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The Particularity of MENA Integration: The Case of Lebanon

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Khalil Gebara

Lebanese Center for Policy Studies
Beirut, Lebanon

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1. Introduction

The Middle East and North Africa (MENA) is an economically diverse region comprising both the oil-rich economies in the Gulf and the countries that are resource-scarce in relation to population, such as Egypt, Morocco, and Yemen. The definition of the MENA region remains ambiguous on the question of its defining geographical boundaries, and particularly on whether it should include Israel and Iran. The World Bank’s account of the MENA region covers the 21 members of the Arab League (Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, The United Arab Emirates and Yemen), Iran, Israel, and Turkey. The Group of 8 for instance adopts a larger and more inclusive definition comprising Afghanistan, Cyprus, Mauritania, Pakistan, Somalia, and Sudan. Meanwhile, the most restrictive definition encompasses Egypt, Israel, Jordan, Lebanon, Syria, and the West Bank and Gaza (El-Erian & Fischer, 1996: 1).

In the context of its geography, the MENA covers a contiguous geographical land mass extending from the Atlantic Ocean in the west to the Arabian Sea in the east. Its area of 15 million sq. km is almost equal to the EU’s and three-quarters of the area of Latin America. With the Middle East as its major landmass, this areas has a total population of 445 million (7% of world population) over an area, largely of arid or semi-arid climate, that extends to 16.6 million square kilometres (12% of world surface area) and generates GDP of $1354.7 million in 2004 (3.3% of world GDP). The geo-strategically located Middle East is poor in agricultural resources like fresh water and vast in energy resources, with 71.1% of world proven oil reserves, 46.5% of world natural gas reserves, and 36.6% of world oil production. With its oil reserves expected to outlast the world’s reserves for twice as long, the Middle East’s oil reserves prove more crucial than its production rate. In merchandise and investment, the region’s share of world merchandise is 4% for imports and 5.6% for exports - that are heavily dependent on international energy markets. Most Middle Eastern countries are middle-income countries with an average income per capita of $2000 in 2004, hiding a large gap between those with high income and others with low income. Economic performance is also highly dependent on oil fortunes, with real annual GDP growth rates averaging 3.2%. The MENA region attracted $4.8 billion of FDI inflows (0.8% of total world FDI) with China attracting FDI eleven times that level. This indicates a low degree of integration in the world economy. Investment in the MENA region depends on resource endowments (oil) and trade openness. The region is also heavily affected by accounts of privatisation, macroeconomic policy regimes, and political stability. The region’s economic structure in the past quarter century has been heavily interlinked with two major factors – the price of oil and the legacy of economic policies and structures that had emphasised a leading role for the state.

On the cultural end, the region is known for its unusual cultural homogeneity represented in its linguistic, religious, socio-cultural, and historical references. Language is the major protagonist. Arabic is the main language in most of the region's countries, and an official language in all countries (Suleiman, N/A). The region is dominated by monotheistic religions, between which there are historical relations. In all countries, the population is predominantly Muslim. Moreover, the region witnessed a high level of cultural exchange especially represented in the travel conducted by Muslims for pilgrimage, business and agricultural trade among the region's various populations. The countries share a rich historical heritage that extended over many decades. Religion is another major characteristic. The cultural, social, and intellectual foundations lie in the Islamic empire of the Prophet Mohammad and the quest for spreading the Islamic beliefs, Shari' a, and the abolishment of polytheism in the seven centuries that followed (a time span ranging from the 7^{th} to the 13^{th} centuries C.E.) (Fakhri, 2007:11). This, at the time, became an important factor unifying the population of this region.

A third legacy stems from the region's more recent history involving the colonial experience. Under the mandate system of the League of Nations, the region was partitioned according to great power interests. The established state system however, was countered by an indigenous movement of Arab nationalism throughout the 1950s and 1960s which transcended national borders and challenged almost every aspect of the colonial legacy. The most important confrontation was of course that of regime change. The established monarchies in Egypt and Iraq were overthrown by Arab nationalist regimes. Similar regimes found their way to power in Syria, Libya, and Yemen as well. This pitted these states in a confrontation with the rest of the region's standing regimes. The divisions among the MENA/Arab states found significant parallels in the emergence of the bipolar world.

