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# THE MIDDLE EAST COMMERCIAL CENTER (MECC) AND THE ROLE OF PRIVATE SECTOR-LED INITIATIVES TO OVERCOME BARRIERS TO ECONOMIC INTEGRATION IN THE MENA REGION

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REGIONAL INITIATIVES, HOWEVER, HAVE LARGELY BEEN DRIVEN BY ATTEMPTS TO LINK MENA TO GLOBAL TRADE WITHOUT FOCUSING MUCH ON INTRAREGIONAL ECONOMIC GROWTH.

Governments across the Middle East and North Africa are faced with a seemingly insuperable challenge of creating enough jobs to employ 2.8 million men and women who enter the workforce every year. Yet, an International Labour Organization report has estimated the annual growth rate at two percent in the MENA region from 2004 to 2014 – a rate far too low to sustain the region's young population.[1] With unemployment rates already among the highest in the world -- and against a backdrop of mounting evidence linking high concentrations of unemployed youth to social upheaval, political crises, instability and violence -- the need for comprehensive, region-wide solutions fit for the global economy in the MENA cannot be overstated. Country-specific success models, after all, will not only fail to overcome security-related issues inherent to the region, but will also fail to generate enough opportunities to meet its growing population's evolving needs.

Regional initiatives, however, have largely been driven by attempts to link MENA to global trade without focusing much on intraregional economic growth. Other attempts led by governments to form interregional pacts, meanwhile, oscillated between achieving limited success and absolute failure – depending on political priorities and regional trends. Established by the U.S. Chamber of Commerce in February 2014, the Middle East Commercial Center (MECC) aims to synthesize lessons learned from previous attempts to promote trade and economic growth in the MENA region via its comprehensive, private sector-led network of multinational companies and chambers of commerce throughout the region.

## 1. ECONOMIC INDICATORS ON REGIONAL INTEGRATION IN MENA:

Although countries in the MENA have fared relatively well during the 2008 global financial crisis, the region's inability to fully realize its potential for economic growth poses significant risks for its growing population. While attempts by multinational organizations and governments to better integrate the region's economies have increased over the past years, progress remains slow. According to a 2013 World Bank report "intraregional exports of goods have averaged less than eight percent of total exports in the MENA region over the 2008-10 period, as compared to 25 percent in the Association of Southeast Asian Nations (ASEAN) and 66 percent in the European Union."[2]

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Economic indicators across the MENA show that exports, currently comprising one third of the region's potential, "are converging to expected levels, though at a very slow pace. At current rates, it would take about 20 years for MENA's external exports to reach potential."[3] There has been some progress in the region in tariff reduction over the years, bringing the average tariff to six percent in 2009 from 15 percent in 2002.[4] The progress made in tariff reduction, however, has failed to extend to all nations in the region and remains insufficient when compared to global standards.

## 2. PREVIOUS EFFORTS AT REGIONAL INTEGRATION:

The exercise in tariff reduction, moreover, demonstrates rather remarkably the types of challenges previous initiatives have faced in attempting to integrate the region. The Greater Arab Free Trade Area (GAFTA), which has been credited as the framework responsible for lower tariffs, became functional in 1997; 16 years after it was born out of the Arab League's attempt to develop regional trade. GAFTA has 17 members [Algeria, Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Palestine, Saudi Arabia, Sudan, Syria, Tunisia, the United Arab Emirates and Yemen], as opposed to the Arab League's 22 members that reach as far as Somalia, Comoros and Mauritania in Africa.

Despite its long gestation period, GAFTA's success in lowering tariffs among its members has not been replicated by the Arab League in eliminating other barriers to intraregional trade. The League includes actors with contradictory political priorities while lacking a mechanism to ensure compliance with its resolutions. The League's annual meeting held in May once again exposed clearly the rift among its members on a broad set of issues that complicate reaching a consensus.

Council of Arab Economic Unity (CAEU) another attempt by the Arab League to achieve economic cohesion, established an Arab Common Market in 1964 that included Egypt, Iraq, Jordan, Kuwait and Syria. This exercise, however, failed to live up to its mission due to consecutive exceptions to its own rules as well as perpetual periods of transition, and eventually became obsolete due to other superseding agreements.

