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REGIONAL INFRASTRUCTURE COOPERATION

CONNECTING COUNTRIES TO STABILIZE THE MIDDLE EAST

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Regional Infrastructure Cooperation

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ABBREVIATIONS

E.E.C.	EUROPEAN ECONOMIC COMMUNITY
ESCWA	ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (U.N.)
E.U.	EUROPEAN UNION
F.D.I.	FOREIGN DIRECT INVESTMENT
G.C.C.	GULF COOPERATION COUNCIL
G.D.P.	GROSS DOMESTIC PRODUCT
G.M.E.	GREATER MIDDLE EAST
I.C.T.	INFORMATION AND COMMUNICATIONS TECHNOLOGY
MENA	MIDDLE EAST AND NORTH AFRICA
NAFTA	NORTH AMERICAN FREE TRADE AGREEMENT
PRA	PROFESSIONAL ASSOCIATIONS
R.R.A.C.	REGIONAL REGULATORY ADVISORY COUNCIL
W.T.O.	WORLD TRADE ORGANIZATION

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SUMMARY

Infrastructure serves as one of the key tools available to enhance regional cooperation and build toward an integrated Middle East. Under the reign of the Ottoman Empire, the Middle East and North Africa was an integrated web of railways, arterial and trading routes, much of which has disappeared over the last century. A region unaccustomed to division has since fragmented, with each state erecting numerous barriers that hinder integration—from trade tariffs to poor customs services. The economic potential and benefits for the region as a whole lies within deeper integration. This paper explores feasible possibilities for short-term and long-term infrastructure integration across several key sectors: energy, I.C.T., transport and facilitation.

KEY FINDINGS

- ◆ The customs efficiency between MENA states and trade within the region are extremely low
- ◆ Adopting best practises for border customs procedures and upgrading facilities at borders are urgent priorities that will significantly reduce cost of trade between MENA states
- ◆ Energy integration, including linking electricity grids and building pipelines, is essential as energy demand for MENA is forecast to grow by an average annual rate of 4.5 percent by 2030
- ◆ War devastated countries such as Iraq, Syria and Yemen offer an opportunity for neighbors to rebuild infrastructure and integrate economies
- ◆ Iraq and Syria should look to integrate electricity and gas infrastructure in the reconstruction phase

INTRODUCTION: ECONOMIC DIPLOMACY TO PROMOTE POLITICAL COOPERATION

Building on a well-known wisdom that commercial ties reduce the risk of conflicts among countries,¹ we believe that economic cooperation can help break the cycle of conflicts in the Greater Middle East (G.M.E.) and lay the foundations for stability and inclusive development. This paper is devoted to cooperation in regional infrastructure by identifying several policy reforms and physical projects that would require little political capital, but impact significantly on the economy and society.

Multi-country cooperation can start modestly through bilateral arrangements and extend gradually to cover the rest of the region. Development of regional infrastructure, especially in transport and energy sectors, can play a critical role in promoting economic cooperation and achieving the huge unrealized economic welfare imparted by increased trade in the region.

“It is in the interest of all states to align their policies, regulations and technical standards.”

The G.M.E. region should seize this opportunity to meet the urgent demands of their people for jobs, dignity, stability and prosperity. The countries in the region are encouraged to implement whatever actions and measures possible at their level or bilaterally to improve the national and cross-country infrastructure and business environment. Countries can take unilateral measures to remove the barriers and upgrade their physical infrastructure.

It is in the interest of all states to align their policies, regulations and technical standards with good practices to facilitate further regional cooperation and market integration in the long-term. The ultimate goal of such a pragmatic approach is to go beyond the current politically-imposed paralysis, reap the huge welfare potential of economic cooperation to improve the living standards of the people and lay the foundation for a more prosperous and peaceful Middle East.

