

	<p>Science, Education and Innovations in the Context of Modern Problems Issue 2, Vol. 9, 2026</p>	
<p><b>Lassoued Abderrahmane</b></p>	<p>RESEARCH ARTICLE </p> <p><b>Achieving Arab economic integration and confronting current challenges through activating the role of financial markets</b></p> <p>Dr. University of Algiers 3 Algeria Email: lassoued.abdo@gmail.com</p>	
<p><b>Issue web link</b></p>	<p><a href="https://imcra-az.org/archive/392-science-education-and-innovations-in-the-context-of-modern-problems-issue-2-vol-9-2026.html">https://imcra-az.org/archive/392-science-education-and-innovations-in-the-context-of-modern-problems-issue-2-vol-9-2026.html</a></p>	
<p><b>Keywords</b> <b>Mots clés :</b></p>	<p>Arab economic integration, financial markets, financial integration, intra-regional investment, digital transformation, sustainable development.</p>	
<p><b>Abstract</b></p> <p>This study aims to analyze the ways to achieve Arab economic integration in light of current challenges by activating the role of financial markets as one of the key mechanisms for enhancing regional economic integration. The study is based on the hypothesis that the development and integration of Arab financial markets can effectively contribute to strengthening capital flows, stimulating intra-regional investment, and improving the efficiency of financial resource allocation, thereby supporting sustainable economic growth. The study examines the current state of Arab financial markets by analyzing the main obstacles hindering financial integration, including technical challenges related to weak digital infrastructure, structural constraints resulting from the limited depth of markets and disparities in their levels of development, as well as legislative and institutional divergences that limit the harmonization of regulatory frameworks. The study also seeks to highlight the role of developing financial infrastructure, promoting financial innovation, diversifying investment instruments, and unifying regulatory policies as key mechanisms for activating Arab financial integration. The study concludes that achieving effective Arab economic integration requires building an integrated regional financial system based on institutional coordination, digital transformation, and the enhancement of transparency and market efficiency. This would enable Arab economies to confront global challenges and strengthen their competitiveness within the international economic system.</p>		
<p><b>Citation</b> Lassoued Abderrahmane. (2026). Achieving Arab economic integration and confronting current challenges through activating the role of financial markets. <i>Science, Education and Innovations in the Context of Modern Problems</i>, 9(2), 1-7. <a href="https://doi.org/10.56334/sei/9.2.80">https://doi.org/10.56334/sei/9.2.80</a></p>		
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<p>Received: 23.09.2025</p>	<p>Accepted: 12.12.2025</p>	<p>Published: 01.02.2026 (available online)</p>

**1. Introduction**

The issue of Arab economic integration is considered one of the most prominent strategic issues receiving growing attention in light of rapid global economic transformations and the increasing formation of regional blocs seeking to enhance their competitiveness and achieve sustainable development. Despite the significant economic potential possessed by Arab countries in terms of natural resources, geographic location, and capital, the level of economic integration among them remains below expectations due to a set of current challenges, such as developmental disparities, weak institutional coordination, and global economic fluctuations.

In this context, financial markets emerge as an effective instrument through which economic integration can be strengthened by facilitating capital flows, stimulating intra-regional investment, and developing the necessary financing tools for joint projects.

Accordingly, it is essential to examine ways to achieve Arab economic integration in light of current challenges by activating the role of financial markets, while analyzing possible mechanisms for enhancing financial integration and supporting joint economic growth.

### Research Problem

What are the ways to achieve Arab economic integration in light of current challenges through activating the role of financial markets?

From this central question arise several sub-questions, most notably:

- What are the structural and institutional determinants that affect the efficiency of Arab financial markets and their ability to support economic integration?
- How can the mechanisms and means of Arab financial integration be activated in light of current challenges?
- What are the main economic returns of financial integration in achieving Arab economic integration?

This topic is of great importance, as it derives its significance from several considerations, foremost among them highlighting the pivotal role of Arab financial markets in supporting the path of Arab economic integration, enhancing the efficiency of mobilizing savings and directing intra-regional investments, and contributing to the development of financial and legislative policies in line with the requirements of digital transformation and financial integration. The study also gains importance from its relevance in light of the economic challenges facing Arab countries and their need to build an economic bloc capable of enhancing financial stability, achieving sustainable development, and increasing the competitiveness of the Arab economy in confronting global economic blocs.

