institution still has a long way before it can be considered a successful player in resolving conflict in the region.³⁰

Economic Interdependence

On the economic interdependence front, efforts have yet to yield fruitful results. A discussion of the main regional agreement, the Pan Arab Free Trade Agreement (PAFTA), endorsed by LAS and its members is presented in the following sub section. More recently, LAS member countries decided upon an Arab Customs Union (ACU) which was announced in the 2009 Arab Economic and Social Development Summit, with the aim of achieving a functional customs union by 2015 and an Arab common market by 2020³¹. Unfortunately , however, such targets were too ambitious especially given that the PAFTA is not yet fully activated and operational. According to a UN

²⁸ Youssef, H. (2013) "Mediation and Conflict Resolution in the Arab World: The Role of the Arab League"

²⁹ Charter of the League of Arab States <https://bit.ly/3bNyMZW>

³⁰ Youssef, H. (2013) "Mediation and Conflict Resolution in the Arab World: The Role of the Arab League"

³¹ Middle East Economic Monitor (Nov 2014) " Arab League: Common Market in 6 Years, Customs Union Next Year" <https://bit.ly/3b2uddq>

ESCWA report assessing the process of Arab Economic Integration³², a full implementation of the PAFTA is required to ensure a successful implementation of the ACU. According to the report, intra-Arab trade still suffers from a number of obstacles, and special measures can be implemented to ensure a full implementation of PAFTA. Such measures include rationalizing and harmonizing non-tariff measures, designing less restrictive intra-Arab trade rules of origin, and promoting trade in services. And for the ACU to be implemented, the list of required changes is longer and includes addressing overlapping trade agreements, common external tariffs, harmonizing national customs codes and procedures, harmonizing trade facilitation policies, and coordinating fiscal, competition, and investment policies.

It is important to note that economic integration in our region is much weaker than in other parts of the World. For example, visa restrictions are still in place among most member countries of LAS hindering the free flow of capital in the region. According to one study³³ weapons, militants, and violent ideologies spread in the region faster and more easily than investments and economic goods & services.

PAFTA

Despite the League Charter calling for an Arab Common Market, this has not yet been materialized. After a number of fading initiatives in the 1950s and 1960s and even in 1980s, the LAS decided in 1997 to create an Arab Free Trade Area, also known as the Pan Arab Free Trade Area, by 2008, which had much more comprehensive outreach than earlier initiatives. This would be ultimately achieved through a 10% annual reduction in tariffs as well as a gradual elimination of non-trade barriers. The agreement relies on a negative list approach and includes agricultural products as well as additional agreements concerning trade liberalization of services, signed in 2003. The PAFTA agreement does not cover trade in services, on which a more recent agreement has been established.

PAFTA	
Agreement	Description
Title	Pan-Arab Arab Free Trade Area Agreement
Parties	18 Arab States
Coverage and type	Goods, FTA
Date of signature	1997
Date of entry into force	1998
Transition for full implementation (goods)	Full implementation realized in 2005 instead of 2007

³² ESCWA (2015) "Assessing Arab Economic Integration: Towards the Arab Customs Union"

³³ Gaub, F. (2006) "The Arab Common Market: Fighters, weapons, ideologies"

According to a comprehensive study presenting an ex-post appraisal of the PAFTA, the agreement shows some limitations³⁴. Despite the removal of tariffs, some members have introduced new taxes or other non tariff barriers. The assessment describes PAFTA as a perfect example of 'shallow integration', as it suffers from several problems including the absence of full fledged dispute settlement mechanism, the inability to reach a detailed rules of origin scheme, a weak system of harmonized standards, the lack of harmonization of competition rules, in addition to the lack of protection of intellectual property rights. There is a lack of effective supranational institutions to manage disputes, which adds to the weakness of PAFTA.