A relatively more successful integration attempt was both sub-regional in scope and political in nature. Following the Iran-Iraq war in 1980, Saudi Arabia, the United Arab Emirates, Qatar, Kuwait and Oman, states with similar political and economic structures, joined forces out of common concerns to establish the Cooperation Council for the Arab States of the Gulf (also known as the Gulf Cooperation Council – GCC). GCC has managed to implement a Free Trade Agreement that governs intra-Council trade and later established a Customs Union. The GCC Common Market, furthermore, has liberalized the movement of labor, services and capital among its members, though it has failed to engender among its members a more diversified and less oil-dependent economic structure.

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Egypt, Yemen, Iraq and Jordan founded the short-lived Arab Cooperation Council in 1989 as a counterweight to GCC. However, the union was dissolved quickly with Iraq's invasion of Kuwait in 1990.

In sum, consecutive attempts by governments to integrate the region economically have made some progress but have fallen short of being truly regional. Moreover, they have usually focused on specific aspects (i.e. tariffs) rather than involving multiple stakeholders to implement a holistic strategy across the region. As a result, "the region created only 3.2 million jobs per year over the past decade – less than half of the number of jobs needed."[5] The overall number of jobs needed by 2020 is estimated around 75 million – or about 40 percent more than the number of jobs created in 2011.[6]

## 3. MIDDLE EAST COMMERCIAL CENTER ISSUE AREAS:

The Middle East Commercial Center sees isolated successes as valuable lessons learned and aims to work towards intraregional integration by engaging actors across the private sector to expand beyond the traditional players affiliated with the oil economy.
The MECC offers the ideal network to facilitate this public-private partnership by activating its broad and far-reaching network of multinational companies as well as local and American chambers of commerce to ensure lessons learned from previous attempts within and beyond the region are put into action.

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As a private sector-driven model, the MECC does not have a country specific membership structure, but builds its network via willing and active business and trade organizations from different nations across the region. The MECC's action-oriented network includes actors who work closely with governments across the region and who understand thoroughly the issues that hamper economic growth. Furthermore, the MECC is strengthened by a network of American chambers of commerce across the region, who as active members of the civil society, can play a crucial role in transmitting valuable lessons learned from business experiences elsewhere back to the region, while transferring an intimate knowledge of the issues and opportunities in the region to decision-making bodies elsewhere. A Board of Advisors, comprised of internationally renowned executives from global companies, former high-ranking government officials, and other policy experts govern the MECC's overall strategy, whereas its National Steering Committees that represent each country's business community drive the MECC's activities and sector-specific work.

The MECC, through its network, has identified a number of issue areas and created corresponding task forces to deliver policy recommendations that will address barriers to economic integration from multiple angles. Accordingly, the MECC will look into issues pertaining to (a) movement of goods and market access; (b) special economic zones (c) entrepreneurship development; (d) women in business and; (e) natural resource cooperation.

### Movement of Goods and Market Access

Business thrives on interconnectivity and reliable supply chains - both of which are severely limited in the region. A joint study led by the International Road Transport Union reveals that up to 57 percent of transport time is lost at the borders in the Middle East, often requiring cargo to sit in long queues.[7] Underdeveloped infrastructure further exacerbates the cost of doing business in the MENA region, where customs clearance, transit transparency, documentary and tax requirements have been identified as issue areas.

Among the conclusions reached at the World Economic Forum in 2013, is the estimation that "reducing supply chain barriers to trade could increase GDP up to six times more than removing tariffs."[8] It is estimated that "close to $78 trillion is expected to be spent globally between 2014 and 2025" on infrastructure due to urbanization and economic, as well as demographic trends.[9] The allocation of infrastructure funds among developed and developing countries, however, stands to impact the distribution of global economic power as "accelerated infrastructure spending will drive economic growth, provide jobs and deliver vital services," with every dollar spent on infrastructure estimated to generate "an economic return of between 5% and 25%".[10]

Financing - particularly government financing - however, is one of the most important drivers of infrastructure spending. Building private-public partnerships to make available private capital for a more connected and more prosperous MENA region therefore represents an important issue area for the MECC. Moreover, as the ongoing war in Syria has demonstrated, diverse and well-connected land and maritime transportation routes are necessary to minimize disruptions to trade across the region.