## 1. Technical, Structural, Legislative, and Institutional Obstacles to Arab Financial Integration

Despite the great importance of financial integration in strengthening the path of Arab economic integration, financial markets in Arab countries continue to suffer from a wide range of obstacles that hinder the activation and acceleration of this integration. International experiences show that achieving effective financial integration requires a minimum level of homogeneity in financial infrastructure, legislative and regulatory frameworks, and the capacities of financial institutions, in addition to the compatibility of the economic and financial structures of participating countries.

However, the Arab reality reveals clear gaps in these requirements, making financial coordination among Arab countries slow and limited in impact. The obstacles to Arab financial integration are distributed across four interrelated dimensions: technical obstacles related to weak technological and digital infrastructure necessary to link markets and facilitate information flows; structural obstacles resulting from the small size of many financial markets and the limited diversity of their instruments; legislative obstacles manifested in differences in laws and regulations governing markets; and institutional obstacles reflected in weak coordination among Arab supervisory authorities and financial institutions.

To understand the nature of these challenges and their impact on Arab financial integration, this section examines the various types of obstacles in detail, analyzing their roots and effects, as a prelude to clarifying ways to overcome them in subsequent sections.

### 1.1 Technical Obstacles and Financial Infrastructure

The availability of advanced financial infrastructure supported by modern and harmonized technologies is a fundamental condition for the success of any path toward financial integration among Arab countries. Financial integration is not achieved solely through agreements and general policies; it also requires an advanced technological environment and interconnected financial systems that allow the smooth and secure flow of capital and financial services across borders. However, Arab countries face a set of technical challenges and clear weaknesses in financial infrastructure (Karkar, 2017, p. 11).

#### 1.1.1 Weak Unified Digital Systems among Arab Countries

The absence of unified electronic linkage between financial and banking systems in Arab countries represents a central obstacle to financial integration, as each country has its own digital systems.

#### 1.1.2 Weak Capital Markets and Lack of Financial Depth

Capital markets in many Arab countries face structural challenges that limit their ability to attract capital and support financial integration.

#### 1.1.3 Insufficient Investment in Financial Infrastructure

Modernizing financial infrastructure requires significant investments in multiple areas, including information technology, data centers, and electronic clearing systems.

#### 1.1.4 Disparities in Financial Legislation and Standards

Major differences in financial and banking laws among Arab countries are among the most prominent obstacles to financial integration. Each country has its own regulatory and legislative system, covering areas such as investor protection rules, capital market laws, bank licensing regulations, foreign investment policies, tax systems, and accounting and auditing standards.

## 1.2 Structural and Economic Obstacles in Arab Financial Markets

Arab financial markets face a range of structural and economic challenges that limit their ability to play a developmental role and hinder regional financial integration efforts. These markets are characterized by small size, weak liquidity, varying levels of development, and limited diversity of financial instruments, making them less capable of attracting investment and strengthening linkages among Arab economies.

- **Structural and Developmental Contradictions:**

The crisis of integration fundamentally lies in the uneven structure of the Arab economy in terms of the distribution of productive forces and resources, and the structural and developmental contradictions inherited from periods of foreign dominance (Al-Assaf, 2010, p. 298).

- **Limited Diversity of Investment Instruments:**

Trading in many Arab markets is limited to a narrow range of instruments, such as stocks and bonds, which reduces their attractiveness to investors (Issa, 2018, p. 280).

- **Disparities in Market Efficiency:**

Levels of efficiency vary significantly among Arab financial markets, with some markets contributing only marginally to development relative to the size of their economies.

- **Absence of Advanced Financial Instruments:**

There is a lack of modern financial instruments such as derivatives and exchange-traded funds, which are essential for enhancing market efficiency and diversifying investments.

## 1.3 Legislative and Institutional Obstacles

Legislation governing financial markets and the institutional structures overseeing them are fundamental pillars for the success of any integration process. However, differences in legal frameworks and disparities in the capacities of financial and supervisory institutions in Arab countries represent major obstacles to achieving Arab financial integration and harmonizing markets.

- **Legislative Obstacles:**

Legislative divergence among Arab countries is one of the most prominent barriers to effective financial integration, as each country has a distinct legal and regulatory framework governing the financial and banking sector, making it difficult to unify standards and apply common rules.

