

Is it the right time for an arab free trade agreement?

by Essam Al Tamimi - e.tamimi@tamimi.com - Dubai International Financial Centre

April 2014

The Arab states have sought economic unification ever since they collaborated with the British to force the Ottoman Empire out of the Middle East in the early 20th century.

Achieving a strong Arab economic alliance was also a long-term goal of the Arab League. Although the Arab League was established a few years before the United Nations, attempts to overcome trade barriers between the Arab states have made limited progress, perhaps because most of the initiatives established were of a political nature at a time when Arab countries had differing political systems and were aligned to different foreign powers. There was no political desire to implement free trade agreements and the Arab countries were actually diverging socially, politically and economically.

The Greater Arab Free Trade Area Agreement (“GAFTA”) was first conceived at the Arab League Summit in 1982, but very little progress was made until it came into formal existence in 1998 and was signed by 17 member countries. Even though GAFTA has waived most customs duties on Arabic products between the member states since 2005, it lacks benefits for cross-border investment and effective dispute resolution mechanisms. In fact the Arab states have better-structured agreements, providing for greater benefits, with foreign western states than they do with other Arab countries. For example, Jordan, Egypt, Bahrain, and the Sultanate of Oman have free trade agreements with the US. Other Arab countries, such as Morocco, enjoy limited agreement with the European Union that provide better investment opportunities and trade than GAFTA.

I believe the current social and political situation in the Arab states means there is no better time than the present to develop a proper, effective, free trade agreement, eliminating trade barriers among the Arab states. Most of the Arab states now agree that they must focus on establishing economies that benefit the people, rather than on political motivation. For the first time, the Middle Eastern states have digested their political and cultural differences and realised that the best way to stabilise the political situation within the region is to create an economic environment that benefits all.

Whereas the difference in living standards between Arab states has previously been seen as a barrier to progress, I believe it should now be seen as an advantage. The different states can each benefit by creating new economic opportunities – wealthy countries that do not have the manpower to manage certain industries can develop relationships with other countries to assist each other in building strong economic opportunities and trade across their borders.

Accordingly, there is an immediate need for the Arab League to progress GAFTA. It must become a true free trade agreement, eliminating all barriers in trading, manufacturing and investment among the Arab states and from outside the region. It is also vital that a mechanism is established to settle disputes effectively.

Importantly, the benefits of greater economic integration will not be limited to Arab government-owned companies. The Arab private sector will benefit from a proper free trade agreement allowing labour, capital, raw material and goods to flow freely. A stronger Arab market will also attract foreign direct investment from non-Arab manufacturers, for example, who could set up in the Middle

East and utilize the benefits of free trade, while being comforted by a proper dispute resolution mechanism that would avoid the need to be subjected to the criminal or civil procedures in those jurisdictions.

The key challenge that a comprehensive free trade agreement will face, either at the GCC level or the Arab League level, is the political differences that still exist among the Arab states. In particular, the countries involved in the Arab Spring, whose internal political parties are not able to agree in what direction the country is going and which lack a process for such decision making. These countries are in desperate need of a free trade agreement and the economic benefits it will create. Even with their political similarities and historical family ties, the achievement of the GCC states on the legislative front, and in relation to a free trade agreement, has been far from perfect.

The creation of a strong economic alliance among Arab states requires an agreement with wording of an international standard that is purely motivated and driven by economic needs for the benefit of the private sector, without political motivation. Excellent drafting is essential and there are many examples that can be used as guidelines to achieve such a comprehensive workable agreement.

In conclusion, it is evident that there is a need among the Arab states to have a comprehensive free trade agreement for goods and investment (which is unlikely to extend to services at this time) to be able to achieve economic growth and benefit across the board. Even acknowledging the common benefit to the Arab countries, there are political challenges to overcome before a comprehensive free trade agreement can be achieved. However, I do not doubt that such an agreement will be at the top of the agenda in future Arab-to-Arab relationship discussions, in the pursuit of the economic, social and political stability that all Arab states desire.