The fourth characteristic of the region is the Arab-Israeli conflict. Besides the obvious impact of the three wars, the continuous violent confrontations, the unresolved issue of occupied lands, Palestinian refugees, and the absence of any significant economic and political relations between the warring parties, there lies an important deterrent for regional integration: the Israeli factor. Here, the Arab regimes have systematically abstained from any attempts at reform and establishing better governance as a pretext to the confrontation with Israel. Instead, the strategic location of the region has brought about increased militarisation and ongoing tension.

The similarities of language are considerably greater than in the European Union for example (Fakhri, 2007: 6). Cultural, Social, and religious similarities also play positively into the regional account. But questions of whether the MENA region is integrated or not still need to be answered. Factors of geography and cultural homogeneity mislead many to think of the MENA as an integrated region; "Arab regional integration is an assumption of commonality of culture." The region remains differentiated in terms of political governance; mainly in terms of differing ideologies and the establishment of autocratic, authoritarian, and totalitarian regimes. There has been little political commitment to regional goals (El-Erian & Fischer, 1996: 7). Alliances with the West and the super powers of the world during the Cold War differed from country to country in the region, each based on the mutual interests established as a basis for such an alliance.

On the economic front, MENA is remarkably disharmonised in terms of the extent of economic interaction within the region (Suleiman, N/A). According to El-Erian and Fischer, the scale of intra-regional merchandise trade is limited, amounting to only some 7-8% of total exports and imports[1]. Capital Transactions have also been relatively limited, with the exception of large official flows from the oil-exporting economies to other Arab countries[2]. Labour movements have been more important, taking the form of flows from the non-oil economies to the GCC economies. There has been little space for regional economic policy coordination[3] (The Scope of Regional Integration; 1996:8, 9).

Consequently, as per our first definition of regional integration, MENA integration is quite feeble due to lack of political governance and disharmonized economic directions. In the light of this review, the economic situation in the MENA region is worthy of further analysis and study in order to understand what is the handicap facing the region to achieve deeper integration.

2. The Economic Conditions of the MENA Region

As part of an oil-rich region, the MENA countries can be divided between oil producing states and non-oil producers. Such a division influences and portrays the economic situation in the region which in return shapes the capital, labour, trade, construction, infrastructure, expansion and growth in the area. A significant impact can also be seen in the social, economic and

[1] This compares to over 60% in the EU, over 30% in Asia, and around 20% in the Western Hemisphere

[2] Particularly following the 1973-4 and 1979-80 oil price increase (El-Erian & Fischer, 2007: 8).

[3] With the exception of the GCC, and through the mechanism of OPEC (El-Erian & Fischer, 2007: 9).

political development of not only the oil producing states but also in non-oil producing economies.

Concerning the historical attempts at economic integration, it is worth noting the several efforts made by the region's economies to promote economic integration. To this end, one should look at the MENA's position vis-à-vis these factors and the efforts made in order to determine where the handicap occurs and what the possible causes for such a paralysis might be.