Under each of these limitations, political economy factors come into play. First of all, the absence of a full-fledged dispute settlement mechanism stems from the absence of such a framework at LAS. As described earlier, the League Charter does not include any special mediation mechanisms or mechanisms solely for the objective of achieving peaceful settlement of disputes, *and therefore, this lack of focus on dispute settlement mechanisms has been translated into PAFTA's lack of a full-fledged dispute settlement mechanism.*

PAFTA includes general rules of origin comprising thirteen pages as well as detailed ROO, which cover approximately a hundred pages. The process required of exporters and importers to qualify for preferential trade under PAFTA is provided in PAFTA implementing regulations and decisions. Very generally, the original agreement stipulates that the value-added for goods produced in an Arab country should no less than 40%, to be reduced to 20% in case of industrial assembly projects in Arab countries. But the other general rules, and the detailed list of specific rules, make it complicated for member states to agree on specific ROOs for all goods. PAFTA ROOs are characterized by being consistent, uniform, objectivity, and reasonable. Despite the importance of these four objectives, they have not always materialized given the complicated nature of PAFTA's ROO .³⁵

The complexity of the ROO framework lies in the fact that PAFTA uses a number of different rules to determine origin, including changes in tariff category, value-added, and certain process requirements. *Each rule has its own unpredictability and restrictiveness features thereby limiting any benefit from tariff reductions.* For example, PAFTA requires for many goods that all parts used in manufacturing a good be imported and classified under a different tariff category than the category in which the final good would be classified. For some other goods, PAFTA requires a change in chapter category at the two-digit level regarding imports. All this has often translated into confusion for traders, producers and even lawyers.

³⁴ Peridy, N & Ghoneim, A. (2008) " The Greater Arab Free Trade Area: An Ex=Post Appraisal Within an Imperfect Competition Framework"

³⁵ Malkawi, B. (2019) "The Design and Operation of Rules of Origin in Greater Arab Free Trade Area: Challenges of Implementation and Reform"

The weak system of harmonized standards and the lack of harmonization of competition rules stem from the different nature of the region's economies, but also from the *absence of an effective supranational organization to govern the process of transitioning towards common standards and towards harmonized competition rules*. This absence of supranational organization in the region also contributes to the other limitations of PAFTA, including the inability to fully agree on all ROOs. This fact is also coupled with lack of focus on creating a proper institution that is entrusted in strengthening the technical side of the agreement has restricted the level of interdependence and integration, which consequently has not yielded many common interests that would militate against any emerging conflicts in the region.

The argument goes like that, the more common interests you create between stakeholders at country's level, the more likely to create a domestic constituency that would work hard to protect that interest especially from the private sector. As such the internal dynamics in each country would advocate for a peaceful dispute settlements that would mitigate various forms of conflicts. In reality, if we look at the private sectors institutional arrangements in our region, we ll find in many cases that such institutions are not taking leading initiatives, to the contrary they follow governments' directions and very much influenced by their politics because of the shallow integration and the sort term interest that govern such arrangements in general. A deeper integration requires a clearer and sharp arrangements which is not currently the case as illustrated above. Surely one can find some exceptions in the forms of long terms interests, however that is not institutionally established to adequately to overcome other forms of potential l conflicts or political disintegration. Yamen-Saudi and UAE on going war is a case in hand that can be used to illustrate how lack of institutional arrangements and common interest between neighboring countries contributed to such a waste of resources.

Agreement on Liberalization of Trade in Services

Since Arab countries did not have a framework under which to trade in services (as PAFTA covers trade in goods only), three Arab countries (Egypt, Jordan, and Saudi Arabia) recently ratified the Agreement on Liberalizing Trade in Services between Arab Countries in 2019, forming the first official regional agreement addressing trade in services. Such a development is crucial for Arab economic integration as the services sector is considered the largest sector in the region, after the oil & gas sector³⁶. The agreement complements the PAFTA agreement discussed earlier. While there were only 3 official members at the launch of the agreement, 7 other countries have subsequently joined or are in the process of joining the agreement.³⁷

³⁷ Arab Monetary Fund (2020) "Foreign Trade Policies in Arab Countries" in Arabic

The agreement on liberalization of trade in services aims to liberalize trade in services among Arab countries through three ways:

- Putting in place a general framework for the gradual liberalization of trade in services among Arab countries, in addition to finding a facilitative environment for trade in services with the aim of activating and enhancing Arab economic integration.
- Enhancing the combined interests of Arab countries in the field of services on the bases of mutual interests and balance in rights and commitments.
- Taking into account developmental considerations for each involved country, especially the least growing Arab economies.