STATUS QUO OF COMPETITION-OVER-COOPERATION AND LOST OPPORTUNITIES

Major constraints are holding back economic cooperation among G.M.E. countries. There are enormous opportunity costs resulting from not tapping the economic potential offered by regional cooperation. The very low intra-regional trade in goods and services, and highly restricted labor mobility, are among the missed business opportunities. This is due not only to the lack of political vision, but also other constraints such as regulatory barriers, highly restrictive service trade policies, non-tariff trade barriers, and supply-chain inefficiencies. For example, despite recent improvements, the efficiency of customs procedures in many Middle Eastern countries is still quite low compared to their trading

“the efficiency of customs procedures in many Middle Eastern countries is still quite low.”

partners outside the region. The majority of facilities at border crossings are in poor condition; a stringent enforcement of the rule of origin is still in practice by many countries for manufacturing goods; the transit regime is still burdensome, requiring costly escorts; and efficient logistics services are still missing as reflected by the latest logistics performance index—Egypt ranks 62 out of 155 countries, Jordan 68, Lebanon 85, and Iraq much lower at 141.²

The G.M.E. region suffers from high trade costs mostly due to weak trade facilitation frameworks, including infrastructure services and customs procedures. For many years now, failure to create open policies, adequate infrastructure and streamlined facilitation at border crossings have hindered transit traffic between countries, resulting in long delays at borders. The cost of trade between neighbors is typically twice as high among MENA countries as compared with those in Western Europe. For example, Turkey's trade costs with Arab countries, even adjusting for distance, are around 80 percent higher than those with the European Union.³ Furthermore, non-tariff measures and technical barriers, such as licensing requirements or standards regulations are costly. The lack of infrastructure for promoting a reliable regional energy

market, despite its potential, and little regional cooperation in the I.C.T. sector constitute more impeding factors for regional cooperation. It should be noted that these factors affect the competitiveness of regional countries in general and thus reduce their share of global markets. However, many of these constraints can be removed without much political capital due to their technical aspects.

THE BENEFITS OF COOPERATION

Many reasons militate in favor of more regional cooperation in the Middle East. The region has a favorable geography in terms of territorial contiguity, shared history and numerous free trade agreements and economic complementarities. Indeed, trade complementarities among G.M.E. states are high and comparable to index levels among countries elsewhere in the world that have achieved successful regional economic cooperation. The six founding members of the

European Economic Community (E.E.C.), the NAFTA countries, and more recently the Eastern European Enlargement within the E.U. all had an average

trade complementarity index of a little less than 60 when they signed their trade agreements. As a comparison, a rough estimate of this index for G.M.E. states range between 45 and 55 (a measure of the extent to which one of two countries exports what the other country imports). This is high by international standards.

The potential for wider economic cooperation is tremendous and perhaps key to addressing the massive challenges facing the region. With a combined population of more than 400 million, and a nominal G.D.P. of around \$3.0 trillion,⁴ complemented with their proximity to major European and Asian markets, and access to transportation corridors, trade among G.M.E. countries is still extremely low at less than 8 percent of their total trade. The potential for intra-regional trade is high, and tapping into this is essential for high growth and employment creation in a region lacking economic diversification, competitiveness, and modern governance institutions.

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“the cost of not promoting economic cooperation is extremely high for the entire region.”

Two World Bank reports—Regional Economic Integration in MENA in 2013,⁵ and

Over the Horizon: A New Levant in 2014⁶—quantified the economic impact of deeper regional cooperation, which showed it was a positive-sum game for all countries involved. Under a scenario of reducing some non-tariff measures, lowering transport costs and liberalizing services trade, all countries can significantly increase their national income by 1 to 2 percent per year. Therefore, the cost of not promoting economic cooperation is extremely high for the entire region.

Connecting people through integrated regional infrastructure is definitely one of the areas where G.M.E. states can foster a reasonable level of economic cooperation. In return, this will also help create a more enabling political environment for further regional integration. This paper proposes a few quick wins by investing in infrastructure, and more specifically in the gas, electricity, transport and facilitation sectors. These sectors are selected owing to their ability to foster huge unrealized trade potential of goods in the region.