- **Institutional Obstacles:**

The Arab Maghreb Union suffers from multiple institutional obstacles stemming from the outdated nature of its founding treaty, making it vulnerable to political disputes among member states. Mutual mistrust and sovereignty concerns have prevented the treaty from evolving into a genuine regional integration project. Evidence of this lies in the adoption of unanimity in decision-making (Article Six) (Bouboush, 2016, p. 145).

## 2. Mechanisms and Means to Activate Arab Financial Integration Despite Current Challenges

Despite the multiplicity of technical, structural, legislative, and institutional obstacles facing Arab financial integration, the potential available in Arab financial markets remains significant and promising if properly activated. The main challenge lies in developing effective mechanisms and strategies to overcome these obstacles and enhance the ability of financial markets to support joint economic development and improve the efficiency of utilizing intra-regional financial resources.

This requires focusing on several axes, including developing technical and digital infrastructure to ensure rapid information exchange and capital flows; harmonizing legislative and regulatory frameworks to remove legal obstacles and enhance investor confidence; diversifying financial instruments and introducing modern products to manage risks and increase market attractiveness; and strengthening coordination among Arab central banks and regulatory authorities to unify financial and monetary policies and align decisions related to capital liberalization and intra-regional investment.

This section aims to present a comprehensive vision of possible mechanisms and means to activate Arab financial integration, focusing on how financial markets can become a key instrument in supporting economic integration despite current challenges, thereby contributing to sustainable growth and enhanced financial stability in the Arab region.

### 2.1 Developing Financial Market Infrastructure

The ability of Arab capital markets to keep pace with developments in the global financial industry requires restructuring strategies and development policies across all dimensions to capitalize on available opportunities and manage challenges in order to increase growth and stability prospects.

The need for development is attributed to two main factors: the limited supply of investment instruments and weak demand for these instruments. Therefore, developing these markets requires initiating improvements and renewal on both fronts.

### 2.2 Market Capitalization and Its Impact on Company Weight in Various Indices

### 2.2.1 Definition of Market Capitalization

Market capitalization is defined as the monetary value—or its equivalent—at which ownership of an asset is transferred from a willing seller to a willing buyer, with both parties having reasonable knowledge of all relevant facts and without coercion. In financial thought, the value of any asset is determined based on the present value of all expected future cash flows it can generate. From this perspective, the concept of value became associated with the firm and evolved with modern financial theory, particularly with the emergence of firm value theory, notably in the studies of Miller and Modigliani (1958) (Qanoun, 2020, p. 494).

Market capitalization represents the value of a share in the financial market, which may exceed or fall below its nominal value. It constitutes the basis for speculation in capital markets, as it is the key indicator guiding buying and selling decisions. It is an important indicator for evaluating firms, reflecting realized profits or losses and growth potential—factors that, when achieved, increase market value and investor demand, leading to higher share prices (Majed, 2011, p. 175).

### 2.2.2 Determinants of Market Capitalization

These include, for example, the company's financial performance, market size and share, interest rates and economic conditions, reputation and innovation, and liquidity.

### 2.3 Importance of Indices in Evaluating Arab Markets

Financial and economic indices play a pivotal role in assessing the performance of Arab markets and understanding their future trends. They represent comprehensive measurement tools that track stock prices, trading volumes, and liquidity. Their importance includes (Nasser, 2013):

- **Measuring Overall Market Performance:**

Indices provide benchmark indicators reflecting overall market performance or that of a specific sector, helping investors and analysts evaluate upward or downward trends and make informed investment decisions.

- **Risk and Opportunity Analysis:**

Indices help in understanding market volatility and changes, enabling the assessment of investment risks and identification of opportunities to maximize returns.

- **Comparing Markets and Sectors:**

Indices enable comparisons among different Arab markets or among economic sectors within the same market, assisting decision-makers and investors in selecting the most attractive sectors.

- **Guiding Economic and Investment Policies:**

Central banks and financial institutions rely on economic indices when formulating monetary and financial policies, including investment support and growth promotion.

- **Enhancing Transparency and Confidence:**

Indices provide objective and reliable information on price movements and trading volumes, increasing market transparency and strengthening the confidence of local and international investors.

- **Basis for Forecasting and Strategic Planning:**

Indices are used as a foundation for forecasting future market trends and developing long-term investment plans for institutions and companies, contributing to improved risk management and economic efficiency.