Trade

The economic integration of trade among MENA states proved difficult because of the huge capacity contained only in some states in the area, mainly from oil and constituting nearly all its exports after the 1970s. The formation of the Arab League in 1945 marked the first effort at introducing the MENA region with the notion of a formal collective agreement on economic integration and cooperation among member states. The Arab League's effort to promote economic unity led to the creation in 1964 of the Arab Common Market, in which the participating states (Egypt, Iraq, Jordan, Syria, and in 1977 Libya and Sudan) agreed to gradually remove custom duties between them (Isawi, 1982). Simultaneously, every sub-region began to form its own alliances: the GCC in the Gulf, the Council of Arab Unity, the Arab Maghreb Union (AMU), the Syrian-Lebanese custom union, the Economic Unity Agreement of 1964, and ending with the Greater Arab Free Trade Agreement (GAFTA) signed in 1998. Despite all those agreements signed by different states in the region, trade still proved to be disappointing. Some have suggested that there is a lack of complementarities of trade, arising from similar production structures in sub-regions (Momani, 2007: 2). However, in reality, Arab politicians did not pay enough attention to economic cooperation and integration and instead began to talk about political and military cooperation. Business and commerce were things that Arab politicians looked down on. They considered them the effects, not the causes, of political action (Zineldin, 1998: 15). Others point out the political obstacles that include a lack of mutual trust among Arab leaders, vested domestic political groups' interests in regulated decision-making or rentier-state behaviour, and crony capitalist support for state-oriented, inward policies (Momani, 2007: 3). According to Zineldin, the problem with Arab integration and Arab common market has never been a theoretical one. Sudan could be seen the bread basket of the Arab region, the gulf its oil reservoir, Egypt its labour force, Syria its farm and Morocco a great market (Globalization and Economic Integration among Arab Countries, 1998), however, trade and integration was based on political and strategic interests rather on comparative advantage. Momani Bessma stated in *World Economics*: integrating the Middle East, whether prompted by external players or regional ones, has not been an easy task.

The economic regimes that shape MENA countries could be divided into two camps: the centralised states (Egypt, Syria, Iraq, Libya, Algeria, Sudan, Yemen); and the quasi-liberal states (Jordan, Lebanon, kingdom of Saudi Arabia, Kuwait, Qatar, Bahrain, United Arab Emirates, Oman, Morocco, Tunisia). However, these economic regimes and alliances had their influence not only on domestic economies, but also on regional and international trade activity. According to Charles Issawi, in the countries that have pushed for socialization furthest, such as South Yemen, Algeria, Egypt and Iraq, the state handles virtually all imports and exports. In a few others, notably Lebanon, Kuwait and the Arabian oil countries, trade is practically free of restrictions and duties are low, however, oil production and exports are now determined by the governments (Issawi, 1983). In this environment, while we have severe ideological and economic differences between countries seeking integration, all MENA states depend on each other and on some powerful states to seek economic integration; in other words, Egypt is a dominant nation, socially, politically and economically, within the region of concern. The success or failure of any significant attempts at economic integration in the Middle East obviously depend to a major extent on the role played by Egypt; with more people than all the other Arab states in the area put together (Askari and Cumming, 1977).

Factors of production and Investments:

Factors of production in the MENA, especially labour and capital are the most important factors in shaping economic integration and relations between MENA countries. According to Nugent and Yousef, factor movements of both labour and capital are rather high among countries of the region, allowing them to substitute for trade. Such flows, however, are believed by some to undermine the basis of trade within the region. Some have even argued though, that the promotion of factor movements is a better way of achieving regional integration than trade (Does MENA Defy Gravity?, 2005). Moreover, these factors of production contribute in drawing and pushing forward the economic position in each country in the MENA. For example, in Egypt, gross investment in 1950 amounted to 12 percent of GNP, in Iraq in 1949, gross capital investment amounted to 10-15 percent, in Syria in 1953-1957 rose to 14 percent (Issawi, 1982). This amount of investment helps in creating job opportunities by sending remittances due to labour migration especially from the gulf area, seen mainly after oil price booming of the 1975, 1980 and 2005, 2006. Sharif, staff reporter in gulf news, said that foreign direct investment into the Middle East and North Africa nearly doubled in 2005 to 43.2 $ billion, boosted by the high oil price (Foreign direct investments into MENA, 2006).