UN Involvement Through ESCWA

Another regional organization working towards economic integration is the United National Economic and Social Council for West Asia (UN-ESCWA). Given these issues plaguing the regional institutional framework for economic interdependence, the ESCWA comes into play through providing technical assistance on the matter and working towards the integration of the Arab World. One of the main objectives of ESCWA is "to achieve regional integration and ensure interaction between Western Asia and other regions"³⁸. Over time, this objective grew to encompass the entire Arab World, and not only Western Asia. The Regional Integration Sector under the supervision of the Economic Development and Integration Division aims at facilitating the process of regional integration in the Arab world through its capacity building programs for both countries and regional organizations, as well as the bilateral technical assistance it provides to countries in the region as well as to LAS.

A main example is the recently concluded Development Account project by ESCWA, entitled "Facilitating the Implementation of the Arab Customs Union" implemented by ESCWA between 2016 and 2020. The project's main objective was to assist Arab countries and their regional organizations in the negotiations, implementation, and monitoring of the Arab Customs Union. The project found out from the very beginning that "progress towards an (Arab Customs) Union had been slow because member States did not share the same vision on its goals and mechanisms"³⁹. Instead of working towards the Customs Union, the project ended up advocating for the full implementation of PAFTA before considering the Customs Union. The project also provided tailored technical expertise to individual Arab countries, each with its own unique set of conditions and dynamics.

³⁸ UNESCWA Website <https://bit.ly/3aapapI>

³⁹ UNESCWA (2017) "Report on Eleventh Session of the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development"

According to its 40th anniversary report⁴⁰, ESCWA indicates how years of experience of working on Arab economic integration have illustrated that integration must first and foremost encompass macroeconomic convergence to facilitate a stronger participation in global markets and boost intraregional trade. This convergence in macroeconomic policies can help develop coordinated Arab value chains across the region and help spur investment. The report summarizes the overall role of ESCWA with regard to Arab economic integration by stating that ESCWA is working to chart a new way forward for the integration of Arab countries through analyzing gaps and opportunities, identifying technical needs and assessing the costs and benefits of different models of integration.

Through UNDP

The UNDP Regional Bureau for Arab States (RBAS) serves as the headquarters for UNDP regional programs and country offices in 17 Arab countries. Through this channel, the UNDP also acts as a UN institution working towards Arab economic integration and conflict management. As an integral part of the UNDP RBAS, the Regional Program for Arab States 2018-2021 aims to (i) assist partners in advancing regional cooperation and policy dialogue on inclusive and sustainable growth, and (ii) to focus on the root causes of conflict and governance deficits, facilitating stakeholders' cooperation to counteract fragilities, promote democratic reforms and fostering resilience.⁴¹

One of the most important initiatives of the program is the Arab Economic Integration for Sustainable Development (AEISD), which aims at mainstreaming trade for inclusive and sustainable growth in the Arab region and enhance the competitiveness of the region's exports through modernization and reform of economic and trade policies, and promotion of Arab connectivity by facilitating cross-border operations between countries.⁴² Under this thematic area, a number of project operate including the 'Strengthening Arab Economic Integration for Sustainable Development' which aims to provide support to LAS and its member states for PAFTA upgrading as well as preparation for the Arab Customs Union, and to enhance economic partnership in the region through better Arab connectivity. The project duration is from 2017 to 2021 and is based on three interconnected pillars: (i) providing support to LAS and member states of PAFTA in working towards deeper integration through making trade an engine for inclusive and sustainable growth in the region; (ii) strengthening connectivity among regional economies partly through speeding up border-crossings and customs procedures; (iii) enhancing women's role in trade policy-making to further regional cooperation.⁴³

