



*Economic development indicators in Arab Free Trade Area and
activating Arab cooperation*

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Abstract

This study aims to identify the reality of economic development within the Arab Free Trade Area, by calculating the arithmetic averages of economic development indicators for a group of countries in the region during the period (2009-2020), and based on that, mechanisms for Arab economic cooperation are proposed. The descriptive analytical approach was adopted to describe and analyze the study of variables during the aforementioned time period. The study concluded that the countries of the Arab area are still far from achieving the desired goals, and therefore it is proposed to establish a common market for Arab economic cooperation and adopt economies of scale to cover the total demand, as well as applying the product life cycle theory to support the competitiveness of Arab production and improve economic development indicators within the Arab bloc.

Keyword : economic development, fixed investment, exports ,imports, Gross domestic Product.

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1. INTRODUCTION

Development is one of the most important phenomena that changed during the time. It was limited to economic growth in the sixties of the last century and was known as economic development; a paradox emerged that caught everyone's attention. How can economic growth be achieved while the population's living standards remain low?

Therefore, it was thought about social development, but the latter cannot be achieved without relying on human being, to be the core of the development process, so the idea of human development was adopted, but the ambition of humans harmed the environment and the share of future generations in it, so the term sustainable development appeared to create a balance between the ambition Humans to realize the economic growth for improving the standard of living and developing human capabilities to be the actor and effect in the development process on the one hand, and preserving the environment and the share of future generations, as approved by Islamic law, on the other hand.

But achieving this balance requires concerted efforts to put in place the necessary mechanisms to realize it, and there is no doubt that economic integration and cooperation is one of the ways to realize this balance especially in the era of globalization and economic blocs ,so that

. It is necessary to follow the experiences of the blocs that achieved advanced steps in the development process, but it is more correct to discuss the reality of the latter in the Arab region relying on economic indicators to determine the points of strength and weakness and starting from them in building a model of Arab integration aimed at achieving Arab sustainable development.

Based on this proposition, the following question comes to mind:

What are the points of strength of the largest Arab bloc, the “Greater Arab

Free Trade Area,” to achieve sustainable development?

Sub-questions:

1. What are the indicators of economic development?
2. What is the reality of economic development in the Arab Free Trade Area?
3. What are the mechanisms proposed to achieve economic development within the Arab Free Trade Area?

Hypotheses:

1. The differences in levels of gross domestic product GDP and the investments and foreign trade between the countries of the Arab Free Trade Area.
2. The possibility of relying on multiple mechanisms, such as economies of scale, to achieve Arab cooperation, including increasing Arab production and improving its quality and price competitiveness, which will have a direct positive impact on economic development indicators within the Arab free trade area.

The importance of the topic

The importance of the topic is evident because of the inevitability of achieving development within the Arab region, and the necessity to identify the points of weakness and those of strength within the region in order to find the mechanisms to benefit from the points of strength to improve its weakness.

- The possibility of relying on multiple mechanisms, such as economies of scale, to achieve Arab cooperation, that provide increasing Arab production and improving its quality and price competitiveness, which will have a direct positive impact on economic development indicators within the Arab free trade zone.

research aims

- Identifying the strengths and weaknesses within the Arab bloc “Arab Free Trade Area” based on calculating arithmetic averages of the economic, social and environmental development indicators of the group of countries in the region during the 2019-2021 time series.
- Proposing mechanisms and techniques for Arab economic integration and cooperation.

The approach followed:

the descriptive and analytical approach:

- the first one is required to deal with theoretical aspects of the topic such as the concept of economic development and the definition of its indicators, however, for the applied section, we have used the second one, the analytical approach, where the economic development indicators and their arithmetic averages are calculated for a group of countries in the Arab region over a time series ranging from 2009 till 2021 to be analyzed, and the strengths and weaknesses concluded, to draw a model for the work of the integrated Arab economy.

The second axis: In this axis, we will calculate the average of the economic development indicators for the countries joining the Arab Free Trade Area during the period 2009-2022, this period was chosen because it represents the period of Algeria’s accession to this economic bloc, and this average was calculated based on statistics of the World Bank site for the countries of the Arab Free Trade Area

2. Conceptual framework of economic development:

2.1.The traditional economic vision for development:

Economic development was viewed as an economic phenomenon in which rapid gains in growth in gross national income (GNI) and gross per capita income

occurred, and that growth would create employment and other economic opportunities, or that growth would generate the necessary conditions for a broader distribution of benefits (Saleh Turki Al-Quraishi, 2010, p. 38) . According to this traditional view, problems such as poverty, discrimination, unemployment, and income distribution are of secondary importance compared to achieving the growth rate (Hassan Khalaf, 2006, p. 188).