Special Economic Zones (SEZs)

SEZs are geographical enclaves with special incentives that are administered by a single authority to attract foreign investment, offer relatively favorable investment climate and create employment. Studies show that "SEZs are also capable of contributing to export development, not only in terms of accelerating export growth, but export diversification as well. This is particularly important to poorer developing countries reliant on the export of primary products."[11]

THE REGION HAS PLENTY OF OPPORTUNITIES TO FINANCE STARTUPS, THEY ARE EITHER NOT ENGAGED OR INTERESTED IN PROVIDING SEED CAPITAL FOR ENTREPRENEURS.

For SEZs to be truly transformational, however, policies need to be formulated carefully to ensure developing nations do not treat special zones as loopholes to avoid implementing comprehensive reforms needed for a favorable investment environment. "Three decades of zone development experience suggests that the failure or success of a zone is linked to its policy and incentive framework [...] This experience shows that the use of generous incentive packages to offset other disadvantages (such as poor location or insufficient facilities) is ineffective in terms of overall zone performance."[12]

While a variety of SEZs (or more broadly zones, including Free Trade Zones) have been operational in MENA countries since 1950s, their success has been limited due to political, economic and geographical considerations. The Jebel Ali Port and Free Zone in the United Arab Emirates has so far been the largest and most successful implementation of SEZs in the region "in terms of investment attracted to the zone, level of exports and foreign exchange, as well as backward and forward linkages with the domestic economy."[13] Replicating successful lessons learned while avoiding failures will be an important exercise in the economic integration of the MENA countries.

Entrepreneurship Development

Issues impacting access to markets within the region are not confined to the physical world. Entrepreneurship and digital economy are an increasingly reliable employment option that can lead to growth. A World Economic Forum study estimates the level of entrepreneurial activity in the MENA region in 2009 to be at 13 percent – far above the levels in the United States, Germany or Japan. "However, this apparent entrepreneurial vigor is deceptive. The high level of entrepreneurship is mainly driven by necessity" and is therefore limited in its ability to create jobs or contribute to economic growth in a sustainable way.[14]

As it stands, the MENA entrepreneurial ecosystem appears to be unbalanced on multiple fronts. Lack of educational initiatives to encourage entrepreneurial behavior from an early age perpetuates the existing culture that is unforgiving of failure. While the region has plenty of opportunities to finance startups, they are either not engaged or interested in providing seed capital for entrepreneurs. Although incubators and accelerators can be found all across the region, they are often underutilized or poorly marketed to entrepreneurs in need. Government incentives and the regulatory framework, moreover, need to enable a consistent ecosystem for entrepreneurs across the region.

For entrepreneurship to play a truly transformational role and to provide employment opportunities for the region's swelling youth population, it is necessary to bring private and public stakeholders together to address educational, infrastructural, political and cultural hurdles to a vibrant ecosystem in MENA.

Women in Business

While employment targets pertain to both genders, far fewer women than men in fact participate in paid employment across the region. "Only 27 percent of women join the labor force compared with 76 percent of men, [well] below the 51 percent female labor force participation rate in low- and middle-income as well as in advanced economies."[15] While studies show women to be increasingly well educated and prone to delaying marriage in the region, these trends are not necessarily duplicated in their workforce participation rates.

Reasons behind women's limited presence in the workforce are manifold. Women have traditionally been relegated to public sector jobs; "indeed, women's typical fields of study, such as education, health services, and humanities, are geared toward employment in the public sector [...] However, further expansion of the public sector is increasingly fiscally unsustainable, especially in the labor-abundant, oil-poor countries."[16] The private sector, meanwhile, often deems women's education and experience as insufficient and views the female workforce as more costly.