⁴⁰ ESCWA (2014) "ESCWA at 40: Working for a Just and Prosperous Arab World:

⁴¹ UNDP RBAS website: <https://bit.ly/31qrB3F>

⁴² Ibid

⁴³ Muto, A. & Rihane, A. (2019) "Arab Economic Integration for Growth, Peace and Stability

Another important initiative of the AEISD is Fostering Capacities in the Arab States for Sustaining Peace and Preventing Conflict project, which aims to contribute to the efforts of building and sustaining peace and stability to achieve prosperity in the Arab States region through building capacities, knowledge, frameworks and mechanisms of LAS to to initiate and facilitate the thinking of new modalities for cooperation among its member states, in order to accelerate the achievement of the Sustainable Development Goals (SDGs), including in conflict or post crisis settings.⁴⁴

Sub regional Institutions

Other than LAS, a couple of sub regional organizations were established to cater for a specific group of countries sharing geographical borders and economic similarities. The two main sub regional organizations present in the region include the Gulf Cooperation Council and the Arab Maghreb Union

Gulf Cooperation Council

The GCC has been one of the more successful institutions in the region, being composed of the Supreme Council, Ministerial Council, and General Secretariat. The state of integration in the GCC is much higher than for the Arab World as a whole under LAS, with a common market and free movement of persons / labor between members. This is due to a number of factors. The first is that the Gulf sub region is ordered by a subregional hegemonic power, Saudi Arabia, with all remaining members sharing similar views on regional and global issues, thereby facilitating integration. The only exception is Qatar, the differing views of which caused a rift inside the GCC between Qatar and the rest of the members. The other main factor behind the relative success of the GCC is that all member countries are marked by similar political and economic structures, i.e. resource-rich monarchies. It is much easier for economies of a similar structure and with a similar level of resources to join together in common standards and a common market. Finally, a shared sense of security was a main factor behind the success of the GCC, as security concerns for the sub region brought member countries closer together.⁴⁵

Nevertheless, the GCC also does not offer a real dispute settlement mechanism. Disputes are handled by the 'Commission for the Settlement of Disputes' which is attached to the Supreme Council, and the Supreme Council actually determines the composition of the Commission for every case on an 'ad-hoc' basis depending on the dispute⁴⁶. The political rift between Qatar and Saudi Arabia was an example of the absence of real dispute settlement process within the GCC framework. The rift translated into a majority of members severing all ties with Qatar, following

⁴⁴ UNDP RBAS Website: <https://bit.ly/2P9sfjA>

⁴⁵ Nuruzzaman, M. (2015) "Gulf Cooperation Council (GCC), Qatar and Dispute Mediations: A Critical Investigation"

⁴⁶ FATFA: GCC structure description: <https://bit.ly/3iwiEOi>

the sub regional hegemonic leader. The rift finally ended in early 2021 with both Saudi Arabia and Qatar agreeing on a resolution to the crisis brokered by Kuwait and the United States. In other words, any dispute settlement mechanisms contained within the framework of the GCC was not utilized in this crisis.

Arab Maghreb Union

The AMU has been one of the less successful institutions in the region, being composed of member states in the Maghreb sub region, including Algeria, Libya, Mauritania, Morocco and Tunisia. The agreement establishing the union grants decision-making authority to the presidential council, which is supposed to meet on a biannual basis to reach decisions in consensus, with the main goal of mirroring the EU model. Despite these efforts at integration, intra-trade levels remain very low, and conflicts remain unresolved.⁴⁷ A number of studies have indicated that progress in regional integration in the Maghreb has been lagging, describing the regional institution of AMU as being "one of the least successful attempts at regionalism"⁴⁸ and has been "in a lethargic state"⁴⁹ since its inception.

Originally, the AMU was considered as a framework through which the Western Sahara conflict between Algeria and Morocco could be resolved. However, the institution did little to put an end to the conflict, which has lasted since 1963⁵⁰. Member states in the AMU were unwilling to accept the transfer of their sovereignty especially when faced with political instability and a growing informal sector.