### 3. Main Financial Products and Instruments Traded in Financial Markets

Financial markets are among the most important pillars of the modern economy, forming the environment through which various financial instruments are traded and savings are directed toward the most productive investment channels. In this context, financial markets are no longer limited to platforms for buying and selling stocks and bonds, but now include a wide range of financial products that meet diverse investor needs in terms of risk management, return generation, and portfolio diversification.

Traded financial instruments range from debt instruments such as bonds, to equity instruments such as stocks, and extend to derivative instruments based on underlying assets, such as futures and options. In recent years, financial markets have witnessed significant development through the emergence of new financial products, such as exchange-traded funds and index funds, in addition to the expansion of electronic trading, which has facilitated access to these instruments for various categories of investors.

This section aims to provide a comprehensive study of the most important financial instruments and products, clarifying the characteristics of each, their uses, and their role in enhancing market liquidity and facilitating investment. It also focuses on the relationship between these instruments and their ability to diversify risks and achieve desired returns for investors, whether individuals or institutions.

#### 3.1 Traditional Financial Instruments

Traditional financial instruments represent the core foundation of financial markets and include stocks, bonds, and others. These instruments are characterized by simplicity and clarity. This section aims to identify the characteristics of these instruments, their types, and their role in promoting investment and managing risk.

#### **Bonds**

A bond is one of the financial instruments that represents a debt obligation of the issuer and provides the holder with a fixed periodic income. Bonds include a specified schedule of future payments, and they differ according to the rate of return that the issuing entity commits to pay, which is determined based on the maturity period, the bond's value, and tax treatment (Metwally, 2010, p. 140).

#### **Stocks**

Stocks are "certificates of equal value and tradable through commercial methods, through which the shareholder participates in the company that has shares in its capital, and by virtue of this status is entitled to exercise their rights in the company" (Boudiaf Abir, previous reference, p. 62).

### **3.2 Specialized Financial Instruments**

#### **1. Speculation**

Also defined as "contracting for a future transaction that is predicted to be profitable either through price increases or by avoiding losses" (Hussein, 1992, p. 44).

#### **2. Arbitrage**

Arbitrage has been defined as "seizing the opportunity of price differences for a given security across two different markets by buying the security in the market where its price is lower and simultaneously selling it short in the other market where it is sold at a lower price" (Al-Sa'dani, 2011, p. 89).

*(Note: the quoted Arabic definition contains an apparent inconsistency—arbitrage typically involves selling in the higher-priced market, not the lower-priced one.)*

### **3.3 Other Financial Instruments**

#### **1. Sukuk**

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines Islamic sukuk as: certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs, services, or the assets of an investment project, after the proceeds are collected, subscription is closed, and the funds are deployed for the purpose for which the sukuk were issued (Al-Qari, 2010, p. 27).

#### **2. Murabaha**

Murabaha is one of the most well-known sale contracts in Islamic jurisprudence. It is based on selling a commodity at a price equal to its purchase cost plus a known and mutually agreed profit margin. This contract requires that the seller knows the original purchase price and discloses it to the buyer while specifying the amount of profit, making it a contract grounded in transparency and clarity (Al-Ashqar, *Sales...*, 2006, p. 215).

### **Conclusion**

This study, which addressed a fundamental topic related to Arab financial markets and the achievement of Arab economic integration, reached a set of findings that allow answering the main research problem. The results demonstrated that Arab financial markets possess important components that can indeed support Arab economic integration; however, their impact remains limited due to a set of legislative, institutional, and technical challenges. The analysis shows that financial markets can constitute a key pillar in enhancing Arab economic integration if coordination and linkage among them improve and their regulatory and technological structures develop.

### **Study Findings**

- **Current state of Arab financial markets:** They suffer from institutional fragmentation and major disparities in levels of development, regulation, and financial depth.
- **Obstacles to financial integration:** Weak unified legislation, lack of technological linkage, varying disclosure levels, and low liquidity.
- **Fintech and digital transformation:** Represent a strategic opportunity to overcome traditional obstacles and improve inter-market connectivity.
- **Mechanisms to support integration:** Include harmonizing standards, electronic linkage among stock exchanges, creating joint financial instruments, and stimulating intra-Arab intra-regional investment.

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