2.2.The new economic vision for development:

During the fifties and sixties of the last century, developing countries were able to reach the targeted rates of economic growth, but the living standards of the general public remained unchanged for a large number of countries, indicated that there is something wrong with traditional economic vision for development, or the narrow definition of development, which did not take into account the rights of future generations to available resources that extend over the periods of the established development plans (ZEMRI Bouazza & KHETIB, 2023, p. 1307)

In short, we say that during the seventies of the last century, economic development became defined by a new definition that can be summarized as follows:

development has been redefined in terms of reducing or eliminating poverty, eliminating unequal income distribution, and reducing unemployment within a developing economy, and therefore development includes changes, and this is one of the meanings used to describe the development process. Social transformation within countries, and often this process proceeds in a regular sequences and is characterized by common characteristics.

Perhaps the best attempt to understand the broad meaning of development was made by Goulet (1971), who distinguished between three basic elements or basic values, which he called:

- Food for life.
- Self-respect or regard.
- Freedom.

The basic needs approach was initiated by the World Bank in the seventies of the last century, and the essence of this approach is that any country cannot be considered fully developed if it is unable to provide such basic needs as housing, clothing, food, and a minimum level of education for all its residents.

Thus, development is not a pure economic phenomenon, as it includes more than the material and financial aspect of people's lives, and therefore development should be understood as multi-dimensional phenomenon, including reorganization and reorientation of all economic and social systems as well as improvements in people's income and production, and it is a model. It includes radical changes in institutional, social and administrative structures as well as in general directives, and in many cases even in customs, traditions and beliefs.

It is a process of change in the structure of production and the structure of use, and includes acceleration in economic growth, a reduction in inequality in the distribution of income, and the elimination of poverty. In a broader sense, development aims to improve the quality of life, for example, progress in education, health and nutrition, in a clean natural environment.

It has become clear that the central slogan of development must be to work to eliminate poverty, or increase the income of people in less developed countries, and thus the development process must be designed in order to secure and ensure the achievement of this goal. There are two conditions for achieving this well-being for people:

- **The first condition:** The number of poor people in absolute poverty must not increase.

- **The second condition:** The distribution of income must not worsen or deteriorate.

Accordingly, it is possible to separate the concept of economic development and economic growth.

2.3. The difference between economic growth and economic development.

There is often confusion between economic development and economic growth as two related concepts, and therefore the difference between them can be defined as follows (Nabil Al-Shimi, 2009):

- **Economic growth:** It is the growth rate in the gross national product during a specific period of time, usually a year. It is also merely an increase in real per capita income during a limited period without being accompanied by any structural changes. While that;
- **Economic development:** It is considered a process by which the real national income of the economic system increases over a relatively long period of time. This growth is followed by an increase in the national income and in the per capita share. Through this, the conditions of citizens improve and the capabilities of the national economy increase. This is accompanied by structural changes represented by an increase in capital accumulation and the percentage of levels of Technical efficiency and economic efficiency of society as a whole. So that Economic development is a sustainable process.

2.4. Economic development objectives:

The economic development objectives of a country represent the nature of the economic stage that country is going through. They are also considered as a type of economic policy that it pursues in order to achieve its main goals. The goals differ from one country to another, but there are basic goals that most countries seek

(khater, 2016, pp. 66-67) :

- **Increasing national income:** Increasing real national income helps gradually overcome all the problems that countries suffer from, especially if the increase in income is achieved through profound and structural changes in the economic environment.
- **Raising the standard of living of the population:** Achieving a high standard of living is among the important goals. Economic development is not just a means of increasing national income, but rather it is a means of raising the standard of living, it may be that An increase in national income is realised, but not be accompanied by any change in the standard of living. This occurs when the proportion of the population increases to a greater extent than the increase in national income, which makes it impossible to achieve an increase in the average per capita share in this income, and thus the standard of living decreases.
- **Reducing the difference in income and wealth:** The disparity in the distribution of income and wealth leads to a number of serious damages in the society.
- **regulating the structural imbalances of the economic sectors:** Economic development plays an important role in restoring the relationships between the various economic sectors by reducing the dominance of the agricultural sector over the national economy, and supporting industry to play the leadership role of the economic sectors.

2.5. Economic development indicators :

Developing sustainable economic indicators that have a direct relationship to development and reflect the nature of the impact of economic policies on natural resources is at the forefront of the priorities for measuring sustainable development, and these indicators in their entirety measure economic performance, trade, and the financial situation of the state (bourabaine, 2018, p. 91) Economic development indicators are as follows (FETTOUH, 2017, pp. 76-78) :

- **GDP /PERSON:** This indicator is calculated By dividing the gross domestic product in current prices in A specific year on the number of population in that year. This indicator reflects the economic growth rates.
- **Ratio of gross fixed investment to gross domestic product:** is known as that immediate productive capacity directed to the production of items such as buildings, structures, machines, and means of transportation.
- **Ratio of exports to imports:** it reflects The country's capacity To continue importing ,so that it shows the degree of local economic openness over the global economy.
- **Official development aid/Gross National Product:** It includes official development aid such as grants and loans provided by the The official sector to some countries with the aim of promoting development, The sustainable development strategy does not require huge reliance on foreign aid and assistance.
- **External debt/GDP:** This indicator is calculated as a percentage of GDP. it represents countries' indebtedness and it measures their ability of bearing debts.