Development and interconnection of a regional power grid and transportation/distribution of natural gas can help create a regional energy market with tremendous social and economic benefits to the energy-rich countries—G.C.C., Iran, Iraq, Algeria and Libya—and consumer countries as well—the rest of the region. Improved regional transport infrastructure, such as roads and railways, along with streamlined customs services and facilitation at border crossings are important measures to reduce transportation costs and stimulate regional trade of goods.

In both sectors there are a few actions countries can take at the regional, sub-regional or country level to dramatically improve economic integration. This paper will focus on possible steps to be taken at country level that require minimum or no political capital, but can help promote regional cooperation. I.C.T. and other infrastructure sectors have been researched by regional (ESCWA) and international (World Bank) institutions and found to require important policy and regulatory reforms, which cannot happen without substantial political engagement and cooperation from regional states.

FEASIBLE OPTIONS FOR COOPERATION

FACILITATION AND POLICY REFORMS

Pragmatism and gradual development can go a long way in developing economic cooperation. Broadly, the recommendations to be presented here are a selection of similar measures to those made consistently by other studies over the last decades. However, very few of these recommendations have been implemented at country or, at best, at sub-regional levels. Lack of political will, complexity of the reforms and poor institutional capacity explain the lack of progress in regional projects and economic cooperation.

Drawing on lessons from past experiences, we propose only a selection of measures and actions to be taken at the country level or in the context of bilateral arrangements between countries willing to foster their economic cooperation. Bilateral arrangements have been more effective since they are usually easier to achieve: pass legislation and harmonize physical standards, procedures and regulations. Over time, successful bilateral arrangements—including coordination and harmonization—can inspire other neighboring countries—particularly their private sectors, when they realize the economic gains they can reap from effective economic cooperation. The cooperation space would gradually grow until integrating all or at least a large number of countries in the region.

Streamlining customs and facilitation services: With the exception of Turkey and to some extent the G.C.C., trade facilitation and logistical performance are poor. Consequently, nominal and effective cost of trade handling and processing is high. Transport corridors are primarily road corridors and to a much less extent sea lines.

Facilitation—customs and other administrative clearances at borders crossings, including ports and airports—are cumbersome, lengthy and costly. Attempts to address this important issue

“Lack of political will, complexity of the reforms and poor institutional capacity explain the lack of progress in regional projects.”

at sub-regional levels met with bureaucratic procrastination and little success. However, many countries of the G.M.E.—Jordan, Turkey, West Bank and Gaza, Lebanon, Syria—have benefited from adopting Asycuda World, a computerized system designed to handle trade data and accelerate the clearance process at borders crossings. It is highly recommended that all G.M.E. countries adopt this system along with streamlined clearance processes. This will not need much coordination between countries, and will enable states to exchange similar trade information online well ahead of time of the actual arrival of goods to the borders and dispose of enough time to prepare for effective clearance.

Jordan-Iraq, Jordan-Saudi Arabia, Iran-Turkey, Iran-Iraq, Israel/Palestinian Authority-Jordan are pairs of countries that could rapidly benefit from joining Asycuda. The United Nations Conference on Trade and Development can assist countries in adopting and training people on the use of Asycuda World. This would be a major step toward simplification and cost reduction of trade in the

region.

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G.M.E. have benefited from
adopting Asycuda World.”**

In the same vein, several other measures can be undertaken by each country or in a coordinated way with immediate neighbors, such as adopting favored trader regimes with light inspections and

technical controls for a Golden List of traders according to nature of goods. Overtime, this list would expand and provide complementarity from country to country.

Common standards for transport and logistics service-providers is another area where countries can make progress if deployed in a smart manner. In transit traffic movement in the European Union, states require traders to rely on standard quality of service from freight forwarders, customs brokers, logistics providers, and trucking companies. By adopting similar best practice standards in this area, as Jordan and Turkey have done, countries will eventually harmonize their standards without resorting to lengthy bureaucratic mechanisms.

Likewise, by adhering to the current transport international regime principles, countries will greatly facilitate the treatment of transit road traffic across countries. All the above measures require little political capital since they are

done at country level. If adopted, they can tremendously improve trade regimes and efficiency of each country with its neighbors and by extension within the region. The pairs of countries mentioned above are good candidates to start harmonizing their transport and logistics standards.