Private Sector Efforts

There has been a limited number of regional private sector initiatives in the Arab World. This is mainly attributed to the fact that the private sector in the region is a relatively recent development, as the exact distinction between the private and public sectors in the region in the early 2000s was often unclear, encouraging conflicts of interest and rent seeking behavior⁵¹. Nevertheless, a few resilient efforts have succeeded in establishing regional private sector networks. A main example is the Federation of Arab Businessmen, which is nongovernmental non-profitable Arab Association that includes 15 business associations from 15 Arab countries⁵². The Federation aims to enhance the relationship, cooperation, and coordination between Arab businessmen from different economic sectors to ultimately increase trading among Arab countries. Another example is the Arab Union for Industrial Exports Development which has the dual role of enhancing Arab

⁴⁷ Legrenzi, M. & Calculli, M. (2013) "Regionalism and Regionalization in the Middle East: Options and Challenges"

⁴⁸ Ibid

⁴⁹ El Asmi, R. (2018) "Trade and Conflict: The Case of the Arab Maghreb Union"

⁵⁰ Ibid

⁵¹ Abed, G. & Davoodi, H. (2003) "Challenges of Growth and Globalization in the Middle East and North Africa"

⁵² Federation of Arab Businessmen website: <https://bit.ly/3veJkbW>

exports to all world countries and increasing intra regional trade exchange, and includes the industrial sectors of the Arab world as its members⁵³. In addition, the General Union of the Chambers of Commerce, Industry, & Agriculture of the Arab Countries, recently renamed to be the "Union of Arab Chambers", aims to play an important role in the process of promoting commerce trade and investment between Arab countries⁵⁴. Overall, the effectiveness of such private sector regional institutions have been limited in deepening economic integration in the region, especially given the political instability and conflict that the region has endured throughout its history. For example, results from MENA Enterprise Survey⁵⁵ show that two out of the four main areas of concern expressed by firms regarding the environment in which they operate were instability and corruption.

Challenges

There are a number of key challenges that have stood in the way of the region producing effective institutions and becoming more integrated and less prone to conflict. While there are a large number of particular challenges, the challenges presented here aim to group these particular challenges into overall key obstacles that affect institutions and the process of economic integration and conflict management. In specific, challenges described here pertain to the institutions governing the process of economic integration and conflict prevention or management.

Political

Lack of supranational authority by regional institutions

The number one factor limiting the effectiveness of regional institutions in working towards regional economic integration is their lack of supranational power over the decision-making process of their member states. As mentioned earlier, LAS remains until this day to be simply an intergovernmental secretariat with no supranational authority or power over its member states. In other words, the set-up of LAS as an intergovernmental secretariat minimizes any influence it can exert on its member states. A number of different studies in the literature has pointed to LAS' lack of supranational power as a main determinant behind the lagging process of integration in the region⁵⁶.

⁵³ Arab Union for Industrial Exports Development website: <https://bit.ly/3veZdze>

⁵⁴ Union of Arab Chambers website: <https://bit.ly/3veJkbW>

⁵⁵ EBRD, EIB, WB (2016) "What's Holding Back the Private Sector in MENA? Lessons from the Enterprise Survey"

⁵⁶ For example, see: Chen, W. & Zhao, J. (2009)_"The Arab League's Decision-Making System and Arab Integration"

Hedstrom, E. (2020)"The Arab League has No Bark and No Bite"

Perpetual political instability and insecurity

The Arab World has been host to continuous crisis that have kept the region in a state of instability and insecurity both on the national and regional levels. This has to a large extent limited the extent of economic cooperation, interdependence and integration. According to one study, "today, much of the region is engulfed in what seems to be open-ended-chaos, with the real possibility of changing borders and failing states."⁵⁷ It is therefore difficult to imagine that any regional integration effort bear fruit in these conditions, and even more difficult to imagine that regional institutions function effectively.