2.6. Economic development requirements:

Economic development has various requirements :material, financial, human, natural and technological (Saleh Turki Al-Quraishi, 2010, pp. 33-38).

- **Capital accumulation:** Most economists point out the importance of the process of capital accumulation in achieving development, and this process requires the availability of an appropriate amount of savings, through which resources are provided for investment purposes.
- **Human resources:** Human resources mean the talents, skills and

knowledge, which are necessary in the production process. Human resources play a very important role in the development process.

- Natural Resources: defined as the original elements that represent the Earth's natural gifts.

The United Nations, for its part, defines natural resources as anything that humans find in their natural environment and from which they can benefit.

- Technology and technological progress: There are many definitions of the concept of technology, and despite the partial or sometimes verbal differences among them, they agree that technology means, in short, knowledge of how to carry out production. Naturally, this technical knowledge is based on scientific knowledge. In broader and more comprehensive terms, technology represents scientific knowledge that is based on experiments and the scientific theory that increases society's ability to develop methods for performing production operations and to come up with new methods that are better for society.

3. Economic development indicators in the Arab region for free trade:

After presenting the theoretical framework for economic development and focusing on the indicators for measuring it, in this axis we must know the performance of these indicators within the Arab Free Trade Area*, by calculating the arithmetic averages of the economic development indicators for the group of countries in the region during the period (2009-2020), based on that, mechanisms for Arab economic cooperation are proposed.

* The Arab Free Trade Area includes. Algeria, Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen./ <http://www.bilaterals.org>

The expected members are : Somalia, Djibouti, Mauritania, Comoros.

Table No. (1) Development of the average GDP /person imports within the Arab Free Trade Area (2009-2020)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------|----------|----------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| GDP/P | 12834.34 | 12841.22 | 12686.4 | 12983.13 | 12854.77 | 12706.28 | 12717.76 | 12744.54 | 12558.77 | 12513.06 | 12277.91 | 11273.23 |

Source: Completed by authors based on World Bank data for 2009-2020.

The economic indicator calculates the GDP /person by dividing the GDP on the population ,this indicator is measured at current prices. The economic importance of this indicator lies in the fact that it reflects the economic growth of the country.

The table above shows the development of the **GDP/person** from the year 2009 to 2020 within the Arab region within the framework of the Arab Free Trade Agreement, where we notice stability in this indicator until the year 2014, when it witnessed a decline due to the collapse of oil prices, because the oil represents The basic element in the productive structure of the Arab countries, and accordingly, the gross domestic product. And what made matters worse was the the Corona crisis that affected the entire world from 2019 to 2020, where the demand for oil declined and thus its prices. decreased, which in turn leads to a decrease in the per capita share of the gross domestic product.

Table No. (2) Development of the average gross fixed capital formation in the Arab Free Trade Area (2009-2020)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| fixed capital | 62.16 | 59.22 | 58.79 | 42.26 | 38.98 | 37.23 | 37.81 | 35.91 | 35.12 | 35.13 | 37.80 | 32.29 |

Source: Completed by authors based on World Bank data for 2009-2020.

The indicator of fixed capital refers to the part of productive capacity directed to the production of capital goods such as buildings and others, and is divided into net capital and compensatory capital.

The table above shows the development of fixed capital from 2009-2020 in the Arab Free Trade Area, where a gradual decline in total capital formation is observed.

Constant until the beginning of 2015 as a result of the political crises in some Arab countries such as Tunisia, Libya, Egypt, Syria and Palestine, In addition to the fact that prices

Oil reached its lowest level in 2014, and with the outbreak of the Corona crisis during the years 2019 and 2020, the demand for oil declined, which was reflected in a decrease in revenues, so that investments in the field of hydrocarbons are declined, knowing that hydrocarbons are the basis of investment in the Arab countries, as a result of which OPEC intervened to regulate the oil production to prevent its prices from being lower, this facts led to a decrease in gross fixed capital formation.

**Table No. (3) Average coverage of exports to imports within the Arab Free Trade Area
(2009-2020)**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Exports cover imports | 0.99 | 1.12 | 1.25 | 1.20 | 1.09 | 1.002 | 0.81 | 0.74 | 0.83 | 0.93 | 0.95 | 0.82 |

Source: Completed by authors based on World Bank data for 2009-2020.

Exports cover imports : This index calculates the value of exports of goods and services as a proportion of imports of goods and services. It also shows the country's ability to continue importing and the degree of economic openness to the global economy.