TRANSPORT INFRASTRUCTURE

Transport infrastructure is currently not a serious impediment to economic cooperation either within the region or between the region and the rest of the world. The main corridor highways have adequate capacity, though they will require upgrading in the medium-to-long term to accommodate future traffic. Port capacity in the region is adequate and states have plans to expand their ports when necessary. Railway transport is the weakest link in the transport chain in the region, except in Turkey, Iran and soon in the G.C.C. countries—a major network is being developed linking all G.C.C. countries. Railway transportation is underdeveloped in the region and is not a first order priority. Until the region stabilizes and economic cooperation and trade reaches a critical mass, it is difficult to justify large capital investments into thousands of miles of railway infrastructure.

“Railway transport is the weakest link in the transport chain in the region.”

Upgrading, modernization and expansion of the physical facilities of border crossings is an urgent priority. With few exceptions, most border stations were not designed to accommodate high trade volumes, offer quality service and accommodate public administration, and transport providers and users. Ideally, it is highly advised to coordinate between countries on both sides of a border to maximize the benefits, and that each country proceed within its own space and modernize its border terminals. This will give first implementers serious comparative advantages and may encourage neighboring countries to follow suit.

Upgrading road corridors. Most G.M.E. states invested heavily in road infrastructure and have master plans for future roads development. While countries agree to upgrade and further develop regional roads leading to

main border crossings, they rarely if ever coordinate to ensure that regional roads are upgraded simultaneously on both sides of the border. Past attempts to coordinate road investment were largely unsuccessful.⁷ However, in a few instances, emulation and competition among countries have proved to be more effective in accelerating decision-making on both sides of the border.⁸

The construction of East-West and North-South corridors in the Maghreb is underway. To reap the full benefits of this major investment, particularly the ongoing Maghreb motorway, Egypt and Morocco should proceed with improving their connections with Libya and Algeria respectively.



SOURCE: POSTED IN AN UNSOURCED BLOG, 2010.⁹

These are decisions that each country can make on its own to improve the road conditions and capacity and thus reduce the transport cost of goods exchanged cross countries. Once stabilized, Libya will then join the efforts.

Maritime transportation between some states can offer an effective alternative to or complement road transport. The North Africa, the Persian Gulf, as well as eastern Turkey, Iraq and eastern Syria can be easily and effectively

served by internal maritime services. Most of the maritime services should be operated by the private sector to create market opportunities beyond political consideration. In the context of shipping, the efficiency of the ports in the region will need to be highly improved (see above facilitation, custom services). Finally, a sea corridor between the G.C.C. and Iran is the shortest, cheapest and most efficient transportation mode.

ELECTRICITY AND GAS

The potential for cooperation in the energy sector, especially in power and gas, is theoretically huge and practically achievable despite the many difficulties further regional integration of this sector has been facing. Indeed, many regional countries have large reserves of oil and gas and produce large quantities of hydrocarbon products and electricity. By contrast, other countries—Iraq, Lebanon, Egypt, Yemen, Syria—have been facing frequent power disruptions, which impose a heavy burden on their economic performance.

The energy demand in the G.M.E. is forecast to grow by an average annual rate of about 4.5 percent by 2030.¹⁰ This will require the region to increase its current generation capacity by more than 50 percent requiring

an investment of more than \$500 billion. However, one of the most significant bottlenecks in developing new power generating capacity is the supply of the required fuel, especially gas owing to its economic and environmental attributes.

In recent years, gas availability in the region has turned into a serious issue as a result of increased demand and limited production of gas-rich countries such as Saudi Arabia, Iraq, Iran and even Egypt. Moreover, unlike oil that is normally traded in free market, gas and electricity trade requires construction of cross-border infrastructure facilities and well-structured market regulations that are not yet entirely in place. In addition, cross-border projects are complex, take time to prepare and face many technical, institutional and implementation challenges. This is why even the few bilateral power interconnections and gas

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supply contracts—Jordan-Egypt, Lebanon-Egypt, Iraq-Jordan, among others—have never developed over time and have suffered major implementation deficiencies.