Absence of consistent institutional standards for conflict management

Closely related the above, another main challenge relates to the absence of institutional clear standards of conflict management in the Arab world. While regional organization offer several distinct advantages over national or international institutions in the realm of conflict management, there are significant variations across various regional institutions with respect to conflict management.⁵⁸ These variations largely depend on how regional institutions define and deal with conflict. In other words, defining and setting clear and consistent institutional standards for conflict management can go a great way in mitigating and managing conflict. *In the Arab world, there is no such defined standards and criteria; instead the behaviors and responses of regional institutions is often determined by the specific context of the conflict, and not by pre-determined standards.* This boils down to the fact that regional institutions do not have supranational power over member states . In fact, one study⁵⁹ argues how LAS adopted different policies toward the internal conflicts in Tunisia, Libya, Egypt, Bahrain, Yemen, and Syria since the December 2010, and the subsequent processes of transitions, democratizations, and national reconciliations was absent from the side of LAS, which reflects the lack of institutional standards in conflict management. Evidence shows that LAS actually did not follow its Charter during the Arab Spring, as for example, it expelled Libya and Syria without unanimous support by all Arab States which the Charter calls for. Not only that, but this same study provides evidence of an inconsistent history of LAS in dealing with various conflicts across the region.

Political Will: National Vs integration interests

Integration essentially means the harmonization of domestic structures, and therefore, for regional integration to succeed, there must be a political will among members that favor integration over other alternatives, including the status quo. But Arab regimes have been mainly concerned with maintaining the status quo, and thereby lagging behind in crucial reforms and adjustments that

⁵⁷ Fardoust, S. (2016) "Economic Integration in the Middle East: The Global Context and the Current Economic Situation in the Region"

⁵⁸ Ibrahim. R (2016) "Regional Organizations and Internal Conflict: The Arab League and the Arab Spring"

⁵⁹ Ibrahim. R (2016) "Regional Organizations and Internal Conflict: The Arab League and the Arab Spring"

would be necessary to establish effective institutions on the regional and national levels.⁶⁰ And since regional institutions such as LAS do not have any supranational authority over member states, such a system produces deadlocks in regional institutions making them less effective than needed.

External influence in the region

History of the Middle East shows that it has always been penetrated by foreign powers and highly impacted by foreign influence, and this has indirectly affected the establishment of effective institutions. For example, the formation of bilateral alliances that have binding commitments have led some states in the region to become dependent on such alliances and have therefore discouraged the implementation of economic and security coordination among regional states, and thereby limited the quality of regional institutions⁶¹. Again, the absence of any supranational authority in the region limits the prioritization of regional integration goals, especially in the presence of bilateral interests with countries outside of the region.

Economic

Lack of harmonization

Despite the multitude of agreements signed by regional countries, tariffs are still comparatively high and variably different from one country to another. For example, countries of the Arab Maghreb Union rely on tariffs as a major source of government revenues whereas countries of the Gulf Cooperation Council rely much less or even don't rely on tariffs as a source of government revenues. The design of domestic policies and systems was based solely on the domestic conditions and resources of a country, without consideration of regionalism, mainly due to the absence of supranational regional authority. This has over time created regional countries with highly variable economic, fiscal, and monetary structures. This essentially weakens any regional organization catering for all regional members in its effectiveness in pursuing economic integration.

Low levels of quality regional infrastructure

The quality and cover of infrastructure in the region is poor compared to other regions. While the region does hold good infrastructure in terms of roads and ports, and energy pipelines, much of the other infrastructure, vital for regional trade, is almost nonexistent⁶². Examples include rail and cross border electricity exchange, and the expansion of regional financial institutions, all of which have lagged well behind other regions. This has also contributed to the region recording very low levels of intra regional trade in comparison with other regions. Transportation links in the Arab world are below potential still have much room to progress.