The oil price booming is one major factor in building integration between MENA states because of the revenues earned by oil trade. In this environment, the CEO of the Jordan investment board Ma'en Nsur said Arab Gulf investment in Jordan amounts to about quarter, JD250 million, of the JD960 million worth of investment projects registered in the Kingdom until last March. Investment projects that benefited from the investment encouragement law in 2006 reached a total value of JD1800 million, of which 750 million were owned by Gulf investors, he added. Arab Gulf investment in Jordan centres on vital sectors such as energy, telecommunications, health, industry and agriculture. About 75 investment ventures are expected to be launched during the forum with capital ranging between JD5-100 million (Petra, 2007). Moreover, gulf investments in Lebanon, especially those made by Saudi Arabia, UAE and Kuwait were the most active in the real estate branch of investments: that is buildings, lands, and some tourist projects. Gulf citizens invested more than US$ 700 million in all Lebanese territories and mostly in the Mount Lebanon region by the end of the first trimester of the current year. The Real Estate activity expanded to cover the regions of Northern Mountain, Bhamdoun, Faraya, Ajaltoun, Faitroun, Baabdat outskirts, Fakra and Kfarzebian (Hayek group). The gulf investments in Morocco reached $1.4 billion, with a total project value estimated at US$ 1.4 billion (Gulf Finance House, 2006). In Sudan the picture is nearly the same. The rate of investments made by the Gulf is also high which gives a clear indication about integrating factors of production. According to the Sudanese minister of finance Alzubair Hassan, Kuwaiti investments that top the list of Arab investments in his country are up to two billion US dollars, and the minister predicted further Kuwaiti investments in his country including the establishment of an over one billion US$ capital bank (Sudan tribune, 2007), while Egyptian investments rose from $250 million in 2005 to $523 million in 2007. Inter-MENA investments took many forms, beginning with direct investments projects, to real estate, to industrial, to agricultural and other areas. The effect that factors of production movement will have is that they will push for the integration of trade and will overcome the challenges that it currently faces.

It is also worth noting that the unemployment rate in MENA countries is high, and coupled with a high population growth rate which leads to an increase in the labour force. The Arab Human Development report published by the United Nations (2002) estimated that the population in MENA is likely to continue to grow faster than any other region between 2000 and 2015 and that unemployment could exceed 25 million by the year 2010 (Agenor, Nabli, Yousef and Jensen, 2003). While, Johansson de Silva and Silva Jauregui said in *Migration and trade in MENA: Problems or Solutions*, without any doubt the greatest challenge facing the economy in Middle East and North Africa region is in providing good jobs to their young and growing population. Unemployment in the region has increased by nearly 300% in the last two decades (Johansson de Silva and Silva Jauregui, 2004).

Due to this high rate of unemployment and the rapid growth of the labour forces, migration in MENA plays an important role in shaping the MENA labour mobility; most labour migration in the region has been driven by economics. The proximate cause of migration is the huge gap in wages between sending and receiving countries. For example, during the late 1970s an unskilled rural Egyptian could earn thirty times more money working at Saudi construction site than he could on an Egyptian farm, Jordanian engineers could double or triple their incomes by going to Kuwait (Richard and Waterbury, 1998).

However, inter MENA migration occurs between some Arab countries and others from North Africa. Professor of Economics Heba Nassar, Cairo University, said the first example was between the Arab countries and Libya in 1973 when 200,000 foreigners worked in Libya. By 1983 half of the Libyan labour force was comprised of foreigners, the vast majority being Egyptians, while it was estimated in 1980 that 15% of the Libyan population was from Tunisia. The second trend is the same, where a hosting county of migrant labour like Jordan in 1980's when a third and two fifth of its own labour was working abroad whereas it hosted some 120,000 domestic workers from MENA. The third and final trend given by Nasser, is between the non gulf labour exporting countries to the gulf labour importing countries which constitute 70% of the gulf labour forces (Nassar, 2006). Also, both Johansson de Silva and Silva Jauregui agreed that during the oil boom years in the gulf, most migrants were recruited from other MENA countries most prominently from Egypt, Yemen, Jordan and Syria (Johansson de Silva and Silva Jauregui, 2004). Charles Issawi added that by 1977 there were an estimated 3 million foreign workers in the oil-producing countries of the gulf and north Africa, of whom about one third came from outside the region (Issawi, 1982).