Natural Resource Cooperation Strategy

Finally, regional integration cannot be accomplished without a carefully thought-out and implemented natural resource cooperation strategy. MENA countries have registered economic growth in the last decades due in large part to their overall potential for energy generation. However, the

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vast variation among the states in their energy potential and infrastructure accounts for the high levels of national income disparity across the region. Moreover, challenges facing traditional supply routes in MENA, as well as the discovery of new resources especially in the Eastern Mediterranean Basin, are likely to shift the existing energy dynamic in the region. Moving forward, regional energy projects will require further consistency in infrastructure development, national energy system codes, pricing, access and transportation. A more connected network would by definition engender greater integration among the nations across the Middle East and North Africa.

## 4. MECC RECOMMENDATIONS:

The issue areas the MECC stakeholders have identified are not new. What is new, however, is MECC's call for a private sector-driven public partnership to address the foremost challenges impeding greater connectivity across the region. Upon talking to firms who are directly affected by the low levels of integration, MECC aims to bring up the following private sector recommendations to pertinent agencies within national governments to implement a strategy towards a more connected MENA:

### RECOMMENDATIONS TO ENHANCE MOVEMENT OF GOODS AND MARKET ACCESS

- Establish an Infrastructure Committee comprised of transport ministers and customs officials to map out current deficiencies in transportation and develop a roadmap to decrease border wait times.

- Encourage governments to expand their infrastructure spending.

- Develop stable maritime routes to safeguard the movement of goods at times of heightened security concerns.

### RECOMMENDATIONS TO DEVELOP SPECIAL ECONOMIC ZONES (SEZS)

- Identify lessons learned from failed SEZ models and establish best practices with correct incentive structures and overall economic policies to ensure SEZs are well integrated into regional economies.

- Mobilize potential investors to showcase existing SEZs as part of a strategy to promote successful models in the region.

- Commission a study of existing SEZs in the region to develop benchmarks for success.

LOBBY GOVERNMENTS TO ENCOURAGE ENTREPRENEURSHIP VIA A LIST OF BEST PRACTICES AND BENCHMARKS FOR SUCCESS.

## RECOMMENDATIONS TO DEVELOP ENTREPRENEURSHIP

- Map out incubators, accelerators, seed investors and venture funds; and promote co-investment and transparency in deals made across the region.

- Lobby governments to encourage entrepreneurship via a list of best practices and benchmarks for success.

- Organize different activities, including hack-athons and start-up weekends, targeting various actors within the ecosystem to bring together aspiring entrepreneurs. Organize road shows to expose them to regional and global investors and mentors.

- Organize annual events to bring together different actors in the ecosystem and to encourage capacity building.

## RECOMMENDATIONS TO INCREASE WOMEN IN BUSINESS

- Identify success stories, as well as impediments – including legislation - facing women in the region.

- Work with American Chambers of Commerce in the region to increase women's participation on AmCham boards and identify channels for starting policy-level dialogue aimed at engaging in discussions leading to improved legislation for women's participation in the workforce.

## RECOMMENDATIONS TO ENHANCE NATURAL RESOURCE COOPERATION

- Design a framework that lays out a clear and independent vision for regional economic and political cooperation to be communicated both to private and public stakeholders.

- Create working groups to draft energy policies and seek out small wins to garner additional opportunities for energy cooperation.

- Prepare a report on regional energy architecture with near- and long-term challenges and opportunities to be distributed to all relevant governments.

The path to Middle Eastern and North African economic integration is filled with challenges and is laid against a background of unfulfilled promises and underwhelming success that came as a result of government-driven efforts that have traditionally excluded the private sector. However, as U.S. Secretary of State John F. Kerry said during his remarks at the MECC Leadership Forum in Washington, D.C., "the Middle East Commercial Center is an idea whose time is now. Its mission could simply not be more vital. And the ability to be able to advance projects and promote growth that will benefit people throughout the region is absolutely essential to making peace, sustaining peace, and to addressing the fundamental concerns of failed or failing governance or difficult governance or even corruption, and other problems that we face not just in that region, but across the world."[17]

The MECC, with its over 100 business and trade association-strong network, is uniquely positioned to bring together private and public sectors and seeks to make progress on key policy recommendations that altogether promise a more comprehensive strategy towards a physically and digitally integrated MENA region.

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