⁶⁰ Legrenzi, M. & Calculli, M. (2013) "Regionalism and Regionalization in the Middle East: Options and Challenges"

⁶¹ Ibid

⁶² ESCWA (2015) "Assessing Arab Economic Integration: Towards the Arab Customs Union"

Weak and hesitant private sector

The private sector in Arab countries is considered weak, especially given that the main economic driver for the most part of Arab countries' histories in countries of the region. According to an OECD study⁶³, there is an absence of a vibrant private sector in the MENA region influenced by several factors including rigid labor markets, skills mismatches, the crowding out of the private sector by the state-owned enterprises, and high corruption among others. Coupled with a sporadic periods of insecurity and instability, this has limited the extent to which the private sector is able to cooperate on the regional level, especially given the absence of strong supranational regional authorities.

Concluding Remarks

To sum up, this study has shown that:

- The direction and strength of the relationship between economic interdependence and conflict greatly depends on the quality of institutions governing these issues on the regional and national levels.
- The lack of regional institutions with supranational power in the Arab World is a main obstacle in front of increasing economic integration, and strengthening the relationship between economic interdependence and conflict prevention & management.

A number of policy directions can be deduced from the analysis made this study. While the main direction to be followed by the region is to enhance the quality of its institutions, and enable them with supranational authority, more specific policy directions may be presented related to institutions governing the relationship between economic interdependence and conflict management.

Full activation of PAFTA

The study has shown that the region has decided on a resolution to establish a Arab Customs Union and a common market, without having the necessary prerequisites ready, mainly: a functioning and active PAFTA. It is therefore strongly recommended that this regional institution is strengthened and empowered to fully reap the benefits of its potential in deepening economic integration. A clearer and more empowering conflict resolution mechanism would also be needed so that the link between further integration and security is enhanced. Therefore, an assessment of PAFTA and the current feasibility of its full implementation is deemed needed. If found to be not feasible, then a restructuring of the agreement would be in order, to make it more applicable by all

⁶³ OECD (2011) "Opportunities and Challenges in the MENA Region"

member states. A fully functioning PAFTA would then pave the way for deeper economic integration measures such as the customs union or common market.

Capacity building and empowering regional institutions such as LAS to have supranational authority

Regional institutions should be empowered to play their role and lead regional integration efforts in a serious pursuit. The capacity and level of regional organizations should be enhanced so that they can be more effective in their efforts of integration and in the resolutions being adopted. More weight should be put in these institutions, and integration & security should be their ultimate purpose. In specific, and as mentioned before, it is crucial that regional institutions are empowered with supranational authority in order to advance regional integration. Supranational authority for a regional institution such as LAS would mean that member states would need to cede authority and sovereignty on at least some internal matters to the group, and decisions would be binding on members.

Setting clear and consistent institutional standards for conflict management and harmonization of conflict and economic concepts.

Regional institutions should be consistent in how they deal with and respond to challenges in order to gain the trust of members as a conflict management institution. In order to be able to do so, a common set of standards for conflict management should be defined and agreed upon by all member states. Through this way, regional institutions can become more effective in their approach and response to arising conflicts. Adopting a common and consistent framework for conflict management would be facilitated by a strong regional supranational authority.

In order to move towards deeper integration, a harmonization process for both economic and conflict concepts and indicators is deemed needed for all regional countries. On the economic front, a harmonization of custom codes, custom procedures, and a closer alignment in fiscal and trade policies, among other issues, will all help create a more enabling regional environment for economic integration. Similarly on the conflict management front, a regional architecture of a clear conflict management mechanism must be put in place through agreement from all countries. The architecture would include a standardization of conflict indicators, early warning systems, and a larger capacity for conflict prevention, management, and resolution, among other such issues.

Simplicity and the elimination of any non trade barriers.

Any economic integration framework should be simple enough to be applicable in most member countries; otherwise, it risks the chance of not being implemented, no matter how well the framework is designed. In other words, simplicity in the provisions of trading agreements such as the ROOs and other such aspects should be prioritized to increase the chances of member countries honoring their commitments to the agreement. On a similar juncture, trade procedures should be

simplified to reduce or eliminate the high rate of occurrences of non-tariff barriers in the region. Issues that affect trade facilitation, such as custom procedures and standards, import & export requirements, and overall general hurdles in the trading process. Regional institutions have a key role to play in this regard, specially if endowed with supranational authority.

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