A pragmatic approach is to tap the economic benefits imparted by regional energy cooperation. The possibility to overcome these bottlenecks is real and the potential to increase gas production in the region is huge. With the lifting of sanctions on Iran, the largely untapped gas reserves of Iraq, the existing production capacity of Algeria, the G.C.C. and Egypt, and the recent gas discoveries in the eastern Mediterranean, the regional demand for gas and

electricity can be easily met at a competitive cost for regional economies. In the medium and long-term, once oil and gas prices have recovered to meet the production cost, the realization of such a potential along with the development of a well-structured power and gas market in the

“the regional demand for gas and electricity can be easily met at a competitive cost for regional economies.”

region will generate significant benefits to the region's economies. Abundant cost-effective energy supply will enable the region to create a more diversified and competitive economy.

Notwithstanding the number of institutional, regulatory and technical constraints to the expansion of electricity and gas trade in the G.M.E., countries may want to adopt an opportunistic strategy whereby each country, at its own pace and depending on its authorizing environment, pursues sector policies that meet the requirements of well-structured regional gas and electricity markets. To the extent possible, bilateral harmonization of sector policies could help tremendously to achieve seamless sub-regional and then regional cooperation. A practical way is for each country to gradually develop and implement a sector strategy consisting of:

- i. Aligning their policies and regulatory frameworks in the electricity and gas sectors with the good practice example offered by Turkey. Ankara has pursued a vision of becoming an energy hub in the region and has successfully restructured its gas and electricity sectors in line with E.U.

practices and according to the standards that facilitate cross-border energy trade. In parallel, countries should expand their bilateral gas and/or electricity contracts (Jordan-Egypt, Syria-Lebanon, Turkey-Iran, Jordan-Iraq, and so forth). Implementation of this strategy will enable most G.M.E. countries to achieve an important institutional convergence in the energy sector while, at the same time, improving the efficiency of their own energy sector in a tremendous way. This is an important step toward harmonization of the energy market institutions that is necessary for an effective energy trade and cooperation in the region;

- II. Proceed with priority projects of expansion and strengthening of the cross-border gas and electricity regional networks. These projects consist of physical investments countries can implement with some coordination with neighbors or existing sub-regional structures provided they are consistent with international standards (see (i) above).

“The recent return of Iran to the energy market opens new opportunities for gas and electricity cooperation in the region.”

The recent return of Iran to the energy market opens new opportunities for gas and electricity cooperation in the region. Many countries of the region suffer large energy deficit while Iran has large reserves of gas and has built power generation capacity. Turkey, Iran and Iraq can lead the region in developing major gas pipelines to feed the entire region and beyond at a competitive cost.

INFORMATION, COMMUNICATION AND TECHNOLOGY

The potential contribution of the I.C.T. sector to regional cooperation is enormous. I.C.T. is a powerful enabler of complex supply chain integration. In addition to transport infrastructure and services, I.C.T. services can greatly improve connectivity and enhance trade cooperation among G.M.E. states and between these countries and the rest of the world. A close examination

of the I.C.T. sector in the region reveals tremendous complementarities and opportunities. In many G.M.E. countries, foreign direct investment (F.D.I.) in telecommunications has represented up to 40 to 50 percent of all F.D.I. in the past few decades. Opportunities for economies of scale and investments in technology upgrading (G4, broadband infrastructure, and high speed internet) and human capital development are prodigious if sector development is planned for the regional market and not only national demand.

There is also a strong opportunity for the mobile applications and software markets to grow beyond national borders and create greater value added at a regional level, benefiting from economies of scale derived from a large size of the market offered by the Middle East. Business process outsourcing, IT outsourcing, or crowdsourcing are other areas where the region is lagging behind and could

“a 10 percent increase in broadband penetration is associated with an increase in exports by over 4 percent.”

otherwise offer potential for job creation through I.C.T.-enabled trade of professional services in and outside the region. These and other opportunities would have a significantly positive economic and social impact on the people of the region. For example, empirical evidence

shows that a 10 percent increase in broadband penetration is associated with an increase in exports by over 4 percent.¹¹ International communication prices drop by more than two to three times when appropriate regional reforms and infrastructure are implemented.¹² Enhanced business process outsourcing that applies specifically to high value services and manufacturing industries can benefit the region if appropriate reforms are introduced and regionally coordinated in the sector.