In this environment, this huge labour migration and movements between MENA states can act as a clear factor for integration and what makes it more practical are those remittances that are received by states from the migrate labour in MENA that could help integration between those states easily not only on the economic level but also the social and educational ones. According to Keller, an economist in Middle East and North Africa of the World Bank, and Nabli, Chief economist in Middle East and North Africa of the World Bank: Labour force interdependence creates a complex pattern among countries in the Middle East. Oil-rich countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) must import two-thirds of their labour force, including 80% of their professional and technical workers. These migrant workers come from Egypt (60%), Jordan, Yemen, Sudan, and South Asia, and the money they send home is a major factor in the economies of their native lands. While Silva-Jauregui a lead economist in World Bank added: MENA countries – especially Egypt, Morocco, Lebanon, Jordan and Yemen – are among the main beneficiaries of workers remittances flows in the world. The MENA region is also an important source of remittances to the world. To some other states, these remittances were essential in a period of economic hardship: in 1990, remittances were a crucial source of foreign exchange for many countries. Indeed, for Yemen and Egypt the value of remittances exceeds those of any commodity exports. In this theme, The Global Development Finance added that the MENA region is both an important source and significant destination of workers remittances: Saudi Arabia, Kuwait, Oman and Bahrain have in recent years been important sources of remittances to other developing countries including many countries in MENA. Countries receiving large remittances flows include: Morocco ($3.3 billion), Egypt ($2.9 billion), Lebanon ($2.3 billion), Jordan ($2 billion) and Yemen ($1.5 billion). In 2002 the region received $14 billion in remittances (Global Development Finance, 2003).

To date, the political project of MENA economic integration has largely focused on the intra-regional merchandise trade, with analyses of economic integration in the region tending to follow this approach. However, there are several reasons why this emphasis on trade may be inappropriate in the context on the MENA. Firstly, a trade-led approach depends on an exportable surplus of goods and services, which did not exist for most Arab countries due to their poor productive sectors (especially the industrial sector). Even in the agricultural sector, self sufficiency rates are very low. Secondly, since factor movements of both labour and capital are rather high among countries of the region, and factor movement can substitute for trade, some feel that such flows undermine the basis for trade within the region. In this context many argue that in the MENA the promotion of factor movements is a better way of achieving regional integration than trade.

It is hypothesised that economic integration in the MENA has never been about trade of final goods and services in the traditional sense of integration (such as the EU) but rather has been about factor movement. Whereas the lack of a diversified merchandise export base in MENA limits opportunities for integration through trade, complementary differences in factor endowment facilitate integration through factor movements.

This paper tried to show that by using tradition integration theories, one can conclude that the MENA region is not integrated. However when one looks at factor of movements one can actually conclude the opposite: the MENA region is indeed quite integrated. Still one cannot but ask: what are the impacts of this particular form of integration.

As mentioned above, the MENA region can be divided into 2 sub-regions: the first, the Levant and North Africa, is rich in labour and poor in capital whereas the second, the Gulf, is rich in capital, mainly oil revenues, and poor in labour. According to general economic theories, capital will move to the region with higher margin productivity of capital and labour will move to the region with higher margin productivity of labour. In other words, labour will move to the gulf and capital will move to the Levant and North Africa. However what's remarkable with this movement of factor of production is that capital is mainly derived from oil revenues. This means that international markets are the ones responsible for determining the price of oil or the revenues that many countries receive. This creates a dependency by the Gulf countries on oil in which its prices are set by international markets. In return the MENA countries which are poor in capital will end up being dependent on the capital of the Gulf countries. This means that in the MENA, double dependency exists. This dependency will make the MENA region vulnerable to international shocks and will affect the political and economic decisions made by the regimes and might even lead to instability in the MENA regions. As an example, one of the many reasons that helped in strengthening Al Quaeda movement in the Arabian Peninsula was the economic recession that Saudi Arabia and other Gulf countries suffered after the Desert Storm campaign and the decrease in oil prices which affected the ability of many governments to provide the same quality of social services in the Gulf and other countries.