It is noted from the above table a positive stability in the ratio of exports covering imports during the period 2009-2013 which due to the rise in oil prices. Then it is witnessed a gradual decline starting in 2014 due to the decline in oil prices, but a slight increase is remarked since 2017, however prices returned to decline again from 2019 to 2020 due to Corona crisis which caused bad effects on the global economy, where global demand for oil declined, including a decline in its prices. Instead, OPEC intervenes in regulating the oil production, and since most of the Arab countries' exports are based on the hydrocarbons sector, the negative effects are

evident, which explain the low ratio of exports covering imports.

Based on these results, the countries of the Arab Free Trade Zone must diversify their production structure and move away from the policy of relying on fuel as the main source of their exports .

Table No. (4): Average total official development aid relative to gross national product within the Arab Free Trade Area (2009-2020)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------|------|------|------|------|------|------|------|------|------|------|------|------|
| development aid | 4.12 | 3.24 | 2.94 | 3.11 | 4.27 | 4.35 | 4.92 | 8.94 | 8.55 | 9.25 | 4.35 | 5.12 |

Source: Completed by authors based on World Bank data for 2009-2020.

The development aid indicator includes the grants and loans provided by the official sector (the state) to some countries with the aim of promoting economic development on easy financial terms. This indicator measures ratio of reliance of countries on others, so that the sustainable development strategy does not require heavy reliance on foreign aid and assistance.

We note from the table above that development aid stabilized during the period 2009 -2014, however a significant increase is witnessed during the period 2016 until 2018, despite the decline in oil prices and the decline in incomes. This aid came as a result of several reasons, the most important of which are the political and economic crises in some Arab countries, but Starting from the years 2019 and 2020, the value of this aid declined due to the Corona crisis, which exacerbated the crisis of economic recession, including a decline in the gross domestic product of the countries of the Arab free trade region, knowing that the Arab countries have the same production structure, which depends primarily on the fuel sector, and as a result of these negative effects, most countries suffer from a financial deficit and cannot provide aid to each other.

Table No : (5) Average ratio of external debt to GDP within the Arab Free Trade Area (2009-2020)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| ratio of external debt to GDP | 43.41 | 42.08 | 41.04 | 45.48 | 47.69 | 47.16 | 50.10 | 53.48 | 57.13 | 59.27 | 65.27 | 65.27 |

Source: Completed by authors based on World Bank data for 2009-2020.

Indebtedness: This indicator reflects the ratio of external debt to gross domestic product, is known to represent countries' indebtedness, and it also helps to evaluate their ability to bear and repay debts.

It is clear from the table above that there is debt, because of to the presence of poor countries in the Arab region for free trade, This debt crisis worsened, especially after the decline in oil prices in 2014 and the Corona crisis of 2019-2020, as a result of which it declined Arab investments on the one hand, and on the other hand, reducing the volume of exports within the Arab free trade zone.

4. CONCLUSION :

Based on the analytical study of the aforementioned economic indicators and their relationship to the growth and increase of intra-regional trade within the Arab Free Trade area, it becomes clear that the Arab bloc, or rather the expansion of the scope of trade and the Arab market, has not good effects on economic development within the region, which due to the similarity of the production structures that depend on Mainly on the fuel sector. Which led to a decline in the per person GDP and fixed capital, that was reflected in a decline in the intra-national investments. as well as the decline of the ratio of exports covering imports, which due to the decrease of oil prices from 2014-2020 and the repercussions of the Corona crisis, despite the existence of the agreement.

Accordingly, we conclude that, the countries of the Arab region within the

framework of the free trade agreement are still far from achieving the sustainable development goals set in the 2030 horizons, and we can conclude that trade liberalization does not constitute the main obstacle to achieving economic development within the region. So that, following the stage of economic integration as established by the developed countries is not compatible with the specificities of the Arab bloc, which aspires to create, develop and diversify production, unlike the developed countries, which aspire to dispose of their productive surplus by searching for new markets.

Therefore, a set of solutions can be proposed, including:

- The countries of the Arab region must be convinced that the gradual process in achieving economic integration adopted by developed countries does not serve the Arab countries. The free trade phase is intended to get rid of the productive surplus by searching for new markets to dispose of the production, while the Arab countries suffer from a deficit in production. Rather, what serves them is to start from the stage of the common market, in which all human, capitalist and technological factors of production are liberated.
- The countries of the Arab region must also return to the large demand , that requires returning to applying strategies for economies of scale, including reducing production costs and achieving internal and external savings.
- Following the product life cycle theory, by which we mean searching for ways to develop and diversify production in order to create competitiveness and good quality of the Arab product, so that to improve economic, social and environmental indicators within the Arab Free Trade area and thus achieving the goals of sustainable development within the horizons of 2030

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