Numerous impediments, mainly of regulatory nature, must be removed if regional opportunities are to be realized. Most trade regimes in the region have no specific regulations for trade in I.C.T. goods and services, unless they are related to services falling within already regulated markets (such as financial sector). In most G.M.E. states, including Turkey and Saudi Arabia, there are no regulations specifically applicable to business process outsourcing,

IT outsourcing, or telecommunications services. Services such as software development, mobile apps, gaming, micro-work, and e-contracting are subject to conventional trade regulations that impede their development. Regulatory barriers to market entry, licensing, and business conduct remain significant compared to other regions.

This situation is further complicated due to countries taking very different approaches—except the G.C.C.—to services liberalization, as illustrated by the diverse extent of GATS liberalization commitments among the region's W.T.O. members. In many instances, the extent of commitments reflects the status quo or even less than the prevailing situation, especially for members of the W.T.O.'s precursor, the General Agreement on Tariffs and Trade. These commitments have been assessed to be relatively modest and include several restrictions

on the participation of non-national investors or operators. While regional I.C.T. service liberalization has begun in some countries, especially Jordan, Turkey and the G.C.C. countries, the process lags behind in the rest of the

region. The situation is less worrisome than infrastructure and technology upgrading, though major efforts are called upon in the next years, particularly in countries where broadband infrastructure and high speed internet services are yet to be further developed.

Enhanced regulatory frameworks and harmonization in I.C.T. could help the region benefit from the many opportunities offered by the sector, including job creation and greater levels of regional economic cooperation. Many of the necessary regulatory and policy reforms for a better integrated regional I.C.T. sector will require a great deal of political support and engagement of major stakeholders to create a conducive political economy environment for these reforms to take root, both at the national and regional levels.

Further regional cooperation in the I.C.T. sector is a winning strategy for all Middle Eastern countries. Contrasted to other infrastructure and utility sectors, the I.C.T. sector enjoys unique features that could facilitate regional

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cooperation. The sector is largely liberalized compared to other infrastructure sectors; its services are delivered

mostly by large and influential private operators; its customers include a large cohort of youth eager to be continuously connected to state-of-the-art technology, regardless of where these are produced; this youth constituency can play a major role in bringing about the policy changes needed in the sector; and technology innovations are rapid and have powerful appeal. It is, thus, politically wiser, economically more productive and socially desirable to unleash the economic potential of a more integrated regional I.C.T. sector in the G.M.E.

A strategy of gradual integration through bilateral harmonization can be adopted to enable countries to build internal consensus and catch up with the frontrunner. In this regard, Turkey, Jordan and the G.C.C. can be considered as models of well-developed policy and regulatory frameworks for the I.C.T. sector. Gradual, but rapid, alignment of other countries' policies and legislation with those of the G.C.C., Jordan, and Turkey can promote harmonization of regional I.C.T. policies. Such harmonization will promote regional cooperation and further integration while minimizing political resistance to policy reforms.

In addition to improving and synchronizing the regulatory framework, G.M.E. states may want to consider the following investment opportunities in the sector: support existing large constituencies across borders, implementation of bilateral or sub-regional cooperation and policy alignment on existing good practices by frontrunners in the region. The priority actions and measures are as follows. Private sector operators in the I.C.T. sector can team up with regional civil society and youth associations and setup a Regional Regulatory Advisory Council (R.R.A.C.) to provide I.C.T. policy advice, help build public sector regulatory capacity and provide support to young start-ups in the sector. This can help encourage the development of sector regulations and policy frameworks that can lead to better competition, lower prices and higher quality of key telecom sector services crucial for the development of the I.C.T. sector.