Another impact of this particular form of integration is that the countries are importing labour will end up having political leverage on the countries that are exporting labour and strengthen their position in the MENA region. As an example, thousands of Palestinians, Jordanians and Yemenis lost their jobs in the Gulf because their countries sided with Iraq during the Desert Storm campaign. These labourers were expelled and had to come back to their countries and this led to serious social and economic problems. Hence, many labour exporting countries are very careful not to upset the Gulf countries.

To sum up, this paper is an attempt to look at integration from different lens. It showed that integration in the MENA region is more about factor of production than about trade or final goods and services. At the same time, this paper discussed the impacts of this form of integration on the countries in the MENA and especially on the balance of power between the different countries. What is left to be discussed is the impact of this particular type of integration on Lebanon.

3. The Case of Lebanon

Lebanon is an exemplary case of this form of dependence where Arab inward investment and capital inflow are the major pillars of the economy. Foreign Direct investment reached $2.57 billion in 2005 constituting 12.2 percent of the country's GDP. The gross capital formation in Lebanon amounts to 16.9 percent of total GDP of which 14.8 per cent is non-governmental. According to Karim Salameh – the Director of Saradar Investment House - capital flow into Lebanon is concentrated in the purchase of villas and apartments for personal use, and in the construction of tourist projects (AMinfo). Gulf citizens invested more than $700 million in Lebanese territories (mostly Mount Lebanon) by the beginning of 2003. Beirut Central District (Solidere) also witnessed substantial Gulf investment activity. Overall, around 85% of the transactions have been concluded for more than 900,000 meters squared of land in Lebanon in 2005. The investors, as distributed by nationality, have proven to be mainly from the oil-rich countries of the MENA region. The Saudis recorded an increase of 70% in 2004 and more than 400,000 m² of land purchased. Most of these investments are oriented towards residential and partly on commercial and tourist projects. The UAE also acquired about 320,000 m² in Beirut and Mount Lebanon with an annual increase of reaching 155,000 m² with concentration mainly on tourist projects. The Kuwaitis came third in rank by purchasing about 235,000 m² of land, which represent a 30 percent increase (Hayek Group: 2005).

Another major factor is that of grants to Lebanon. While Lebanon's revenue excluding grants amounts to 2.1 percent of its GDP, the country has received significant aid throughout 2007 in light of the July 2006 war. Lebanon has already received $10 million from Oman, $60 million from Kuwait, $200 million from the UAE, and $107 million from the Arab Monetary Fund (Ministry of Finance: 2007).

On the other hand, Lebanon has a significant Diaspora all around the world and the MENA countries are no exception; the gulf countries in particular. This also applies to the second claim that the Levant and North Africa states - the non-oil producing countries – would export labour to the oil rich countries. This sort of interdependence also is also shown in the level of cash transfers to Lebanon, of which some comes from the savings of Lebanese expatriates living in the Gulf. The overall average of cash transfers into Lebanon reached $5.72 billion in 2006, a ratio of 25.5 percent of GDP. Here Lebanon ranks the highest in the world with an average of almost one third its GDP in remittances and 6 to 15 times FDI (Al Akhbar Newsper: 2007). In a sense, Lebanon’s economy seems to be gradually transforming into one of balance depending on cash inflows through remittances, investments, and aid more than production activities.

This structural dissection of Lebanon’s economy in juxtaposition to the gulf’s input reveals a political reality as well. The economic role that the Gulf states play in Lebanon has also been accompanied by a resultant political and social influence as can be seen in the special relations that have linked many of the Lebanese leaders with their gulf patrons on the basis of vested economic interests, religious, social, and familial influence. This in a sense reflects the aspect of integration experienced in the MENA region in terms of interdependence through factors of production instead of trade or final goods and services.

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