



## THE ARAB WORLD INITIATIVE AND REGIONAL INTEGRATION

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**Introduction:** The March 24, 2010 Ministerial Consultation to discuss Regional Cooperation and Integration initiatives for the Arab World was a key milestone in the Arab World Initiative, one of the six strategic directions outlined by President Zoellick in October 2007<sup>2</sup>. This important first round of regional deliberations was hosted under the patronage of the Ministry of Investment of Egypt. The backing of Egypt and its leadership in supporting cooperation within the region is critical given its strategic standing, location and resource base. Going forward, the plan is to rotate events to discuss Arab World cooperation through different locations across the region.

**Challenges of Regional Integration in MENA:** The Middle East and North Africa (MENA) is a region with both commonalities and diversity, and has significant potential to come together to underpin regional prosperity and stability. The region has already made some important inroads on this front, often overlooked amidst the political noise of international relations. Not only has the region a tradition of sharing its resources but strong regional ties have already laid the foundations for discussions on an Arab gas pipeline, an Arab power grid and the sharing of scarce water resources. There is also evidence of growing capital and labor mobility within the region.

However regional initiatives remain somewhat patchy and fragmented and the process of integration is complicated by political realities. The lack of a common and effective institutional

framework for integration; the absence of well structured, readily accessible financial arrangements; and deep differences in competitive, legal and regulatory frameworks across countries have impeded the region's ability to work collectively.

Tackling the regional integration agenda undoubtedly appears daunting, but so it was for all other successful regional blocs – two cases in point are the European Union and ASEAN, that have emerged as strong blocs after only decades of incremental political commitments supported by negotiation and background work on institutional, legal, and policy frameworks.

**The Challenge of Unemployment and the Promise of Regional Integration:** Today, countries across the MENA region are faced with a serious problem of unemployment, particularly high among youth – a rapidly growing demographic. These young people cannot all be absorbed within national jurisdictions alone, and industries cannot expand employment sufficiently unless they have competitive access to larger markets. In particular, the region needs to better exploit the potential of small and medium industry, which is the engine of growth and employment generation.

It is these considerations and factors which have motivated our client countries to think beyond their own boundaries, and demand support from the World Bank to support and structure initiatives which would help in fostering collective action, the adoption of common standards and regulations -- be it in electricity, banking or other sectors -- and the promotion of regional facilities and products.

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<sup>2</sup> For more on the Strategic Themes go to: <http://go.worldbank.org/56O9ZVPO70>

**World Bank Initiatives on Regional Integration:** Responding to this demand, the World Bank has launched two important regional initiatives backed by stakeholders from within and outside the region.

The Center for Mediterranean Integration (CMI) was launched in October 2009. The Center, which has the backing of the Union for Mediterranean political process, will focus on knowledge and information sharing from good practices, alongside network building between the region and Europe<sup>3</sup>.

The focus of this Quick Note, however, is on activities that fall under the second regional initiative --The Arab World Initiative (AWI). Six months ago at the Annual Meetings of the World Bank in Istanbul, the Bank, with the support of the Bank's Governors from the Arab countries agreed that the AWI would focus on three broad areas: (i) launching a range of regional projects to enhance resource sharing, infrastructure development and connectivity; (ii) promoting best practices, advocacy and knowledge sharing mechanisms; and (iii) promoting harmonization of regional standards and regulations.

Based on this framework, the World Bank is well advanced in a number of areas. A few specific milestones and initiatives are listed below:

- A range of regional flagship studies have been completed providing regional perspectives to private sector development challenges, education and water resource management, and work is underway on financial sector and climate change issues<sup>4</sup>. The Bank is to launch more sub-regional economic analysis, including on cross border transport and facilitation.
- The Bank and the Arab Water Academy had rich deliberations in the UAE to agree on a way forward for promoting water resource

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<sup>3</sup> For more on this see MNA K&L Quick Note #19 - accessible by typing Quick Note at Worldbank.org search site.

management and building regional capacities in this area.

- The Bank will soon launch a GCC environmental initiative with the support of funding from Kuwait. The Bank is also working on a Food Security Facility to help regional partners strengthen logistics for procurement, storage facilities and commodity hedging mechanisms within the Region.
- Under the AWI, the World Bank is supporting the development of one gigawatt of Concentrated Solar Power generation in the MENA region. This will involve setting up eleven commercial-scale power facilities, alongside associated transmission infrastructure in the Maghreb and Mashreq for domestic supply and exports, as part of Mediterranean grid enhancement. This project will exploit the untapped potential of solar power in the region and help resource and energy diversification in countries witnessing a decline in access to traditional energy resources. The Bank has mobilized Clean Technology Fund concessional financing of \$750 million to support this.
- The WBG has developed a concept paper for an Arab Infrastructure Facility which will promote development of cross border infrastructure and trade facilitation to enhance regional trade and connectivity. Our estimates suggest that MENA needs to invest \$75-100 billion per year in infrastructure to sustain the 5% average growth rate of recent years and improve its economic competitiveness as demand for infrastructure rises. Cross-border infrastructure such as a pan-Arab Railway, electricity grid interconnections, a gas pipeline extension, regional road network and investments to mitigate climate change all require us to leverage a range of instruments in the Bank Group and the Region as a whole. We need also to look at ways to pool both public and private resources at the regional level for the delivery of regional products. In this regard, we have launched diagnostics around PPP policy, legal and regulatory

frameworks related to regional infrastructure projects, and IFC colleagues will offer advisory and transaction support. In addition, we have developed a potential pipeline of cross-border projects that might be privately or publicly financed under the Facility.

- The WBG has developed a conceptual framework for an Arab MSME facility which will help resource mobilization; risk mitigation arrangements; and needed capacity building for both micro and small entrepreneurs as well as participating financial institutions.

In working on these initiatives, the Bank plans to focus on unleashing the potential of the Region's private sector, whose involvement is critical in promoting investment, trade, employment, and economic growth. However, in a number of cases we will have to back private sector initiatives with creative public-private partnerships.

A considerable amount of consultation on these facilities has already taken place in the region. Including a one day workshop in Beirut in Mid-March of this focused on a recently completed study on Mashreq cross border transport and logistics that is an input to potential activities under the Infrastructure Facility. The findings and project details will be part of the discussions at the Conference. These and other proposals will benefit from the advice and counsel of the participants as the region moves forward on both initiatives

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