In the same vein, regional professional associations (PRAs) can be established by the private sector in the various countries. PRAs can take the lead in creating regional virtual hubs for software development, mobile apps, and gaming to facilitate exchanges of experiences and pooling knowledge, promote joint ventures and merging deals in the region. Such hubs can benefit from the nature of I.C.T. services that can break geographic barriers and enable cooperation beyond borders for IT developers and service providers. PRAs can also facilitate exchange of skilled labor in the area of I.C.T. through virtual experience sharing and distance technical assistance provision, thus bypassing the key barrier to free flow of skilled human capital in the region.

In this respect, promoting free movement of skilled human capital is a prerequisite to the enhancement of trade in I.C.T. services as it allows the industry to exchange know-how, technical skills, and experience in various cutting-edge and rapidly developing I.C.T. areas. R.R.A.C. and PRAs can set up regional entrepreneurship and technology centers to offer first class training for I.C.T. professionals to remain up to international standards, and promote regional start-ups in the sector. Likewise, they can also organize regional conferences and annual country-level meetings to debate the sector issues and agree on relevant actions to further regional cooperation and sector development.

All of these actions are highly needed. They address failures or gaps that neither the market nor governments are addressing. With regard to physical investments, each country has its own investment plans to strengthen their networks and upgrade to higher telecommunication technologies. While expediting these plans, countries should ensure that regional broadband or fiber networks are rapidly developed and that cross borders connections are completed. In this regard, countries of the region can leverage on the largely under-used fiber infrastructure held by non-telecom utilities, such as electricity and railway companies, to enhance cross-border internet connectivity at a minimum cost.

“promoting free movement of skilled human capital is a prerequisite to the enhancement of trade in I.C.T. services.”

OPPORTUNITIES FROM CONFLICT

The ongoing wars and animosity among regional states would dampen the will of the most determined proponents of economic cooperation. However, the current situation could also present unprecedented opportunities for those states that want to play an important role in the future development and stability of the G.M.E. Few countries in the region can position themselves in this role and lead the proposed gradual and pragmatic economic cooperation process. Through developing commercial ties and facilitating free trade of goods and services with their neighbors, they can demonstrate the high value of economic cooperation in the region. The reconstruction of Iraq is an excellent opportunity for both immediate neighbors, Turkey and Iran, to increase their engagement in the institutional and physical reconstruction effort of the war-torn country. Creating joint ventures with Iraqi investors and the business community will

“Turkey and Iran can play a major role in initiating this strategic approach of regional cooperation.”

help build a vibrant Iraqi private sector to create jobs and improve the living conditions of ordinary Iraqis, which in turn increases the demand for Turkish and Iranian goods and services. Reconstruction of Syria, once stabilized, is another opportunity for Jordan, Lebanon, Turkey and Iran. In view of

the size and complementarities of their economies, Turkey and Iran can play a major role in initiating this strategic approach of regional cooperation and demonstrate to their neighbors the political and economic benefits of engaging in regional economic cooperation to prevent conflicts and spread prosperity.

If the reconstruction process is strategically planned with the objective to build an integrated regional infrastructure and a competitive regional industry to support such a process and meet the increasing demands of the people, the G.M.E could emerge from the current destructive juncture as one of the largest, most prosperous, and most stable markets.

RECOMMENDATIONS

The economic opportunities offered by the reconstruction of various states—Iraq, Syria, Libya, Yemen to name a few—and the infrastructure backlog of other G.M.E. states are tremendous. Below are some examples where regional states can explore cooperation to their mutual benefit.

Roads: We recommend that countries upgrade and improve the quality and capacity of their road corridors with a priority to those main roads leading to the main borders crossings with their immediate neighbors. Among the roads infrastructure priorities, countries could gradually build the following major regional corridors: Turkey-Syria-Jordan-G.C.C. (through Saudi Arabia); Turkey-Iraq, Turkey-Iran; Iran-Iraq-Syria-Lebanon, including a regional link between Iraq-Jordan-West Bank and Gaza.

Energy: Numerous important regional energy projects have already been identified. Most countries of the region have plans for these and other energy sector development policies. The priority projects countries can proceed with include:

“The economic opportunities offered by the reconstruction of various states and the infrastructure backlog of other G.M.E. states are tremendous.”

- ◆ Upgrading of the transmission links interconnecting Iraq’s Qa’im substation and Syria’s Tayem. This is a single circuit 400 kV of about 102 miles. Each country can upgrade its own section. This is an important interconnection for future trade of electricity, not only between the two countries, but in the region as part of the main regional transmission line—Syria, Iraq, Iran and Turkey.
- ◆ Expanding and strengthening the transmission corridor from Egypt to Syria. This is a critical transmission project to facilitate regional electricity trade and cooperation and help transport large volumes of electricity. Each country can proceed with the construction of its own segment, including reinforcement of interconnections with neighboring countries. This major line is necessary

to strengthen the national grid of each country. When one or more countries of the region has electricity surplus, it can be used to supply countries which suffer power deficit, for example Syria to Lebanon.

- ◆ Construction of a new interconnection between Jordan and the Occupied Palestinian Territories and a 30 mile double circuit 220 kV line from El Arish in Egypt to Gaza are highly recommended to alleviate the energy deficit the Palestinian territories have been suffering from.
- ◆ Building a second 400 kV transmission line between Egypt and Jordan and another between Iraq and Jordan would increase the capacity of electricity trade within the entire Middle East.
- ◆ Given the huge power deficit Iraq and other countries in the region are incurring and the destruction of the national grids of conflict countries, it is recommended to build several large generation plants (a total of 1.0 GW)

“Immediate candidates for an integrated electricity market are Egypt-Jordan-Saudi Arabia, and Turkey-Iraq-Iran.”

in stable countries (G.C.C. and Jordan) in the region to feed countries in need and help them jumpstart their economies as soon as peace and stability are restored. Immediate candidates for an integrated electricity market are Egypt-Jordan-Saudi

Arabia, and Turkey-Iraq-Iran. Several of these countries have the capacity to rapidly upgrade their market institutions to facilitate regional cooperation, and enjoy good market size and a high level of energy supply. They have the potential to positively influence the rest of the region.

- ◆ Egypt, Turkey, Iran and Iraq are encouraged to engage in constructive discussion about developing regional gas hubs and related institutions in partnership with the private sector. The latter would provide financing, technology and management capabilities of regional gas infrastructure and market institutions.

- ◆ Completion of the Arab Gas Pipeline through construction of two segments within Syria (Furghus-Aleppo and Aleppo-Kilis) and one segment in Turkey (Kilis-Gaziantep). The construction of these parts can be phased over time depending on the availability of gas either from Egypt or Turkey or both to sell to countries in short supply.

- ◆ Construction of Iraq-Jordan gas pipeline to transport gas from Iraq's northern and/or southern gas fields—once developed—to Jordan and then to Lebanon and Syria through the Arab Gas Pipeline should be considered.

“Start planning for an important future gas pipeline (800 km) between Iraq and Syria.”

- ◆ Preparation (feasibility study) of the Iraq-Syria gas pipeline. This pipeline of about 30 miles would transport gas from the Akkas gas field in Iraq's western desert to Syria to fire power generation plants and produce electricity to both countries. This would be highly beneficial to Iraq with a generation gap of about 50 percent of its electricity demand.
- ◆ Start planning for an important future gas pipeline (800 km) between Iraq and Syria. This pipeline will be an important gas outlet for Iraq and a major feeder into the Arab Gas Pipeline, which aims at encouraging trade between countries of the region, including Turkey and Iran.
- ◆ Given the massive electricity shortage in Iraq, the construction of a second 400 kV line from Iraq to Turkey through the substation in Dohuk, northern Iraq, would tremendously help Iraq and position Turkey in the region's energy market.

These are physical investments regional states can realize for their own needs, but will also serve energy trade in the region if interconnections are coordinated with neighbors. Many of the economic challenges facing MENA countries are solvable with greater integration within the neighborhood.

ENDNOTES

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